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TABLE IV
Australian Merchandise Exports

Commodity	1952-53		1953-54		1954-55		1955-56	
	£m.	Per cent.	£m.	Per cent.	£m.	Per cent.	£m.	Per cent.
Wool and Sheepskins ...	420.2	49.7	426.9	52.5	369.1	48.5	353.6	45.7
Wheat and Flour ...	89.4	10.6	60.6	7.5	65.5	8.6	66.2	8.6
Butter ...	20.1	2.4	16.1	2.0	24.6	3.2	29.2	3.8
Meats ...	65.8	7.8	57.8	7.1	63.5	8.3	60.8	7.9
Other Foodstuffs ...	122.6	14.5	123.1	15.2	111.5	14.7	108.9	14.1
Metals, Metal Manu- factures and Machin- ery ...	61.4	7.2	66.1	8.1	59.1	7.8	63.7	8.2
Other Exports ...	66.5	7.8	61.4	7.6	67.7	8.9	90.6	11.7
Total ...	846.0	100	812.0	100	761.0	100	773.0	100

DISCUSSION

I. A. BUTLER—*Commonwealth Bank of Australia*

Mr. Crawford has placed a very intractable problem before us. While it would be unwise to write down its seriousness it is felt that some of the arguments indicating its magnitude are not quite as conclusive as they seem to be. The manufacture in Australia of at least some classes of goods, *e.g.*, tinplate, does seem to me to represent a net reduction in demand for imports and upsets any attempt to think in terms of a constant propensity to import. Moreover, consumer demand is for particular sorts of goods and is generally indifferent to whether they are manufactured locally or are imported. Despite all this, however, it is easy enough to agree that we cannot see daylight through the current balance of payments problem.

I would like to refer briefly to a previous statement made by Mr. Crawford in his Joseph Fisher lecture in 1952. In this, he says that most of us would agree that the outlook taken in the sense of "demand" for agricultural produce is very good; he would hold this view quite strongly. He interjects that he still does, although from the general tenor of his paper, I would say not nearly so strongly. It is clear that the enthusiasm for expansion has diminished somewhat and the experience of the intervening years has modified earlier high expectations.

Whether we like it or not, we have all retracted somewhat from earlier positions. After the conclusion of the war we were fearful of a return to pre-war conditions in agriculture. Then there was a period of high optimism and almost every product was a winner with unlimited demand for it; our problems were all production problems. Then, one by one, the commodities began to strike difficulties. Firstly, wheat then eggs, then butter, now meat, leaving wool almost the one remaining unchallenged commodity which we can still produce more and more of, without worrying unduly about the market. This, despite the fact that in the earlier years confidence in the future of wool was always hesitant.

Mr. Crawford has stated that investment in agriculture appears to have been checked. I think it is true that there had been a change in this direction due mainly to the reduction in rural incomes. However, some of the indicators quoted could be misleading in this regard. The wheat acreage last year was down very heavily due largely to climatic factors and a reduction in the use of superphosphate would be a consequence of this, and need not be due to a change in attitude to pasture development. Also, the same factor would have affected the demand for agricultural machinery which, in any case, must suffer some interruption of its growth once the lee-way of past years had been overcome.

Mr. Crawford has gone over the various problems arising out of the difficult balance of payments situation and has given a reasoned statement of it. He has indicated that increased agricultural production is an important step in grappling with the problem but is not likely to provide a complete answer. Indeed, the problem must be tackled in many ways at once. No simple or ready-made answer has been offered by the speaker and I am afraid that I am unable to do better in this regard.

C. DAWSON—*Bureau of Agricultural Economics*

As we expected, Mr. Crawford has presented a masterly analysis of Australia's balance-of-payments problem and its implications for agriculture. I admired particularly his survey of the implications, for the objective of achieving external equilibrium, of other Australian popular and governmental economic objectives and their attendant pressures on resources and cost-price levels in Australia.

The crux of the problem is that, even if allowance were made for what might be called the import content of excess domestic demand, Australia's demand for imports would still exceed our current level of exports.

In dealing with the possible methods of correcting our balance of payments, Mr. Crawford expressed doubts that expanded exports of manufactured goods will close the prospective gap. It must be recognised, in this connection, that the import content of non-rural exports is, generally speaking, very much greater than that of rural exports. In 1955-56, for example, as much as 46 per cent of total Australian merchandise imports were producers' materials for use in manufacturing and petroleum refining, whereas less than one per cent of the total imports were materials for use in rural industries.

It is unlikely that capital imports will be sufficiently large to fill the prospective payments deficit on current account; moreover, equity capital would be a particularly expensive method of meeting our problem. The service payments on foreign investment in Australia are likely to continue to increase at a rapid rate. I should consider unwarranted any assumption that Australia will continue to enjoy a large net contribution to the balance of payments from overseas capital investment in this country. Our expenditure on "invisibles" is likely to rise sharply in coming years because of higher freight charges and service payments on past investments of overseas capital.

It follows that the rural industries must continue to make the major contribution to our export income, which must grow substantially if we are to achieve external equilibrium. This means—unless our terms of trade show a remarkable improvement on recent levels—that the physical volume of our agricultural exports will have to be increased.

Mr. Crawford's analysis of the factors relevant to an expansion of agricultural production for export is, I think, particularly incisive. There is a vast potential for increased production on both established farms and in new units, but it cannot be assumed that rural industry—unaided by special measures—will continue to expand at a sufficiently rapid rate to contribute in the required degree to achievement of external equilibrium. We cannot rely on the price mechanism to bring our foreign exchange earnings into line with import requirements, in conditions of domestic inflation and fixed exchange rates.

The continuing necessity for administrative limitation of imports indicates that, at current cost-price relationships, the social marginal utility of an increase in export income would be greater than the private marginal profitability of additional production for export. The justification for governmental assistance for export production in these conditions is apparent. Although we might believe that government intervention in the allocation of resources should be kept at a bare minimum, we have to concede, I think, that there is a very strong case for adoption or intensification of measures which can be frankly described as especially favourable to the export industries, for the purpose of correcting a shortcoming of the price mechanism as it is allowed to operate in Australian conditions. It should be recognised that the competitive ability of Australian export industries, for markets overseas and for resources at home, is being weakened by conditions and policies which make high-cost production of non-exportable goods profitable. Selective encouragement of increased export production by governmental measures would be a positive approach to our payments problem and may be contrasted with a restrictive import policy.

The question of the level of local prices and costs relatively to the levels of overseas prices and costs is at the heart of Australia's balance-of-payments problem. For this reason I feel that fuller reference would properly have been made to the implications of a pegged exchange rate and to the possible role of exchange rate adjustment.

As I see it, Mr. Chairman, Mr. Crawford's paper raises numerous important, complex points which are relevant to a consideration of Australian agriculture in relation to the balance of payments, and discusses them in an incisive and stimulating manner. More than that—the paper makes a notable contribution to an assessment of the implications of the balance-of-payments problem for Australian agricultural policy.