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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CURRENT ECONOMIC POSITION AND PROSPECTS
OF
AUSTRALIA

March 11, 1955

Department of Operations
Europe, Africa and Australasia

CURRENCY EQUIVALENTS

In this report, the £ sign means the Australian pound.

U. S. \$1 = £0.45 (8 shillings and 11 pence)

£1 = U. S. \$2.24

£1,000,000 = U. S. \$2,240,000

£5 = £ sterling 4

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BASIC DATA

Population: 9 million.

Area: 2.97 million square miles (almost size of U.S.A.).

National Income, 1953/54: £3,776 million.

Income Per Head: £444 (U.S.\$ 995 equivalent).

<u>Investment</u>	<u>% of G.N.P.</u>
Gross private investment in fixed capital equipment:	16
Governmental expenditure on new works & maintenance:	<u>9</u>
Total gross investment:	25

Exports, as percentage of G.N.P.: 19

Total, 1953/54: £840 million

Of which:

Wool	51%
Other rural products	31%
Other exports	18%

Imports: Total, 1953/54: £682 million

Of which:

Fuel and raw materials	51%
Capital goods	30%
Manufactured consumer goods	11%
Other imports	8%

Foreign Exchange Reserves: (August 31, 1954)

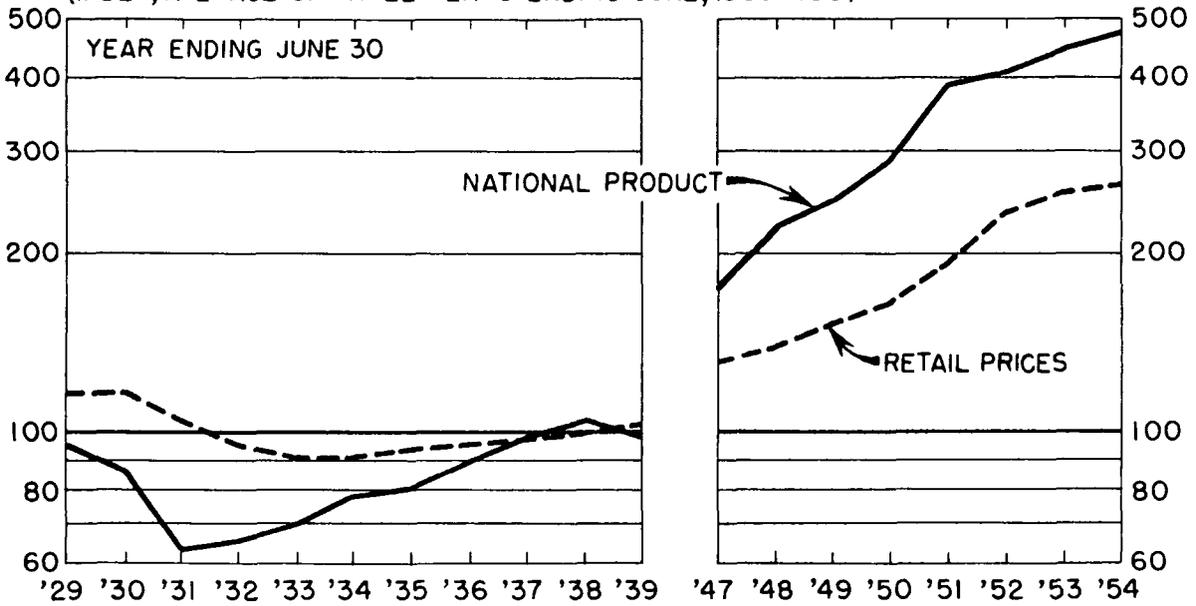
	<u>U.S. \$ Million</u>
Sterling and Other Foreign Exchange	1033
Gold	<u>133</u>
Total	1166

External Public Debt: (December 31, 1954 est.)

Sterling	956
Dollars or Swiss francs	<u>371</u>
Total	1327

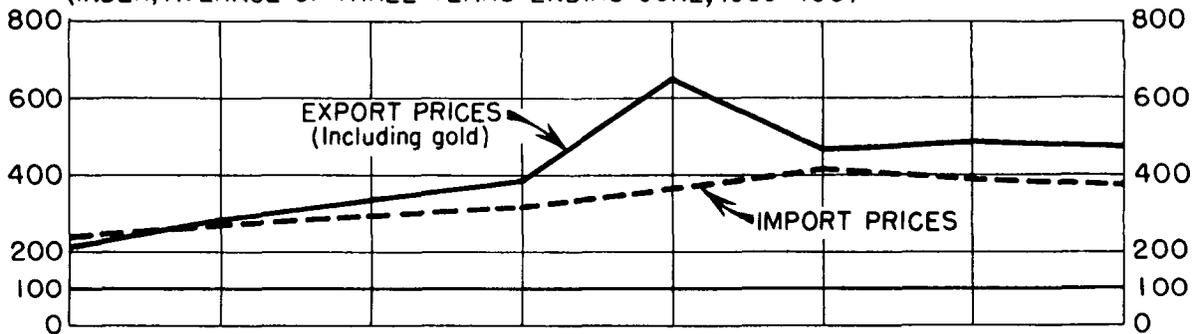
NATIONAL PRODUCT AND RETAIL PRICES

(INDEX, AVERAGE OF THREE YEARS ENDING JUNE, 1939 = 100)

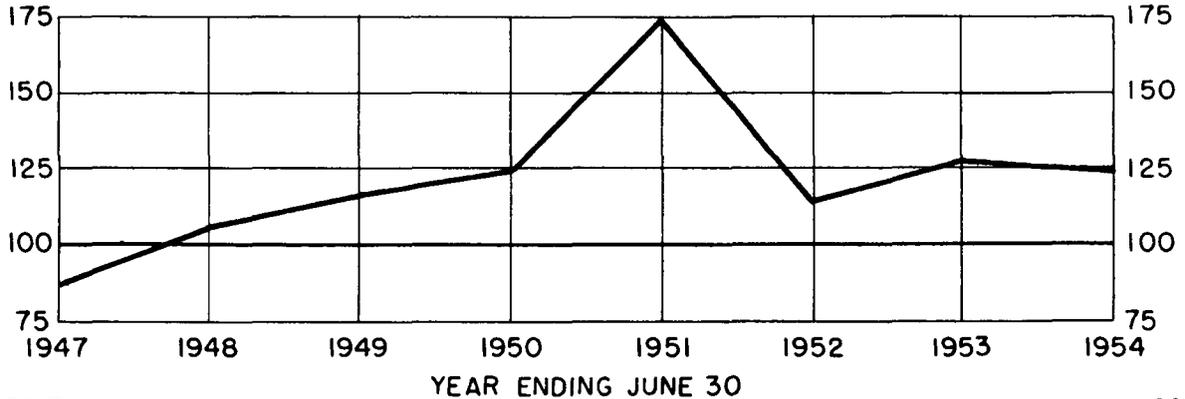


EXPORT AND IMPORT PRICES

(INDEX, AVERAGE OF THREE YEARS ENDING JUNE, 1939 = 100)

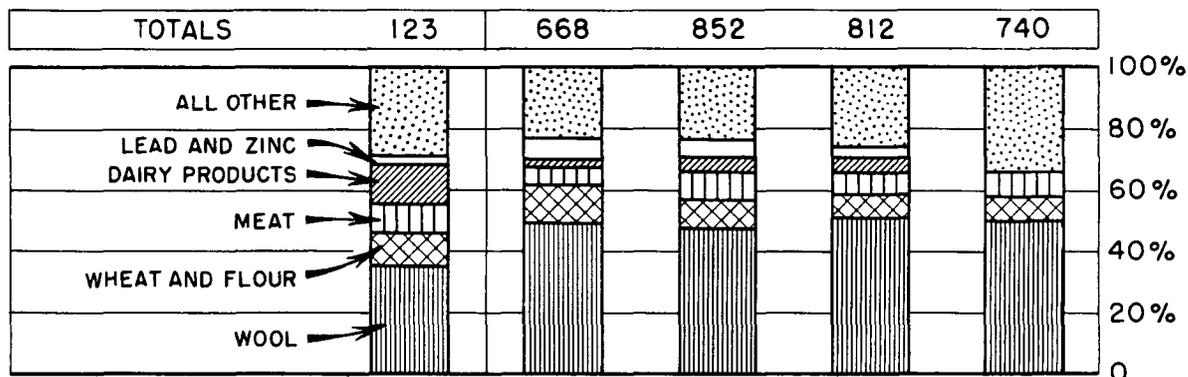


TERMS OF TRADE

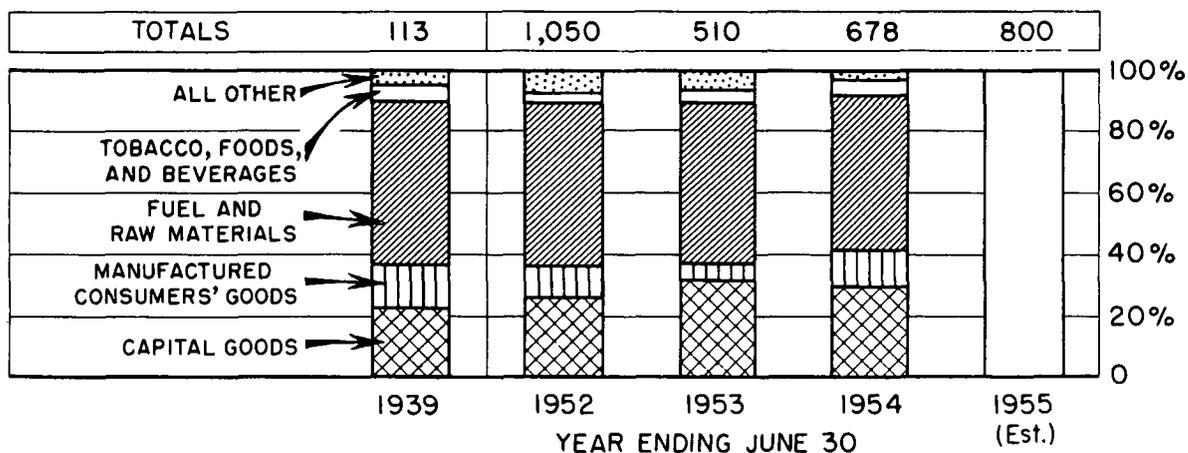


COMPOSITION OF EXPORTS AND IMPORTS
(TOTALS IN MILLIONS OF AUSTRALIAN POUNDS)

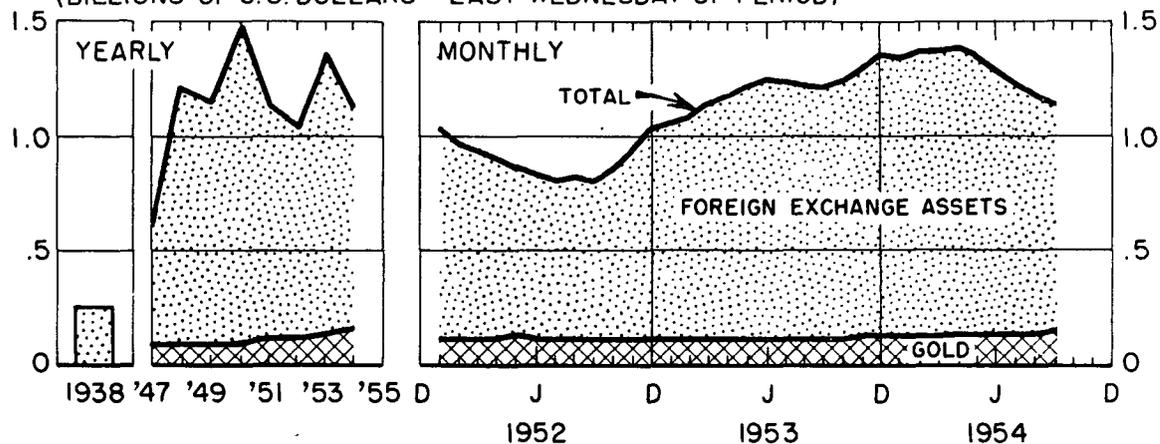
EXPORTS (Excluding gold)



IMPORTS



GOLD AND FOREIGN EXCHANGE ASSETS (GOVERNMENT AND BANKS)
(BILLIONS OF U.S. DOLLARS - LAST WEDNESDAY OF PERIOD)



Summary and Conclusions

1. After a somewhat stormy postwar period, in the last two years Australia has had reasonable stability and satisfactory growth. The Commonwealth Government has succeeded in bringing public investment under control. The central bank's control of private credit is limited, however, and as a result some inflationary pressure could and did develop from this in the last half of 1954. The goal of an increased population remains, but instead of an attempt to achieve it in a rapid spurt the outlook now is for a steady, long-term pull.

2. Australia remains and is likely to continue to remain dependent on her exports of primary products, mainly rural products. In recent years she has made considerable progress in improving the efficiency of her agriculture and in increasing output and the prospect is that this process will continue. However, her rural exports are encountering marketing difficulties: wool must live with synthetic fibers; wheat may be threatened by U.S. marketing policies; and some of the lesser exports like dairy products and sugar have their own particular difficulties.

3. The output and the export of minerals seems to have a somewhat more optimistic future. The output of lead and zinc has been increasing and is expected to continue to increase in the next 5 to 10 years. Uranium should be increasingly important. Oil, unfortunately, is still elusive.

4. Manufacturing output has been growing rapidly and should continue to grow. It is not likely to make any appreciable contribution to export earnings for a long time but it will save imports. This will make possible a continued growth in the national product even though export earnings remain stable or increase very slowly.

5. The external debt burden of Australia is quite low and is very low compared to what she successfully serviced in the past. Her external debt record is excellent. Australia remains dependent on the sterling area dollar pool to provide the excess of her dollar needs over her dollar earnings. With the great improvement which has come about and which is likely to go even further in the achievement of de facto convertibility of the major currencies, this fact is much less significant than it was. If she were not able to draw on the dollar pool and if she had to balance her dollar accounts bilaterally she would be in a difficult position and would have to undertake major adjustments to do so. Fortunately, this contingency is remote and in any event Australia can be relied upon to make the sacrifices necessary to maintain the service of her external debt.

CURRENT ECONOMIC POSITION AND PROSPECTS OF AUSTRALIA

I. Introduction and Background

1. The main economic problem of Australia since 1947 has been to secure a balanced economic expansion to make possible a rapid growth in the population and a rising standard of living. Part of the growth in population has been due to a rise in the rate of natural increase and part is due to large scale government-encouraged immigration. At first, until about the middle of 1952, Australia tried to do too much and got an attack of inflation as a result. In these years she tried to overcome the arrears in investment from the depression and the war and to expand capacity at the same time. She boosted immigration to a level where the net annual gain from migration was over 150,000 and the rate of population growth went up to 3-1/4%. The situation was made still more difficult by: (a) a large inflow of money that, owing to supply difficulties, did not result in an inflow of goods; (b) a doubling of wool prices in the year after Korea which, while welcome in increasing foreign exchange income had undesirable repercussions on domestic prices; and (c) the government's starting a larger rearmament effort from July 1950. These all contributed to inflation.

2. During the worst phase of the inflation in 1950/51 and 1951/52, wholesale prices rose at a rate of 20% per year. While some anti-inflationary action was taken by the government prior to 1951/52, it was not effective. In 1951/52, more anti-inflationary policies were introduced and these were supplemented by a drop in wool prices from the Korean war peak and a large import surplus in the last half of the year. Immigration was cut back severely and the rate of population growth thus dropped to around 2%.

3. The rise in prices was thus braked to a stop by about September 1952 and since then wholesale prices have remained at about the same level.

4. Over the whole postwar period, the gross national product in money terms increased by 2½ times. Since the value of money depreciated greatly most of the increase was fictitious. In real terms, the national product has probably increased by around a third in the last eight years. This more than matched the population growth of a fifth and so an appreciable increase in the standard of living occurred. A part of this increase was due to an improvement in the terms of trade - something which is not likely to recur again in the future and may even partially reverse. This increase was also made possible by the inflow of capital and this is likely to continue.

5. In the last year of the inflation, 1951/52, the real national product seems to have actually decreased since prices went up more than the rise in the value of the gross national product. This drop in national product is not surprising: the economy had become unbalanced with the

basic services and industries lagging behind the rest and the large import surplus hurt domestic manufactures.

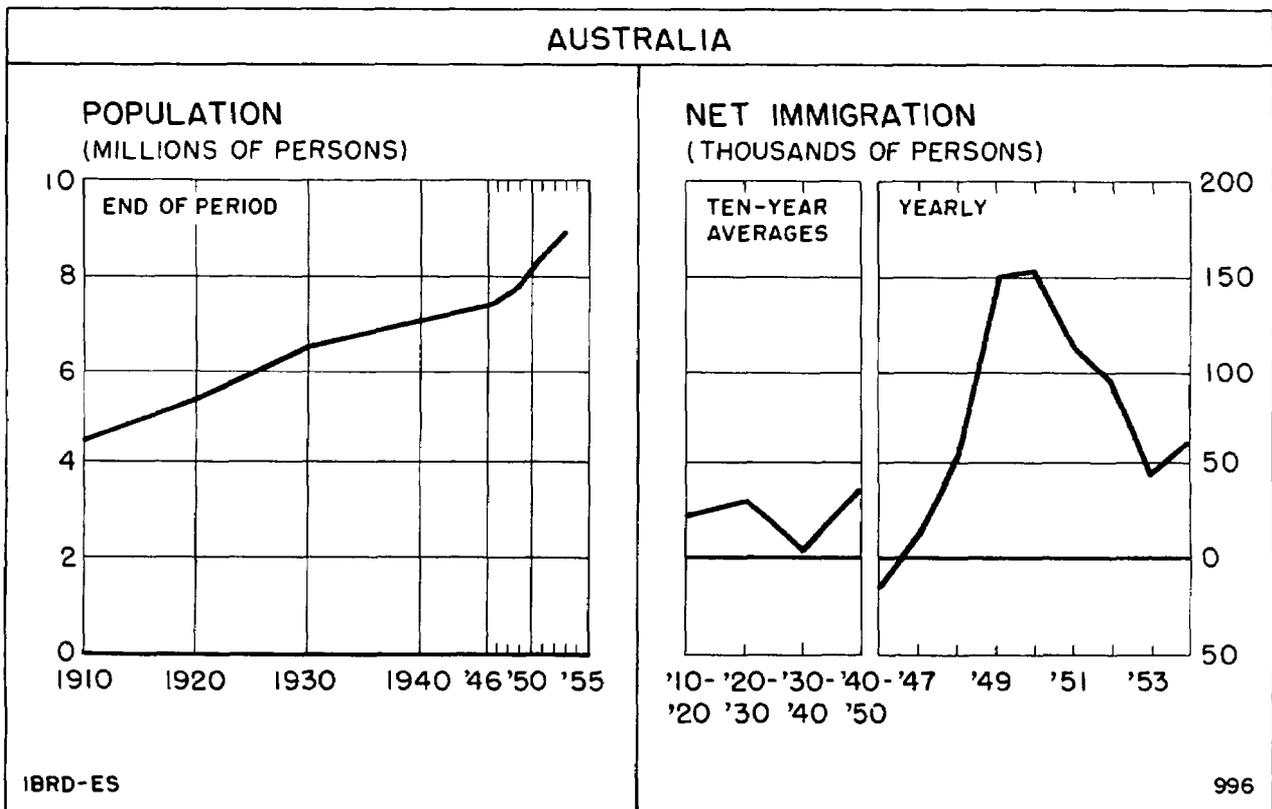
6. With the stopping of the inflation the economy resumed growing on a balanced basis. In 1952/53, gross national product in real terms probably grew by 3 to 4% although manufacturing fell back slightly. In 1953/54, since prices were steady throughout the year, the more than satisfactory increase of 6% shown was presumably real growth. In this year, therefore, Australia finally succeeded in achieving that happy state, growth with stability. It is not likely that this rapid a rate of growth can be maintained, however. Nor is it likely that financial stability can be regarded as a permanent conquest; in fact, in the last half of 1954, inflationary pressures had begun to appear again. There are also some fundamental problems affecting the future that still remain.

II. Recent Physical Growth

A. Population

7. When in 1950 the Bank made its first loan to Australia the Commonwealth had a population of 8.2 million and aimed to raise it to 11 million by 1960. Net immigration in 1950 was 153,000; natural increase was 112,000, a total of 265,000, representing a peak rate of increase of 3-1/4%. This proved to be more than the economy could absorb and the immigration program was reduced as shown in the chart.

8. From 1947 to the present, net migration has totaled 675,000; this is equal to one-half of the total immigration from the beginning of European settlement to 1947. At present, the idea of a rapid spurt in population to 11 million by 1960 is no longer mentioned. Instead, a more sober progress towards a goal of 20 million in 25 years has tended to become the dominant theme. Consequently, when over a year ago the government felt that a greater immigration rate was again feasible, it adopted a more conservative policy than its earlier one, and one that is more likely to be maintained. The revival in the net migration rate in 1954 to around 60,000 a year - a number which the economy should not have too much difficulty in absorbing - is probably therefore a good representation of the future.

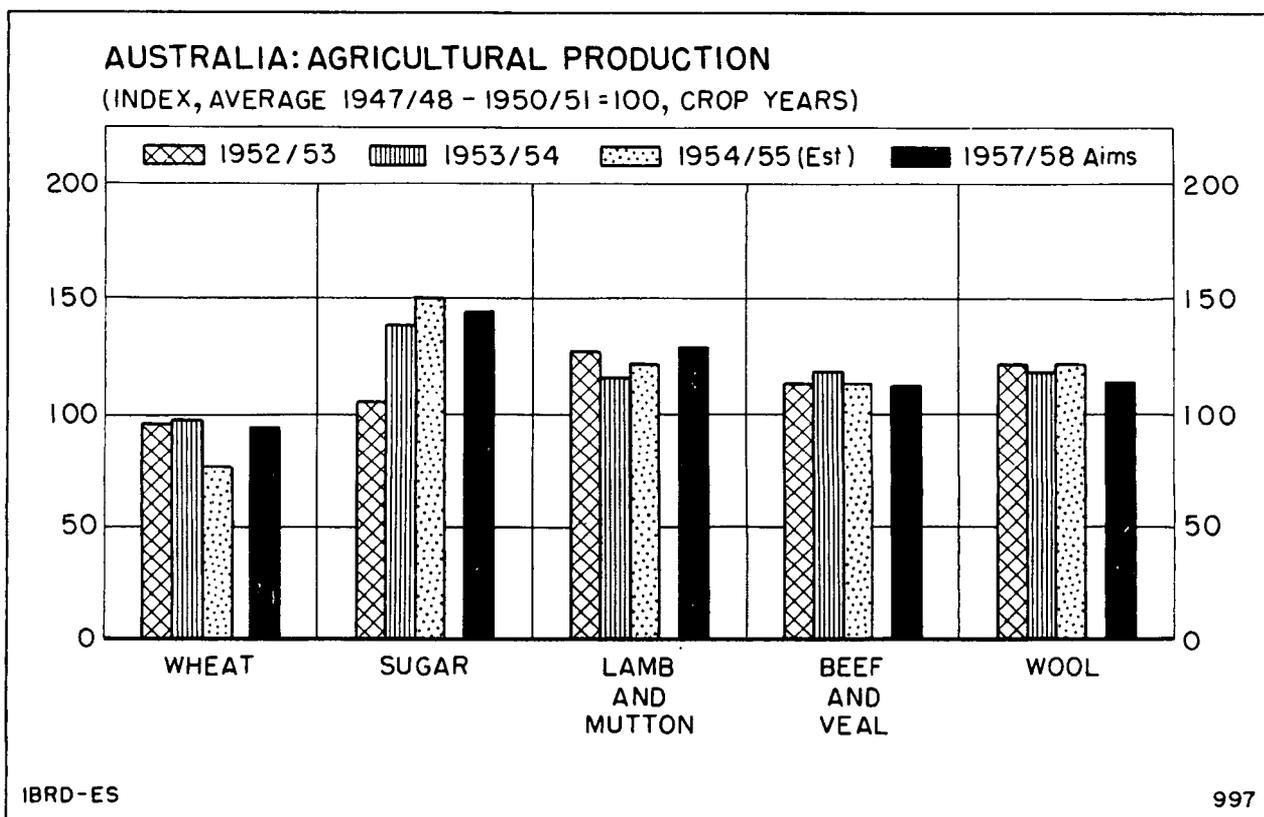


B. Export Commodities

9. Australia depends and for the foreseeable future is likely to continue to depend on primary products for her export earnings. Rural products - wool, wheat, meat, dairy products, sugar - alone account for more than three-fourths of the total. A detailed account of current developments in the rural sector is given in the Technical Report; here, an attempt is made rather to bring out the general trends.

10. First of all, government policy has been good. Since early 1952 the Commonwealth Government has consistently considered agriculture as having a top priority ranking with defense. Its tax policy has favored investment in agriculture. It has encouraged research on farm problems which has had some spectacular successes like myxomatosis which kills rabbits and so increased the number of sheep that could be carried. It has aided in securing farm machinery and materials - in part through the I.B.R.D. loans.

11. Farmers have improved their farms and to an increasing extent are adopting improved techniques such as pasture improvement and fodder conservation.



12. Aided by good weather, the production of many of the rural commodities, as shown in the chart, has exceeded the production aims that had been set for 1957/58 by the Commonwealth-State Agricultural Council. Total rural output has gone up by more than 20% over prewar with a labor force slightly below prewar. The possibilities for further increases in productivity are still very large.

13. Up to a few years ago, in discussing Australian agriculture, a good deal of emphasis might have been put on the fact that the Australian frontier had long ago vanished and that natural limitations held down increases in output. Now, agricultural research has created a new frontier in making usable new land and increasing the possibilities of increased output from the old land.

14. Recently, a worry about markets for the output has arisen. This is particularly true in wool and wheat, the two most important exports. Australia produces about half of the world's wool that enters in international trade and wool provides half of Australia's export earnings. The future of wool has been threatened by the newer synthetics. The present outlook is for an uneasy co-existence between wool and the synthetics.

15. While wool and synthetics in some uses are competitive, in others they are complementary. The output of wool is likely to increase less rapidly than the increase in total world market for textiles. Therefore, even if in some products wool is wholly or partly replaced by synthetic fibers, there could still be a gradual rise in wool sales. But the competition should tend to keep wool prices down. Wool prices in the current season have dropped 10 to 15% below last year; it would take a much greater further drop than this before it would affect output seriously and, in this case, probably producers in other countries would have cut their output first. If the synthetics should develop to the point where they forced a price drop that would seriously hurt wool output, many wool growers could switch to the production of lamb and mutton, or wheat. While this would soften the blow to the economy somewhat, it would still be serious.

16. Wheat, on the average, is rather more than 10% of export earnings. In the 1953/54 season, exports were only around 70 million bushels leaving a record peacetime carry-over of almost 100 million bushels. Exports in 1954/55 should be higher than last year. While this is much less significant than in the past, Australia does have an advantage in being the major exporter of sterling wheat. The future of Australian exports of wheat may depend, in part, upon the policies followed by the United States in maintaining prices at home and disposing of surpluses abroad. Australian costs are fully competitive but if wheat prices should fall or costs should rise considerably above present levels Australia also has a wheat price stabilization arrangement under which up to 100 million bushels of wheat would be sold abroad below the "ascertained cost of production".

17. For the immediately foreseeable future, therefore, in both wool and wheat the outlook is slightly on the pessimistic side.

18. In other important rural exports the picture is uneven. Meat is about 8% of total exports. While it faces keen competition in the future in the United

Kingdom, the principal market, an agreement with the United Kingdom guarantees a market for any exportable surplus of beef, lamb and mutton until 1967. Australian capabilities of expanding meat exports should be good, thanks to the new pasture improvement and fodder conservation techniques. It is doubtful whether Australia can ever secure a bigger foreign market for its sugar than its present protected one in the United Kingdom. Prospects for increased exports of dairy products are also not bright, largely because this industry remains conservative and has not appreciably improved its efficiency, increased output or reduced costs.

Minerals

19. The prospects for minerals are brighter. Lead and zinc are about 5% of total export earnings. Output is at record levels and present prospects are that it will increase further by 20-25% in the next 5 to 10 years. Gold output, which has gradually increased throughout the postwar period, reached a level of about \$40 million a year in 1954, or about half the total value of zinc and lead output. No increase in output is expected; in fact, to prevent closing of marginal mines Australia introduced a subsidy in November.

20. Three main uranium-bearing areas have been discovered so far in Australia and two of these are now beginning to be exploited. From the unclassified information available it would appear that in another five to ten years, uranium may become an appreciable foreign exchange earner; and perhaps, still later, an important source of fuel for Australia's growing economy.

C. Basic Services

21. Electric power, transport and housing are no longer drags on the progress of the economy as they were during the inflation period.

Electric Power

22. There has been a remarkable growth in electric power capacity - this year it will be 135% above prewar and 45% above 1951/52. With power output up to demand, the costs to industry resulting from power rationing, black-outs, etc. have been eliminated. Also, this year New South Wales was able to cut power rates slightly. From now on, while reserve capacity is probably still inadequate in some states, it should be possible for electric power output to keep pace with the growth of the economy.

Transport

23. While the position in transport has improved, it cannot be called completely satisfactory. Because of the vast distances in Australia transport costs should be as low as is economically feasible. With over half the Australian population concentrated in six port cities on the rim of the continent, coastal shipping should be a mainstay of the transport system. Before the war, around half the total freight carried was moved in coastal ships. No adequate statistics on transport capacity are available but coastal shipping now is carrying only about the same tonnage as prewar, perhaps a quarter of the total freight. It is the stagnant sector of the national economy. The

causes of the stagnation are complex; in large part, sociological, including bad labor relationships and unenterprising management.

24. The railroads were originally built in each state to feed into its ports and they are of different gauge. Now that they have had thrown upon them the carrying of interstate traffic, the need for trans-shipment at the state lines becomes a real burden. Freight carried by road has grown enormously and probably exceeds that carried by rail or coastal shipping. The states own the railroads and have attempted to protect them by discriminatory legislation designed to discourage trucking. A Privy Council decision in November 1954 freeing interstate trucks from state discriminatory taxation could provide an excellent beginning in helping industry lower the transport components of their costs - but the chances are that the states will not extend the area of competition to intra-state motor traffic and will try to reimpose handicaps on the interstate traffic.

25. Investment in roads has increased, at least partly because the Commonwealth has been gradually increasing its contribution to the State road programs. It paid over £17 million in 1953/54 and has budgeted £24 million in 1954/55. While the condition of the roads is no longer deteriorating as it was in 1951/52, even more investment in roads may well be economically justifiable.

26. Internal air transport is probably the brightest spot in the transport picture. The two major internal lines are well-equipped and expanding to keep pace with demand.

Housing

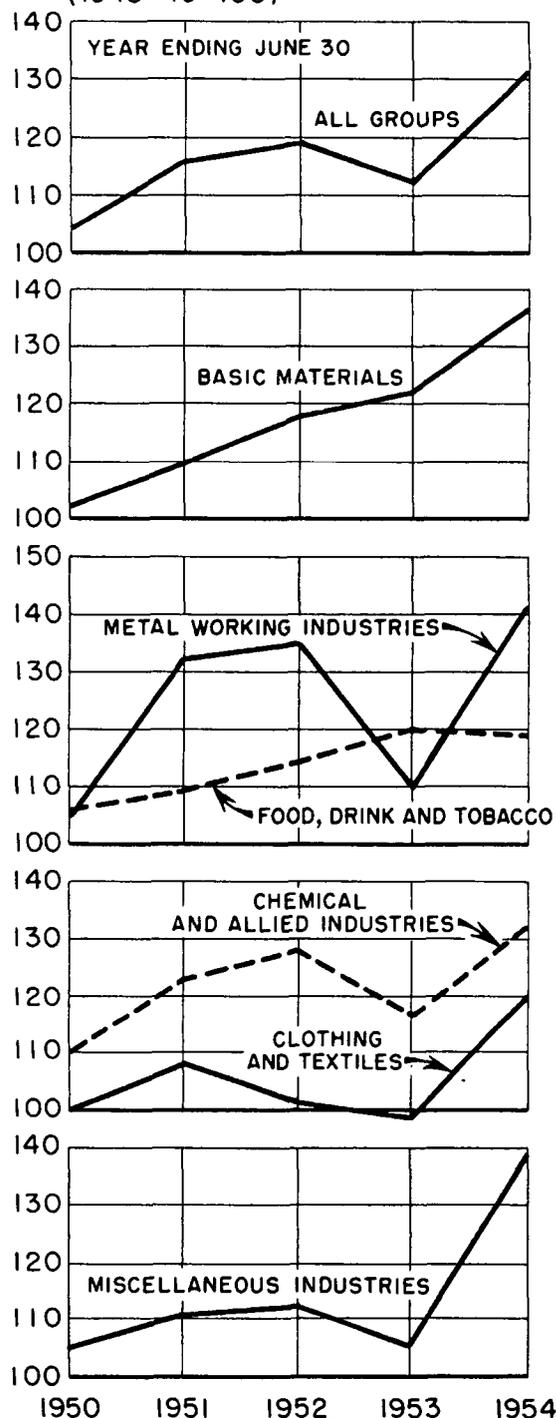
27. While complaint is sometimes heard about a shortage of housing, in general this crucial sector appears to be making satisfactory progress. The rate of building new houses has for some years now been sufficient to handle the increase in population and to cut into any arrears in the housing needs still left from the war and depression. It is more than probable that any scarcity in housing felt now stems mainly from a mal-distribution of housing caused by the long continuance of rent control.

D. Manufacturing

28. The accompanying charts indicate clearly the rapid growth of manufacturing in recent years - as well as the impact of the slight recession of 1952/53. No indices are available on a prewar basis but a rough estimate is that the volume of manufacturing output has about doubled since prewar. Although the proportion of her total labor force in manufacturing is among the highest in the world, Australia is still in what might be called the second stage of industrialization: she now makes most of the consumer goods manufactures she uses but is still dependent on imports for most capital goods.

29. Considerable concern is often expressed over high costs in Australian industry. This is, of course, a matter not subject to precise measurement. It does appear that the cost advantage that Australian industry had in the

AUSTRALIA: INDUSTRIAL PRODUCTION INDEXES
(1948-49=100)



SOURCE: A.N.Z. Bank

IBRD-ES

995

immediate postwar years was lost in the wage increases during the inflation. If wages had continued to increase so much more rapidly than they did in the U.K. and the U.S., for example, it seems that they would have definitely gotten out of line. The automatic quarterly wage adjustment that was in part responsible for this rapid movement was abandoned in September 1953. Since then, Australia has been subject to about the same wage pressure that all full-employment economies have.

30. There are certainly some firms that are endangered by import competition but the number does not appear to be unduly large. The Tariff Board grants very few requests for protection and, as nearly as one can judge, only where it can be reasonably believed that the industry receiving a moderate degree of protection will have a good chance of success on a competitive basis in the long run.

31. To conclude, Australian costs may be on the high side but there is no definite proof that they have become excessive as yet.

32. The prospects are that manufacturing will continue to grow rapidly, and indeed it must if Australia is to absorb an increasing population. At the same time, of course, the growth in population will provide the growing market necessary for the production. Probably little important expansion of the present small exports of manufactures is likely in the next 5 to 10 years. After that, depending on the progress of development and the degree to which liberal trade policies are pursued in the Pacific-Indian Ocean area, the possibilities and opportunities may be much greater.

Iron and Steel

33. The steel industry deserves special mention. Near the end of the inflationary period, steel plants had to work at 80% of capacity or under because of want of coal and labor. Supplies of both have now greatly improved and there has been an expansion in capacity with the result that the production of ingot steel climbed from 1,500,000 tons in 1951/52 to 2,100,000 tons in 1953/54 and has since been running at an annual rate close to 2,400,000 tons. A further increase in capacity to 2,700,000 tons by 1957 is planned. Domestic rolling capacity, which is being increased, is still inadequate and considerable quantities of pig iron and ingot steel have been exported, mainly to the U.K. and the U.S.A.

34. Local costs of steel are less than the landed cost of imports. Because of this and because the Australian steel industry is a monopoly it is able to pursue a policy of providing capacity sufficient to meet the minimum Australian demand, conservatively estimated, leaving fluctuations to be borne by imports. The current program of the industry to produce new products previously imported should, however, reduce imports. Among products to be produced is tinplate, which now costs Australia some \$5-10 million annually in dollars.

E. Home Minerals

35. The export minerals - lead, zinc, gold and uranium - have already been mentioned. Some mention is also necessary of copper, coal, aluminum, and of oil, that still-elusive hope of the future.

Coal

36. The output of black coal, the major Australian fuel, is now adequate and is no longer a bottleneck in the production of power and steel. Since 1953, in fact, total supply at around 19 million tons has been rather in excess of total demand. Coal prices have fallen about 10% from their 1952 peak. Production of the different types of coal is not yet fully in line with the needs of the different industries, but an adjustment is taking place which should result in a further lowering of costs for the coal-using industries. After a long history of bitter labor struggles, labor-management relationships are still far from ideal but have improved considerably. At their 1954 Triennial Conference the union members finally agreed to the mechanical extraction of pillar coal. This should lower costs.

37. Production from open-cut mines has steadily declined since 1951/52. The quality of this coal is generally lower than that of underground coal. With the completion of the new oil refineries, fuel oil in increasing quantities is becoming available for the domestic market. From now on the extent to which the coal industry can hold its markets will depend upon its ability to compete with oil. This should help to keep the coal mining industry efficient and to lower costs generally.

Copper

38. Since the end of World War II, copper production has increased from

under 15,000 tons to 40,000 tons in 1954. This is about equivalent to Australian consumption and higher than it has been at any time in Australian history with the exception of a few years around the beginning of World War I. Refinery capacity is such that Australia has to export blister copper and to import electrolytic copper - with a net foreign exchange cost. There are no indications that in the future Australia should be able to do much more than cover her own copper requirements.

Aluminum

39. The production of aluminum in Tasmania is expected to begin in June or July 1955 at an initial rate of 10,000 tons a year. An output of 13,000 tons will be reached when sufficient power is available. This rate would meet current Australian consumption and effect an import saving of \$6-7 million in dollars. As the cost of production is expected to be considerably higher than the landed cost of imported aluminum, the justification for this development on other than defense grounds is somewhat dubious.

Oil

40. In November 1953, oil was struck for the first time in Australia. Since then all the wells drilled in the same Rough Range area of Western Australia have been dry. Active exploration with great hopes is still going on over wide areas of Western Australia, Eastern Australia and Papua.

41. In 1951, Australia refined only about 15% of her requirements of petroleum products. Since then, Shell, Caltex, British Petroleum (formerly Anglo-Iranian) and Standard Vacuum have invested about £100 million in refineries. When these are completed, by January 1956, Australia should be producing the bulk of her requirements of refined petroleum products. The switch from the import of refined products to crude, after considering all factors, should result in a foreign exchange saving of £10-20 million per year.

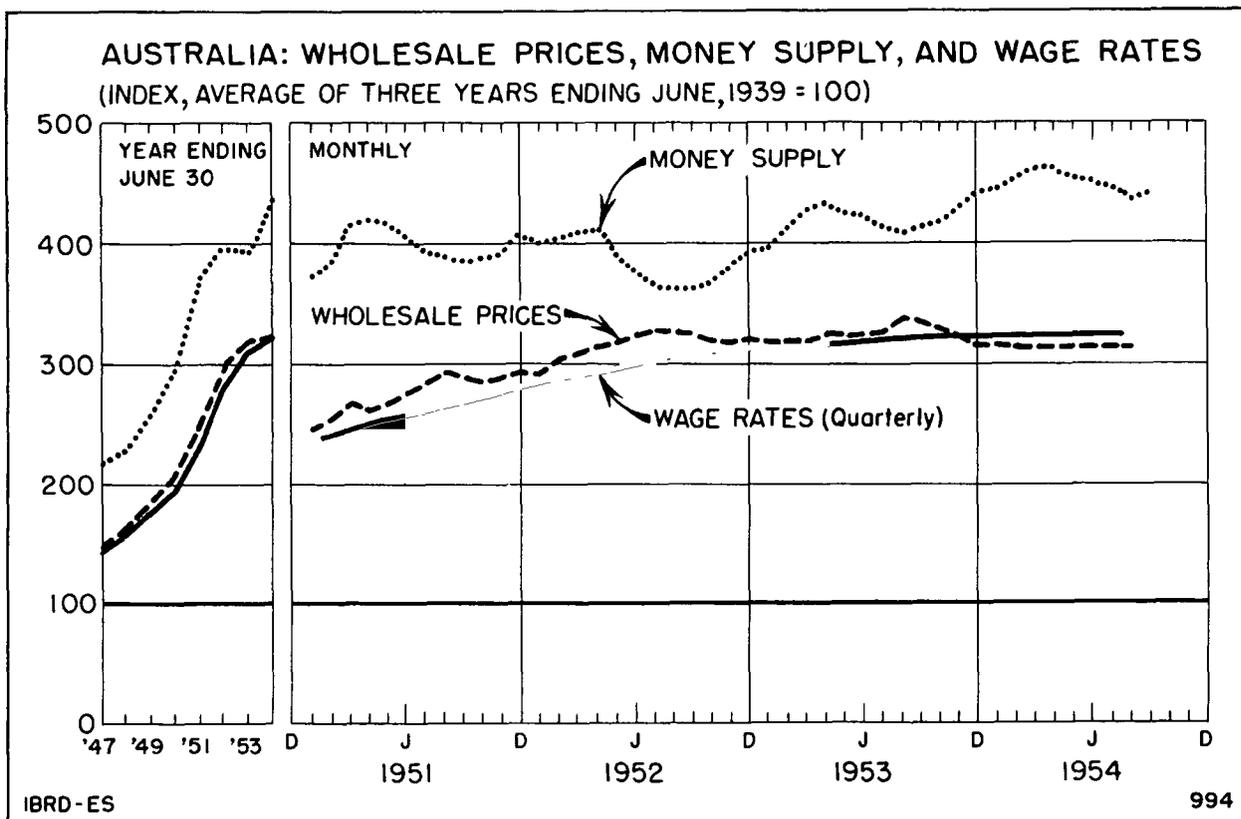
III. Financial Stability

A. General

42. For more than two years Australia has enjoyed economic growth with a reasonable financial stability. Since about September 1952 wholesale and retail prices have been steady. Wholesale prices are, if anything, lower than they were and retail prices are just slightly higher. State price controls, which have been fairly ineffective for years for keeping prices down, have been abolished in Victoria, Tasmania and Western Australia. In New South Wales, price control applies only to a few items.

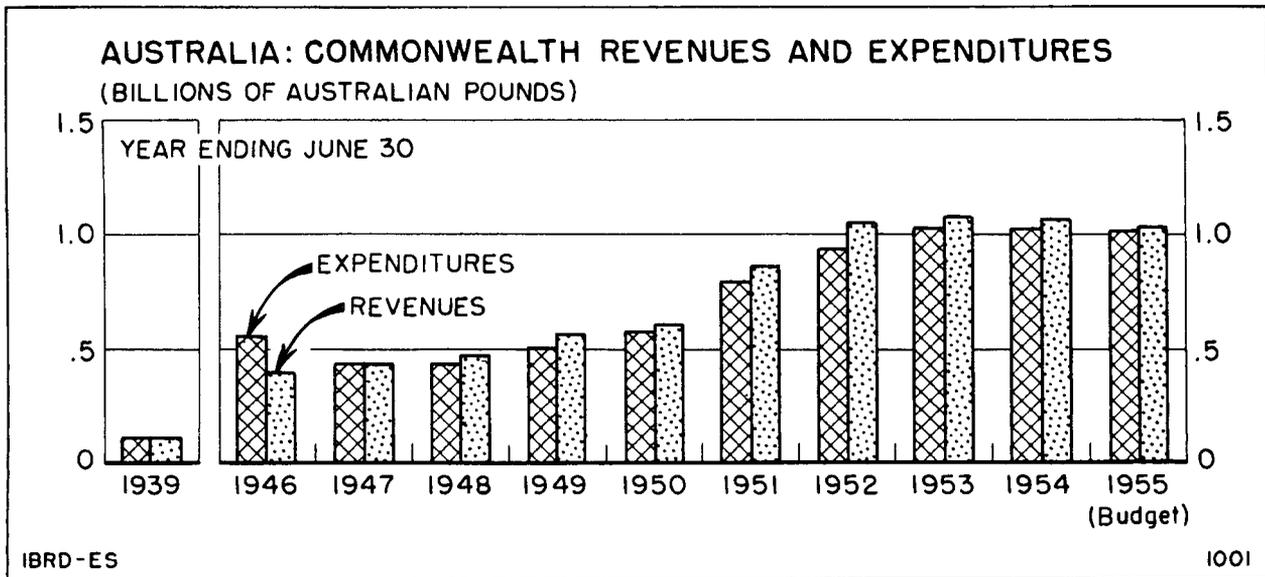
43. Money wages have also been relatively stable, with a gain of about 5% in two years, that is to say, probably about equal to the increase in productivity.

44. As a result of a Commonwealth Arbitration Court award last fall, an increase has been authorized in the margin over the basic wage payable to



skilled workers, with a smaller increase for semi-skilled workers, in most industries. Some workers have been receiving wages higher than legally required and to this extent this decision merely confirms the position. Some increase in the margins paid for skill was required to reestablish the skill incentives that had been eliminated during the inflation. This, therefore, in the long run should increase productivity. In the meantime, these increases plus the recent increases in government salaries, involving a probable additional expenditure of about £30 million for the Commonwealth and State budgets for the next year, will cause an addition of about £150 million or 8% to the national payroll. An increase of this magnitude is not insignificant and may put more pressure on the economy in the immediate future.

45. The aggregate demand for goods and services in 1954 was higher than in 1953. Some pressure appeared towards the end of 1954. During recent months, shortages of labor have been accentuated, particularly in the basic industries and construction, and some products, such as steel, bricks and cement, have become scarce. Consumer spending has been buoyant. The excess demand has resulted in an increased demand for imported goods and in a drain on the international reserves. All of these symptoms indicate that the economy has recently been slightly on the inflationary side.



B. Public Sector

46. The significant fact is that the recent pressure on resources is not due to the public sector of the economy. After financing all of its own capital items out of revenue, the Commonwealth budget in 1953/54 closed with a surplus of £56 million. This amount was used to help finance the state investment programs.

47. The budget for 1954/55 is similar in nature to that for 1953/54, but provides for only a tiny surplus. It is expected, however, that owing to slow spending, the actual surplus will be greater. Last year the Treasury gave tax reliefs of £118 million on a full year basis. In spite of this the year closed with a surplus of £56 million. The Treasury could thus give new incentive concessions for 1954/55, in the form of income tax and sales tax reductions amounting to £47 million on a twelve-month basis. At the same time expenditures for defense, capital investment and social security have been increased by about £49 million which are expected to be financed from an expected increase in tax revenues from a growing national income.

48. The total of the state investment programs (including the Commonwealth-State housing program) was £190 million in 1952/53, £200 million in 1953/54, and is set at the £200 million figure in 1954/55. In the last two years these amounts have been financed out of the Commonwealth surplus, the counterpart of IBRD and other international loans, and from issues sold on the private capital market in Australia. There was raised in this last way £52 million in 1952/53 and £118 million in 1953/54. In the budget for the current year, with no Commonwealth Government surplus available for financing the state programs, an amount of £140 million was set as the target to be raised in the capital market in Australia. The first public issue in November-December with a target of £50 million fell £13 million short. This issue occurred at an unpropitious time, coinciding with a dock strike and fall in wool prices. The failure may not have been completely unwelcome to the Commonwealth in

stopping pressure from the states to try a lower interest rate than the current $4\frac{1}{2}\%$. If the remaining loans are successful, the shortfall will be partly made up by the 60 million Swiss franc (equivalent to £5.8 million) Commonwealth issue floated in February 1955. This issue had not been counted on when the original borrowing program was set.

C. Banking

49. The inflationary pressure in the economy in the second half of 1954 stemmed from the banking sector in spite of a clear lead by the central bank against this.

50. At the beginning of 1953/54 the Commonwealth Bank's credit policy was designed mainly to support the rising level of activity from the slight recession of 1952/53. During the first part of the year, the liquid reserves held by the major trading banks were above 25% of their total deposits and they were in a position to easily increase their loans. The trading banks' deposits in special accounts with the Commonwealth Bank, in essence a second line of reserves, also represented about 25% of their total deposits.

51. As soon as a high and rising level of employment was reached during the year, the Commonwealth Bank tried to get the trading banks to exercise greater restraint in lending. The Commonwealth Bank, using virtually the whole of its power in this regard, made a call on the banks for deposit to the special accounts, resulting in a net increase of £20 million in these accounts for the whole year.

52. In spite of the central bank's policy, credit granted by the trading banks during 1953/54 increased by £115 million or over 15%. In its annual report for 1953/54, the Commonwealth Bank stated that the rise in bank advances had been "more than was required to maintain employment and provide for the growth of the economy." From the end of June to the end of October, advances increased by another £80 million, putting still more pressure on the economy and, in particular, on the balance of payments. At least a part of the increase in advances was uncontrollable by the banks themselves since customers took advantage of lines of credit that had been established much earlier. From October to the end of December, no further increase in advances has occurred.

53. The Commonwealth Bank has tried to persuade the trading banks to keep a ratio of liquid reserves (cash, Treasury bills and government securities) to total deposits of around 25%. In September 1953 this ratio was 27%; in June 1954, 23%; in September 1954, 19%. As mentioned, the decline in liquidity by this time had gone so far that the banks, willy-nilly, were under pressure to restrict advances. There was no further decline in this ratio during the rest of 1954.

54. The increase in advances has gone mostly into financing increased commercial construction, private housing, rural investment and consumer credit. Two banks have gone directly into financing installment purchases while the others have done so indirectly through financing specialized finance companies which do so. Advances to manufacturing have been fairly stable.

D. The Outlook

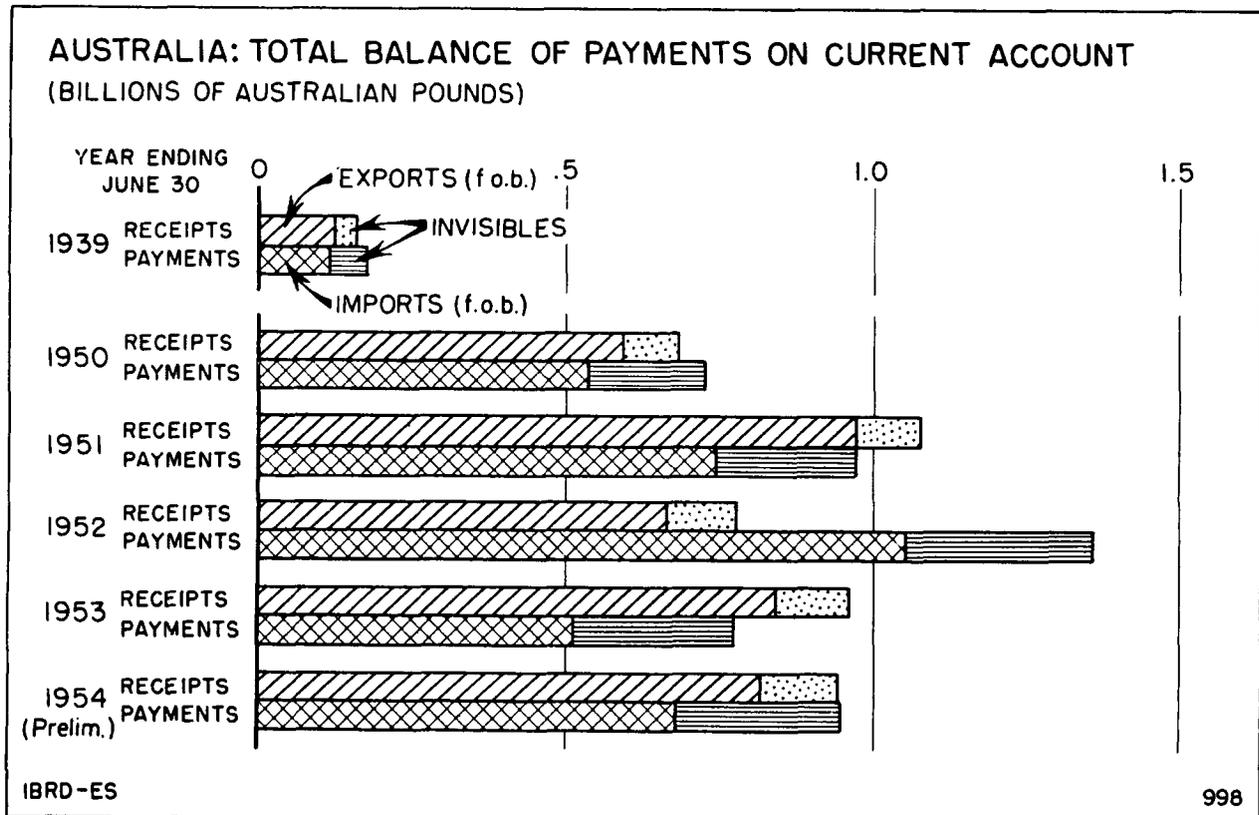
55. At present several disinflationary influences are operating. The most important of these is the decline in the liquidity of the banking system as a result of a substantial fall in London funds. This not only prevents a further sharp increase in advances but puts pressure on the banks to reduce the total now outstanding. With the fall in wool prices, rural spending should decrease. The drop in wool prices will also have a generally depressing effect over the whole economy. There is no inflationary impact from the government accounts. On the other hand, the increase in wages will increase incomes. Barring any unforeseen development, on balance it may be expected that during the next several months the inflationary pressure on resources should not increase.

56. The successful maintenance of full employment without inflation is a difficult enough task for any country. For Australia to do this it is important that a similar condition exist in the rest of the sterling area and particularly in the United Kingdom, her main market and source of supply. Australia has, also, certain peculiar difficulties in this field. As just discussed, the banking system can be unresponsive to central bank guidance. While government investment has been brought under control it is no easy task to maintain this and there are distinct limits, resulting from the federal system, to the flexibility with which government investment can be changed. Wage policy is set by a system of arbitration courts outside of the usual framework of public policy. Immigration, an important part of population growth, is subject to erratic fluctuations depending on conditions in Europe. Australia's external economic relationships can also be unstable; her export earnings are subject to large fluctuations; her distance from her import sources is so great that it takes a long time for conditions or policy in Australia to affect the flow of imports coming out of the pipeline. In the light of these factors, some degree of financial instability would not be surprising from time to time in the future.

IV. Balance of Payments

57. The chart depicts the violent fluctuations in the balance of payments in recent years and the relatively tranquil year of 1953/54. In this last year, the current account showed a tiny deficit, the capital account showed a small surplus and so the year ended with an addition to reserves of £10 million. But tranquility can scarcely be considered an Australian attribute and the trend of last year has been sharply reversed this year. In fact, a decrease in reserves of £100-150 million appears likely in 1954/55. This is due to an increase in imports and a decrease in export earnings. The latter results mainly from the fall in the price of wool from an average price of around 82d. per pound during the last two years to an expected average price of about 72d. per pound this year.

58. In the last two years Australia was able to buy a quarter more imports than the same volume of her exports would have bought prewar. With this drop in wool prices, the continuation of such favorable terms of trade is not likely.

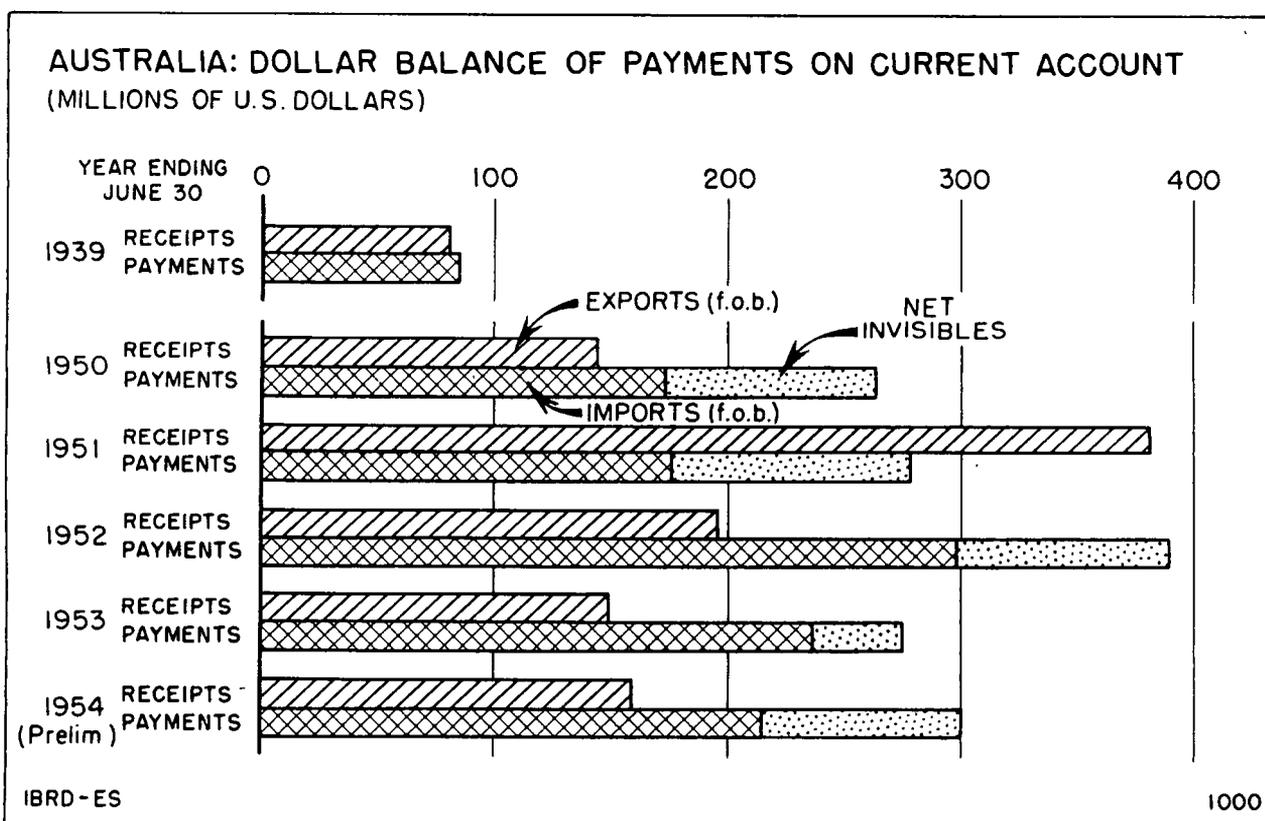


Dollar Balance of Payments

59. The only new development of significance in trade with the dollar area is the continued slow rise in the importance of her exports other than wool. In 1953/54, for the first time, wool was less than half of the total exports to the dollar area. Minerals and food exports have grown in relation to wool. Total exports to the dollar area remained around \$150 million for the second year in a row, and a similar amount is forecast for the present year, 1954/55.

60. Dollar imports continued to be held down by import restrictions until April 1954 when, as is described below, they were somewhat liberalized. An increase in dollar imports from \$205 million last year to \$260-280 million this year is therefore expected.

61. Australia, as can be seen from the chart, has continued to have her usual deficit on dollar current account. And, as usual, the residual deficit after various capital transactions has been met by drawing on the sterling area dollar pool. Over the last five years the net total so drawn has come to \$146 million. But over the same period Australia added \$40 million to her own gold holdings. The net amount, therefore, by which Australia fell short of balancing her dollar accounts over the five-year period thus comes to about \$105 million. (This, of course, takes no account of the Australian contribution to the sterling area's gains or losses of dollars from non-dollar sources - a factor which cannot be estimated.)



Recent Trade Developments

62. In April 1954 the Australian government lifted quota restrictions on a wide range of raw materials, semi-processed goods and capital equipment items coming from non-dollar, non-Japanese sources. These items represented about 40% of total imports in 1952/53 and imports of these had been restricted to 90% of the quantity imported in the base year 1950/51. Because of the large increase in licenses granted for these items between April and October 1954 and the large import surplus developing, most of the items freed were put back under quota on September 30 - this time, however, on a basis of 100% of the 1950/51 base. Certain raw materials (such as raw cotton, crude rubber, crude asbestos) continued on a "no quota restriction" basis. The quota for finished consumer goods remains at 60% of 1950/51 imports. As from November 1954, a relaxation of restrictions on imports from Japan was also announced. This puts imports from Japan on the same basis as imports from other non-dollar countries, except that a ceiling was placed on the import of certain Japanese goods such as cotton textiles, glassware, toys.

63. A considerable measure of liberalization has also occurred in imports from the dollar area. Since April 1954 the system of restricting the import of essential dollar goods to quarterly quotas has been abandoned. Imports of machinery, components and raw materials are now permitted whenever the importer can show that the dollar commodity is cheaper or of better quality than that procured elsewhere.

V. Creditworthiness and Conclusions

64. The Australian economy is a growing, dynamic one. The determination and faith that it will continue so is shared by practically all Australians. Their fault tends to be over-optimism rather than pessimism, undue willingness to take a gamble rather than undue caution. The result is an enterprising economy that is more likely to over-reach itself than to leave opportunities untouched. The history of the postwar decade well illustrates this point. In the last two and a half years, however, acting on a more sober assessment of her possibilities, Australia has had growth with stability.

65. The Australians have shown throughout their history, and no less in their most recent history, an ability to meet and overcome obstacles, a flexibility and a toughness that augurs well for the future development of their country.

66. Australia is dependent on her exports of primary products to pay her way in the world. And half of her earnings are dependent on a single commodity, wool. This concentration on exports whose prices are notoriously more erratic and whose output is more subject to the will of the weather than industrial products introduces an additional element of the gamble into Australia's balance of payments.

67. As was discussed in Part II, the outlook for Australia's rural exports is somewhat clouded and there may be storms ahead. On the other hand, the recent progress in applying new techniques and in capital improvement gives some assurance for the future.

68. Possibly the prospects are brightest for minerals. Output of the old standbys, lead and zinc, is increasing. Uranium is a new sun on the horizon. Whether oil is also a new sun or merely a false dawn is still unknown, with the chances somewhat in favor of the former. So far only a small part of the crust of Australia has been scratched. It may be significant for the more distant future that the big mineral discoveries to date in the western half of Australia are all on or near the coast and that the interior is still untouched.

69. On the import side, a similar commodity-by-commodity evaluation of the thousands of commodities imported would be futile. The trend of development has been and it should continue to be for Australia to produce at home more and more of the commodities she previously imported. The outlook therefore is that the growth of the national income should be accompanied by a decrease in the fraction of the national income spent on imports.

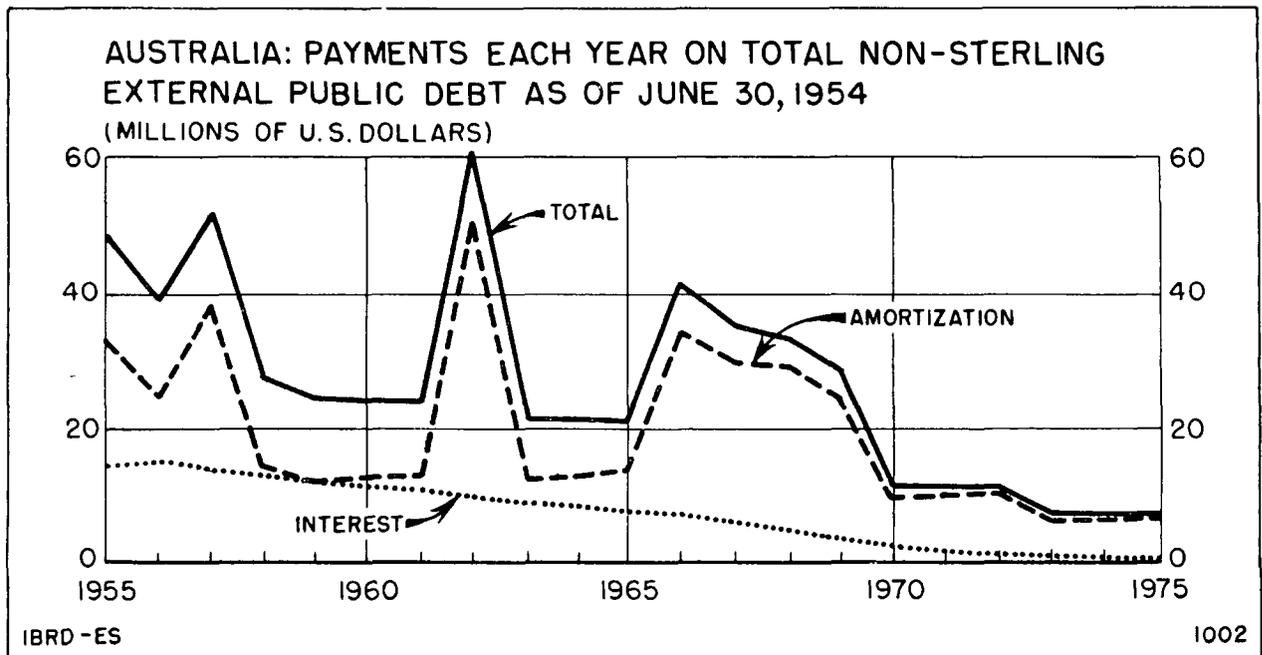
70. Australia's external debt is fairly small for the size of her economy. It is under 15% of GNP and this proportion is less than half what it was a decade ago. Interest service on this debt runs under 3% of her total current external earnings. In the great depression, Australia showed herself capable of the major sacrifice of devoting as much as 41% of her external earnings to interest service. The relative reduction in the burden of the debt is probably somewhat more than the figures imply: due to the growth over the last generation in the range and depth of products produced in Australia, there is much more flexibility possible in handling calls on the balance of payments.

71. There can be little doubt, therefore, but that Australia is creditworthy for an amount considerably above her present debt.

72. There remains the problem of creditworthiness in dollars which will persist as a special problem as long as the major currencies cannot be relied on to be convertible into dollars. With the progress that has been made and what can be reasonably counted on in the future, in the achievement of de facto convertibility of the major currencies, this problem is much less significant than it was, however.

73. Australia's total dollar and Swiss franc debt outstanding, including the IBRD's loans of \$204 million, comes to \$374 million, including the Swiss franc issue of \$14 million equivalent in February 1955. In view of the decline in the value of money, the grand total in real terms would still be less than the \$277 million she owed in 1930. The total annual interest service now is about 10% of her direct dollar earnings.

74. Australia's short-term dollar capital position has improved in the last few years. When the Bank made its first loan to Australia in 1950 the creditworthiness assessment called attention to the special dollar amortization problem Australia had in the years 1955-1957. In these three years, a total of \$122 million of dollar capital payments were to come due. This problem is no longer a major one. The large 1955 maturity has already been taken care of by calls before maturity and a conversion loan of \$25 million was successfully floated last December. And it should be possible to refinance as they



come due the 1956 maturity of \$18.5 million and the 1957 maturities of \$28 million. In the last few years, Australia has also repaid all but \$14 million of a total drawing of \$50 million from the IMF.

75. Australia normally draws on the sterling area dollar pool to meet a dollar current account deficit. She is likely to continue to be a net drawer of dollars as this makes possible a more efficient use of her resources and a more rapid rate of development than would otherwise be possible. If she were not able to draw on the pool and if she had to balance her dollar accounts bilaterally, she would be in a difficult position and would face major adjustments. Fortunately, this contingency is remote and in any event Australia can be relied on to make the sacrifices necessary to maintain the service of her external debt.

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MAP

Economic Map of Australia

APPENDIX TABLE 1

Summary of External Public Debt

(In U.S. \$ million)

	<u>30 June 1954</u>	<u>31 Dec., 1954</u> (Estimated)
<u>National and Government Guaranteed Debt</u>	<u>1,290</u>	<u>1,274</u>
Sterling Bonds	918	917
U.S. Dollars		
a) Bonds	148	133 ^{1/}
b) I.B.R.D.	182	177
c) U.S. Government	<u>6</u>	<u>6</u>
Total	<u>336</u>	<u>316</u>
Canadian Dollars (IBRD)	19	24
Swiss Francs		
a) Bonds	14	14
b) I.B.R.D.	<u>3</u>	<u>3</u>
Total	<u>17</u>	<u>17</u>
<u>Debt of Political Subdivisions and Subordinate Authorities</u>	<u>53</u>	<u>53</u>
Sterling bonds	39	39
U.S. Dollar bonds	<u>14</u>	<u>14</u>
<u>Total External Public Debt</u>	<u>1,343^{2/}</u>	<u>1,327^{2/}</u>

^{1/} Total excludes \$30 million of dollar bonds to be retired on January 15, 1955.

^{2/} Excluding:

Lend Lease Silver Loan (payable in silver)	\$8.4 million
Surplus Property Loan (payable in real property & local currency) at June 30, 1954	\$3.6 "
Dollars purchased from IMF and not repaid by December 31, 1954 (estimated)\$14.0 "
World War I debt to U.K. (payment suspended by mutual agreement).	

Source: Data supplied to Mission.

APPENDIX TABLE 2

Availability and Use of Resources

(£ million)

	<u>1938/39</u>	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u>
Private Consumption	652	1486	1693	2076	2437	2592	2835
Government Consumption	56	172	209	280	391	461	433
Gross Public Fixed Capital Formation <u>1/</u>	62	154	218	308	415	408	408
Gross Private Fixed Capital Formation <u>2/</u>	122	318	433	582	735	657	700
Increase (+) or Decrease (-) in Stocks	<u>+ 9</u>	<u>+87</u>	<u>+171</u>	<u>+245</u>	<u>+410</u>	<u>-136</u>	<u>+63</u>
Available Market Supplies	901	2217	2724	3491	4388	3982	4439
Net Foreign Investment	<u>+21</u>	<u>+75</u>	<u>+ 7</u>	<u>+152</u>	<u>-528</u>	<u>+256</u>	<u>+68</u>
<u>Gross National Product</u>	<u>922</u>	<u>2292</u>	<u>2731</u>	<u>3643</u>	<u>3860</u>	<u>4238</u>	<u>4507</u>
Public Fixed Capital Formation as Percentage of Available Market Supplies	6.9%	7.0%	8.0%	8.8%	9.5%	10.2%	9.2%
Private Fixed Capital Formation as Percentage of Available Market Supplies	<u>13.5%</u>	<u>14.3%</u>	<u>15.9%</u>	<u>16.7%</u>	<u>16.7%</u>	<u>16.5%</u>	<u>15.8%</u>
<u>Total</u>	<u>20.4%</u>	<u>21.3%</u>	<u>23.9%</u>	<u>25.5%</u>	<u>26.2%</u>	<u>26.7%</u>	<u>25.0%</u>

1/ Includes maintenance of roads and buildings.

2/ Includes motor vehicles for private use.

Source: National Income and Expenditure, 1953/54.

APPENDIX TABLE 3

Agricultural Production and Exports

<u>Produce</u>	<u>Unit</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u>	<u>1954/55</u> Forecast	<u>1957/58</u> Aim
<u>I. Agricultural Products</u>						
<u>Wheat</u>						
Production	m. bushels	159.7	195.2	199.0	150/170	191.0
Acreage	m. acres	10.4	10.2	10.7	10.7	13.7
Exports	m. bushels	99.4	99.8	71.2		
Exports	£m. f.o.b.	88.3	89.4	60.7		
<u>Barley</u>						
Production	m. bushels	21.9	35.0	41.0	25.0	25.0
Acreage	m. acres	1.1	1.4	1.8	1.2	1.4
Exports	m. bushels	12.1	22.2	26.9		
Exports	£m. f.o.b.	11.2	19.2	14.9		
<u>Oats</u>						
Production	m. bushels	34.5	43.6	33.3	30.0	42.0
Acreage	m. acres	2.4	2.8	2.2		2.8
Exports	m. bushels	13.0	11.8	32.7		
Exports	£m. f.o.b.	8.0	4.9	1.2		
<u>Rice</u>						
Production	000 tons	57.2	74.3	76.3		74.0
Acreage	000 acres	35.7	34.5	38.9		40.0
Exports	000 tons	25.2	23.9	35.5		
Exports	£m. f.o.b.	1.7	1.8	3.2		
<u>Sugar</u>						
Production	000 tons	745.4	948.0	1,254.0	1,350.0	1,228.0
Acreage (cane)	000 acres	281.7	280.0	341.0	370.0	377.0
Exports	000 tons	167.4	459.4	706.8		
Exports	£m. f.o.b.	7.0	21.7	31.6		
<u>Dried Vine Fruit</u>						
Production	000 tons	72.0	97.6	90.5		
Acreage	000 acres	57.5	64.0	64.5		
Exports (currants & raisins)	000 tons	37.7	69.3	62.4		
" "	£m. f.o.b.	4.6	7.4	6.6		
<u>Apples</u>	m. bushels	3.3	4.7	4.7		
"	£m. f.o.b.	4.3	6.7	6.1		
<u>Total Exports of Agricultural Products</u>						
	£m. f.o.b.	125.5	152.1	126.0		

Cont'd/....

APPENDIX TABLE 3 - Continued

<u>Produce</u>	<u>Unit</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u>	<u>1954/55</u> <u>Forecast</u>	<u>1957/58</u> <u>Aim</u>
II. <u>Livestock Products</u>						
<u>Beef and Veal</u>						
Production	000 tons	581.9	674.8	706.3	675.0	672.0
Exports (incl. all canned meats)	000 tons	97.2	182.6	206.7		
" "	£m. f.o.b.	21.2	46.0	43.9		
<u>Mutton, Lamb and Pigmeats</u>						
Production	000 tons	367.1	478.0	445.3	465.0	503.0
Exports	000 tons	17.9	77.5	47.0		
Exports	£m. f.o.b.	3.1	10.0	6.3		
<u>Eggs</u>						
Production	m. dozen	102.0	104.7	108.0	105.0	129.0
Exports	£m. f.o.b.	<u>3.7</u>	<u>7.9</u>	<u>8.5</u>		
<u>Total Exports of Livestock Products</u>						
	£m. f.o.b.	<u>28.3</u>	<u>63.9</u>	<u>58.8</u>		
III. <u>Wool</u>						
Production	m. lbs.	1,080.0	1,281.0	1,244.0	1,280.0	1,200.0
Exports	m. lbs.	930.8	1,089.0	1,086.4		
Exports	£m. f.o.b.	<u>323.4</u>	<u>402.9</u>	<u>410.4</u>		
IV. <u>Dairy Products</u>						
Production (whole milk)	m. gals.	1,051.3	1,218.4	1,190.4	1,200.0	1,350.0
Exports	000 tons	76.7	142.0	116.7		
Exports	£m. f.o.b.	<u>17.2</u>	<u>38.6</u>	<u>32.2</u>		
<u>Total Major Rural Exports</u>						
	£m. f.o.b.	<u>509.1</u>	<u>674.1</u>	<u>644.0</u>		

APPENDIX TABLE 4

Mining - Production, Imports and Exports

	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u> ^{1/}	<u>1954/55</u> Forecast
<u>Coal (m. tons)</u>							
Production (black) ^{2/}	14.8	14.1	16.5	17.6	19.4	18.4	19.0
" (brown) ^{2/}	6.7	7.4	7.3	7.8	8.1	8.3	8.5
Imports	0.2	0.5	0.6	0.3	0.1	0.0	
Exports	0.0	0.1	0.1	0.1	0.3	0.4	
<u>Lead (000 tons)</u>							
Production (mine) ^{2/}	217.0	213.5	225.4	212.0	228.2 ^{2/}	269.3	275.0
" (refined)	167.6	157.6	155.0	151.6	155.6	200.5	250.0
" (bullion)	36.6	31.8	33.2	36.6	36.7	35.5	
Imports	N I L						
Exports (bullion)	37.2	33.5	35.8	23.8	48.9	34.1	
" (pig)	127.5	122.1	107.3	106.8	142.0	170.2	
<u>Zinc (000 tons)</u>							
Production (mine) ^{2/}	190.5	182.0	197.8	189.2 ^{2/}	196.5 ^{2/}	239.3	245.0
" (refined)	75.6	83.8	77.7	84.1	86.2	99.2	100.0
Imports	N I L						
Exports (block & ingot) ^{3/}	35.0	39.4	32.1	31.0	45.0	37.5	
" (plate & sheet)	0.8	2.2	2.5	1.7	2.2	3.4	
<u>Copper (000 tons)</u>							
Production (mine) ^{2/}	12.3	13.6	17.5	17.9	18.6	36.6	40.0
" (refined)	11.3	11.6	11.2	17.8	19.1	23.8	24.0
Imports (pig & ingot)	13.6	16.4	20.6	22.1	18.4	3.0	
" (bar & rod)	0.1	6.9	13.3	0.6	2.4	2.0	
" (plate, sheet, pipe)	1.3	0.8	1.4	2.3	0.8	1.2	
Exports (pig & ingot)	0.0	0.0	0.0	0.0	2.6	12.8	
" (bar & rod)	0.0	0.0	0.1	0.0	1.0)		
" (plate, sheet, pipe)	0.0	0.0	0.0	0.0	0.2)	1.3	

^{1/} Subject to revision.

^{2/} Year ended December 31.

^{3/} Principal items only.

APPENDIX TABLE 5

Electricity Generation in Australia

<u>Period</u>	<u>Installed Capacity 000 kw</u>	<u>Power Generation, million kwh</u>			<u>Power pro- duced per head of pop. (kwh)</u>
		<u>Hydro</u>	<u>Thermal</u>	<u>Total</u>	
1920/21	n.a.	n.a.	n.a.	612	110
1938/39	1,620	n.a.	n.a.	4,688	676
1949/50	2,369	1,509	8,000	9,509	1,174
1950/51	2,478	1,547	8,956	10,503	1,264
1951/52	2,621	1,648	9,649	11,297	1,325
1952/53	2,972	1,707	10,388	12,045	1,384
1953/54	n.a.	1,871	11,751	13,622	1,536
Est. 1954/55	3,800	n.a.	n.a.	15,300	1,700

APPENDIX TABLE 6

Ratio of Money Supply to Gross National Product

<u>June</u>	<u>Notes & Coin in hands of public 1/</u>	<u>Deposits of Public with all Check Paying Banks</u>	<u>Total (1)+(2)</u>	<u>Deposits with All Savings Banks</u>	<u>Total (3)+(4)</u>	<u>Total (3) as Percentage of G.N.P. (for yr. ended June)</u>	<u>Total (5) as Percentage of G.N.P. (for yr. ended June)</u>
	(1) £ M	(2) £ M	(3) £ M	(4) £ M	(5) £ M	%	%
1959	40	334	374	245	619	41	67
1946	203	670	873	663	1536	57	101
1947	204	695	899	660	1559	55	95
1948	196	770	966	681	1647	47	81
1949	210	879	1089	714	1803	48	79
1950	226	1095	1321	762	2083	48	76
1951	264	1371	1635	837	2472	45	68
1952	292	1242	1534	892	2426	40	63
1953	320	1381	1701	947	2648	40.1	62.5
1954	335	1469	1804	1010	2814	40.0	62.4

1/ Coin in hands of public estimated.

Sources: Commonwealth Bank Statistical Bulletin, October 1954;
National Income and Expenditure, 1953-54.

APPENDIX TABLE 7

Source of Funds for Total Investment

(£ million)

	<u>1938-39</u>	<u>1946-47</u>	<u>1947-48</u>	<u>1948-49</u>	<u>1949-50</u>	<u>1950-51</u>	<u>1951-52</u>	<u>1952-53</u>	<u>1953-54</u>
Saving by Commonwealth Government	5	34	89	111	90	191	277	154	202
Saving by State, Local & Semi-Government Authorities (including increase in funds of marketing authorities)	33	43	76	58	32	128	-30	60	70
Saving by Companies									
Undistributed company profits	37	63	67	81	90	188	121	117	174
Depreciation allowances	52	82	95	113	168	218	185	231	274
Personal Savings (including savings through assurance funds)	49	120	192	241	348	509	394	524	426
Net Borrowing from Overseas	- 7	22	77	134	226	70	152	- 2	11
Decrease in international reserves (-, increase)	25	25	-81	-166	-183	-174	431	-189	- 9
<u>Total</u>	<u>194</u>	<u>389</u>	<u>515</u>	<u>572</u>	<u>771</u>	<u>1130</u>	<u>1530</u>	<u>895</u>	<u>1148</u>

Source: National Income and Expenditure, 1953-54.

APPENDIX TABLE 8 A

Sources of Finance for Major Public Capital Expenditure Programs

MAJOR PROGRAMS

	<u>1953/54</u> (Actual)	<u>1954/55</u> (Estimate)
	(£ million)	
Commonwealth Capital Works (excluding defense)	94.1	104.6
Aid to States for Road Programs	17.0	24.0
Advances to States for War Service Land Settlement	4.2	5.0
Advances to States for Housing	37.2	32.0
States' Loan Works Programs	162.8 ^{a/}	168.0 ^{a/}
Semi- and Local Governmental Loan Programs	<u>80.0</u>	<u>90.0</u>
<u>Total</u>	<u>395.3^{b/}</u>	<u>423.6</u>

a/ The figure of £162.8 million represents the States' borrowing program approved by the Loan Council for 1953-54; and, by combining it with the figure of £37.2 million for advances by the Commonwealth to the States under the Commonwealth-State Housing Scheme, the total governmental borrowing program of £200 million, which was approved by the Loan Council, is obtained. However, although £200 million was paid over to the States by the Commonwealth in 1953-54, State expenditure on loan works and Commonwealth-State Housing activities fell short of this figure; and their cash balances thereby rose. Although the figures for the State loan works programs (£168 million) and Commonwealth-State Housing Advances (£32 million) add again to £200 million for 1954-55, the borrowing program approved by the Loan Council is in fact only £180 million. It is expected that the gap of £20 million will be largely bridged by the States drawing on the balances they accumulated in 1953-54. (The actual extent of these accumulations is not known.) Thus the total of £395.3 million in the table overstates 1953-54 expenditure under the programs listed; and the outline of sources of funds omits the possible use of State cash balances in 1954-55 towards financing the program of £200 million.

b/ This figure is not comparable with the figure for Public Authority expenditure on new works and maintenance (namely, £407.7 million) which is shown in Table X of the paper on National Income and Expenditure, 1953-54. This latter figure comprehends expenditure from loan funds, revenue and trust funds on new works and maintenance. It includes capital expenditure of public authority business undertakings but excludes their maintenance expenditure, which is included in working expenses in arriving at the net surplus. It includes expenditure on construction of dwellings for renting, but excludes advances for housing and advances for settlers. A reconciliation of the two figures is not available.

APPENDIX TABLE 8 B

Sources of Finance for Major Public Capital Expenditure Programs

SOURCES OF FUNDS

	<u>1953/54</u> (Actual)	<u>1954/55</u> (Estimate)
	(& million)	
<u>I. Commonwealth Budget</u>		
Commonwealth Capital Works	94.1	104.6
Aid to States for road programs	17.0	24.0
Budget Surplus (to Debt Redemption Reserve Fund)	<u>56.3</u>	<u>-</u>
	167.4	128.6
<u>II. Other Commonwealth Sources</u> (excluding borrowings)		
Increase in Trust Fund balances (excluding Debt Redemption Reserve Fund)	29.2	
Increase in Treasury Bills	-35.0	
Cash Balances	<u>- 3.0</u>	<u>-</u>
	- 8.8	-
<u>III. Loan Funds Available</u>		
Public new money loan raisings	118.2	140.0
Advance subscriptions to Commonwealth Loans	7.2	-
Counterpart of I.B.R.D. Loans	18.0	20.0
Counterpart of Swiss Loan	5.8	5.8
State domestic raisings	7.5	10.0
Local and semi-government borrowing:		
a) Loans from private sources	47.0)	
b) Public loans	<u>33.0)</u>	<u>90.0</u>
	<u>236.7</u>	<u>265.8</u>
<u>Grand Total of I, II and III</u>	<u>395.3</u>	<u>394.4</u>

APPENDIX TABLE 9

Public Gross Investments by Sectors, 1946/54

(£ million)

	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u> (Prelim.)
I. <u>Agriculture</u>						
a) Irrigation	4.3	7.3	10.3	16.6	14.2	17.1
b) War service land settlement	3.9	5.6	6.1	8.1	7.7	7.7
c) Forestry	3.3	4.0	4.8	5.5	3.7	4.6
II. <u>Mining - Coal & Briquettes</u>	3.9	9.8	15.5	17.6	10.4	9.6
III. <u>Electric Power & Gas</u>	18.2	32.1	52.4	79.4	94.5	89.7
IV. <u>Transport & Communications</u>						
a) Railways	12.6	18.4	33.5	45.4	43.4	41.1
b) Roads and bridges	30.5	35.8	45.1	57.8	59.6	65.7
c) Ports and harbors	1.9	2.6	4.5	6.6	6.8	5.7
d) Shipbuilding, etc.	2.5	4.2	2.9	2.9	1.9	3.8
e) Civil aviation	3.1	5.0	6.3	8.5	8.5	8.4
f) Trans Australia Airlines	0.9	1.7	0.6	0.7	--	--
g) Trams and buses	2.6	1.9	2.6	4.2	3.7	2.6
h) Postoffice	11.9	15.6	22.3	28.2	27.6	25.3
V. <u>Water Supply & Sewerage</u>	9.5	11.6	17.0	22.7	22.9	19.2
VI. <u>Social Expenditures</u>						
a) Hospitals	2.8	4.8	7.1	9.6	11.8	14.9
b) Schools	3.2	5.5	8.5	13.0	11.8	15.1
c) Dwelling construction	15.4	19.4	25.2	36.3	31.2	30.8
d) Hostel accommodation	0.5	5.3	5.7	7.1	2.3	0.3
e) Net advances for housing	8.0	14.9	24.2	29.3	27.7	25.0
VII. <u>Public Works</u>						
a) Building construction	3.8	4.9	6.0	6.4	6.0	4.9
b) Maintenance of buildings	3.4	4.1	5.0	6.2	7.0	7.0
VIII. <u>Miscellaneous</u>						
a) Local authorities	5.2	6.8	9.3	12.3	15.0	15.0
b) Other	10.5	11.8	17.1	19.6	17.7	19.2
IX. <u>Increase in Stocks</u>	6.8	17.2	14.5	27.4	7.9	--

(continued)

Appendix Table 9 continued

	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u> (Prelim.)
X. <u>Summary of Totals</u>						
a) Agriculture	11.5	16.9	21.2	30.2	25.6	29.4
b) Mining	3.9	9.8	15.5	17.6	10.4	9.6
c) Electric Power & Gas	18.2	32.1	52.4	79.4	94.5	89.7
d) Transport & Communications	66.0	85.2	117.8	154.3	151.5	152.6
e) Water Supply & Sewerage	9.5	11.6	17.0	22.7	22.9	19.2
f) Social Expenditures	29.9	49.9	70.7	95.3	84.8	86.1
g) Public Works	7.2	9.0	11.0	12.6	13.0	11.9
h) Miscellaneous	15.7	18.6	26.4	31.9	32.7	34.2
i) Increase in Stocks	<u>6.8</u>	<u>17.2</u>	<u>14.5</u>	<u>27.4</u>	<u>7.9</u>	<u>—</u>
<u>Grand Total</u>	<u>168.7</u>	<u>250.3</u>	<u>346.5</u>	<u>471.4</u>	<u>443.3</u>	<u>432.7</u>
XI. <u>Summary - Percentages</u>						
a) Agriculture	6.9	6.8	6.1	6.4	5.8	6.8
b) Mining	2.3	3.9	4.5	3.7	2.3	2.2
c) Electric Power & Gas	10.8	12.8	15.1	16.9	21.3	20.7
d) Transport & Communications	39.1	34.0	34.0	32.7	34.2	35.2
e) Water Supply & Sewerage	5.6	4.6	4.9	4.8	5.2	4.4
f) Social Expenditures	17.7	19.9	20.4	20.2	19.1	20.0
g) Public Works	4.3	3.7	3.2	2.7	2.9	2.8
h) Miscellaneous	9.3	7.4	7.6	6.8	7.4	7.9
i) Increase in Stocks	<u>4.0</u>	<u>6.9</u>	<u>4.2</u>	<u>5.8</u>	<u>1.8</u>	<u>—</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Based on material submitted by the borrower.

APPENDIX TABLE 10

Total Gross Private Investment

(£ million)

	<u>1938/39</u>	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u> (b)	<u>1953/54</u> (b)
Private Dwelling Construction	28	69	89	128	173	151	146
Other New Building and Dwelling Maintenance	28	55	58	71	102	111	112
Trucks, Utilities, etc.	9	28	49	71	78	56	61
Motor Cars and Cycles	20	53	95	116	143	111	134
Other Capital Equipment:							
Of a type predominantly used in rural industry (a)	7	26	40	60	70	59	70
Of types predominantly used in other industries	30	87	102	136	169	169	177
Non-Farm Stocks	10	100	120	240	380	-170	40
Farm Stocks	- 1	-20	34	-10	3	26	23
<u>Total Private Investment</u>	<u>131</u>	<u>398</u>	<u>587</u>	<u>812</u>	<u>1118</u>	<u>513</u>	<u>763</u>

(a) It has been impossible from trade and production figures to separate agricultural and industrial tractors, and largely for this reason separate figures for rural and other industries have not been quoted officially.

(b) Subject to revision, especially for 1953-54.

Source: National Income and Expenditure 1953-54.

APPENDIX TABLE 11

Principal Exports^{1/}

(£ million f.o.b.)

	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u>	<u>Est.</u> <u>1954/55</u>
Wool and Sheepskins	238.8	324.9	655.3	337.1	420.6	426.8	375
Wheat and Flour	98.2	88.5	107.0	88.3	89.7	60.7	60
Meats	29.8	35.0	30.4	35.6	65.8	57.8	55
Butter	23.8	24.7	18.5	4.4	20.2	16.1	17
Other Foodstuffs	78.2	70.9	75.2	81.5	122.8	123.3	105
Metals, Metal Manufactures and Machinery	38.8	32.2	40.3	52.2	61.4	66.1	65
Other Exports	<u>35.1</u>	<u>37.5</u>	<u>55.1</u>	<u>68.9</u>	<u>71.4</u>	<u>61.0</u>	<u>63</u>
<u>Total</u>	<u>542.7</u>	<u>613.7</u>	<u>981.8</u>	<u>668.0</u>	<u>851.9</u>	<u>811.8</u>	<u>740</u>

^{1/} Excluding gold.

Source: Commonwealth Statistician.

APPENDIX TABLE 12

Principal Exports^{1/} - Percentage Basis

	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u>	<u>Est.</u> <u>1954/55</u>
Wool and Sheepskins	44.0	52.9	66.7	50.5	49.4	52.6	50.7
Wheat and Flour	18.1	14.4	10.9	13.2	10.5	7.5	8.1
Meats	5.5	5.7	3.1	5.3	7.7	7.1	7.4
Butter	4.4	4.0	1.9	0.7	2.4	2.0	2.3
Other Foodstuffs	14.4	11.6	7.6	12.2	14.4	15.2	14.2
Metals, Metal Manufactures and Machinery	7.1	5.2	4.1	7.8	7.2	8.1	8.8
Other Exports	<u>6.5</u>	<u>6.2</u>	<u>5.7</u>	<u>10.3</u>	<u>8.4</u>	<u>7.5</u>	<u>8.5</u>
<u>Total</u>	<u>100.0</u>						

^{1/} Excluding gold.

Source: Commonwealth Statistician.

APPENDIX TABLE 13

Imports of Merchandise^{1/} - Economic Classes

£ millions

<u>Economic Classes</u>	<u>1948-49</u>	<u>1949-50</u>	<u>1950-51</u>	<u>1951-52</u>	<u>1952-53</u>	<u>1953-54</u>
Fuels and Lubricants	36.4	46.2	60.3	70.8	63.8	67.6
Producers materials for use in:						
Building & Construction	14.3	24.3	41.0	58.8	17.8	23.4
Rural Industries	3.8	5.2	5.0	6.2	4.4	5.3
Manufacturing	162.5	173.3	281.7	415.6	175.4	248.3
Auxiliary Aids to Production	26.5	28.7	33.9	62.8	22.7	22.7
<u>Sub-Total</u>	<u>243.5</u>	<u>277.7</u>	<u>421.9</u>	<u>614.2</u>	<u>284.1</u>	<u>367.3</u>
<u>Equipment</u>						
Producers Capital Equipment	41.0	63.5	79.8	119.6	101.0	114.0
Road Vehicles & Complete parts	50.8	103.7	110.9	131.3	42.8	69.2
Railway Equipment, Vessels & Civil Aircraft	4.3	6.0	13.6	19.9	20.4	18.6
<u>Sub-Total</u>	<u>96.1</u>	<u>173.2</u>	<u>204.3</u>	<u>270.8</u>	<u>164.2</u>	<u>201.8</u>
<u>Finished Consumer Goods</u>						
Food, Beverages & Tobacco	19.4	26.0	34.5	36.9	23.0	31.9
Clothing & Accessories	7.4	6.9	8.9	13.8	1.6	5.4
All Other	44.6	50.8	70.7	100.5	28.4	67.9
<u>Sub-Total</u>	<u>71.4</u>	<u>83.7</u>	<u>114.1</u>	<u>151.2</u>	<u>53.0</u>	<u>105.2</u>
Munitions & War Stores	3.1	1.5	1.1	13.6	9.1	4.2
<u>Grand Total</u>	<u>414.1</u>	<u>536.1</u>	<u>741.4</u>	<u>1049.8</u>	<u>510.4</u>	<u>678.5</u>

^{1/} Excluding gold.

APPENDIX TABLE 14

Imports of Merchandise^{1/} - Economic Classes

	<u>Percentage Basis</u>					
<u>Economic Classes</u>	<u>1948-49</u>	<u>1949-50</u>	<u>1950-51</u>	<u>1951-52</u>	<u>1952-53</u>	<u>1953-54</u>
Fuels and Lubricants	8.8	8.6	8.1	6.7	12.5	10.1
Producers' materials for use in:						
Building & Construction	3.5	4.5	5.5	5.6	3.5	3.4
Rural Industries	0.9	1.0	0.7	0.6	0.9	0.8
Manufacturing	39.2	32.3	38.0	39.6	34.4	36.6
Auxiliary Aids to Production	<u>6.4</u>	<u>5.4</u>	<u>4.6</u>	<u>6.0</u>	<u>4.5</u>	<u>3.3</u>
<u>Sub-Total</u>	<u>58.8</u>	<u>51.8</u>	<u>56.9</u>	<u>58.5</u>	<u>55.8</u>	<u>54.2</u>
<u>Equipment</u>						
Producers' Capital Equipment	9.9	11.9	10.8	11.4	19.7	16.8
Road Vehicles and complete parts	12.2	19.3	14.9	12.5	8.3	10.2
Railway Equipment, Vessels & Civil Aircraft	<u>1.0</u>	<u>1.1</u>	<u>1.8</u>	<u>1.9</u>	<u>4.0</u>	<u>2.7</u>
<u>Sub-Total</u>	<u>23.1</u>	<u>32.3</u>	<u>27.5</u>	<u>25.8</u>	<u>32.0</u>	<u>29.7</u>
<u>Finished Consumer Goods</u>						
Food, Beverages & Tobacco	4.7	4.8	4.7	3.5	4.5	4.7
Clothing & Accessories	1.8	1.3	1.2	1.3	0.3	0.8
All other	<u>10.9</u>	<u>9.5</u>	<u>9.5</u>	<u>9.6</u>	<u>5.6</u>	<u>10.0</u>
<u>Sub-Total</u>	<u>17.4</u>	<u>15.6</u>	<u>15.4</u>	<u>14.4</u>	<u>10.4</u>	<u>15.5</u>
Munitions & War Stores	<u>0.7</u>	<u>0.3</u>	<u>0.2</u>	<u>1.3</u>	<u>1.8</u>	<u>0.6</u>
<u>Grand Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

^{1/} Excluding gold.

APPENDIX TABLE 15

Export and Import Prices: Terms of Trade

(Base 1936/37 to 1938/39 = 100)

	<u>Export Prices</u>			<u>Import Prices</u>	<u>Terms of Trade</u>
	<u>Wool</u>	<u>Other Exports</u>	<u>Total Exports</u>		
1946/47	173	228	203	234	87
1947/48	287	280	283	272	104
1948/49	365	305	332	285	117
1949/50	473	308	383	309	124
1950/51	999	365	654	375	174
1951/52	564	397	473	416	114
1952/53	616	371	482	385	126
1953/54	615	356	474	381	124

Sources: Commonwealth Statistician;
Commonwealth Bank of Australia.

APPENDIX TABLE 16

Foreign Exchange Reserves

(In U.S. \$ million equivalent)

<u>End of Year</u>	<u>Gold</u>	<u>Foreign Exchange & ^{1/} Foreign Investments</u>	<u>Total</u>
1938	6	245	251
1945	53	543	596
1946	82	677	759
1947	88	515	603
1948	88	1,126	1,214
1949	88	1,052	1,140

1950 New Series	88	1,403	1,491
1951	112	1,022	1,134
1952	112	920	1,032
1953	117	1,244	1,361
1954 - August	133	1,033	1,166

^{1/} Almost all sterling. "Foreign Investments" are almost entirely British Government securities held by the Commonwealth Bank.

