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The Australian Balance of Payments in 1954 — 15 pages

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The Australian Balance of Payments in 1954 — Frederick R. Dahl

A particularly important responsibility for the maintenance of financial stability within the sterling area is borne by the Commonwealth of Australia. As the leading trading nation of the outer sterling area and the major single customer of the United Kingdom, its payments position vis-a-vis the non-sterling world affects directly and significantly the sterling area's foreign exchange reserves. In addition, its trading position with other members of the sterling area, and particularly with the United Kingdom, may influence the ability of these countries to export outside the sterling area.

Australia, like other members of the outer sterling area, has contributed to the instability of sterling throughout the postwar period. In the 1947, 1949 and 1951-52 sterling crises, Australia drew freely on its sterling balances to finance a growing volume of imports. The decline in Australia's sterling balances in the last period accounted for about one-half of the total decline in the sterling balances of the independent members of the sterling area, and led the Australian authorities to introduce general import restrictions.

Again in 1954, a deterioration in the Australian balance of payments contributed to the weakness of sterling in world markets. In connection with a rising level of domestic business activity, imports increased rapidly following the relaxation of import restrictions early in 1953 while exports declined partly as a result of falling export prices. The consequent deterioration in the payments position, which was accompanied by a sharp decline in reserves, led the Australian authorities to reimpose some import restrictions in the fall of 1954 and to intensify these restrictions in March 1955 when the payments and reserve positions had failed to improve. By these actions, Australia became the only well-developed member of the sterling area which continues to rely primarily on import controls for the regulation of its external payments and reserve positions.

The current balance of payments

In 1950-51, a large deficit in the Australian balance of payments appeared as a result of the expansion of imports following the post-Korean wool boom. By means of severe import restrictions introduced in March 1952, imports were halved in the second half of 1952 and, aided by a recovery of export values, a payments surplus replaced the deficit of the previous six months period (see Table 1). Foreign exchange reserves, which had fallen to £A.363 million at the end of the third quarter, rose by nearly £A.100 million in the succeeding three months.1/

1/ Henceforward all values, unless otherwise specifically indicated, will be expressed in terms of Australian pounds. One Australian pound equals about $2.25.

Table 1

(Millions of Australian pounds)

	1952 I	1952 II	1953 I	1953 II	1954 I	1954 II
Exports f.o.b.	349	400	446	433	379	362
Imports f.o.b.	518	251	260	317	366	392
Trade Balance	- 169	+ 149	+ 186	+ 116	+ 13	- 30
Net Services	- 98	- 68	- 77	- 61	- 75	- 66
Balance on Current Account	- 268	+ 81	+ 109	+ 54	- 62	- 96

Note- Detail may not add to total because of rounding.

Source: Commonwealth Bureau of Census and Statistics, The Australian Balance of Payments (mimeographed material for the years 1949-50 through the first half of 1954-55).

The improvement in the external position allowed the authorities, beginning early in 1953, to relax the import restrictions imposed twelve months earlier. A steady expansion of imports immediately followed, whereas export values began to decline, and these trends continued throughout 1954. As a result, the balance of Australia's overseas transactions in 1954 showed a deficit very nearly as large as the surplus achieved in 1953. This deterioration was due almost entirely to changes in the trade balance. A surplus of £A.302 million in merchandise trade in 1953 was replaced in 1954 by a deficit of £A.17 million, of which change over one-half was accounted for by a rise in imports and the remainder by a fall in exports.

The deterioration in Australia's payments balance contributed greatly to the weakening of the sterling area's payments position in 1954. It is estimated that the balance of payments of the sterling area showed a surplus of 7 million pounds sterling in 1954 as compared with a surplus of 325 million in 1953.1/ Australia accounted for about one-third of this deterioration as its surplus with the non-sterling world declined by the equivalent of about 110 million pounds sterling.

Imports -- The decline in business activity that followed the collapse of the Korean boom came to an end at the beginning of 1953. The resumption of an upward trend in production and employment therefore spurred the demand for imports just at the time when the

1/ U.K. Treasury, Economic Survey 1955, Cmd. 9412 authorities began to relax import restrictions. From the middle of 1953 imports increased steadily to such an extent that in 1954 imports were about 30 per cent higher than in 1953. About 50 per cent of the increase in imports consisted of raw materials while finished consumers' goods -- i.e. those goods against which particularly severe import restrictions had been imposed -- accounted for 25 per cent; the proportion of consumers' goods imports to total imports appeared to be rising at year's end (see Table 2).

Table 2

Merchandise imports by commodity classes: change from corresponding quarter of previous year

(Millions of Australian pounds)

	Raw Materials	Capital Goods	Transport Goods	Finished Consumer Goods	Other	Total
1953 I	- 90	- 6	- 32	- 30	- 17	- 175
II	- 34	- 8	- 16	- 8	- 17	- 83
III	+ 9	+ 6	+ 3	+ 12	- 5	+ 25
IV	+ 21	---	+ 4	+ 14	+ 2	+ 41
1954 I	+ 22	+ 2	+ 5	+ 15	- 1	+ 43
II	+ 30	+ 6	+ 11	+ 10	+ 2	+ 59
III	+ 26	+ 2	+ 7	+ 15	----	+ 50
IV	n.a.	n.a.	n.a.	n.a.	n.a.	+ 24
1955 I	n.a.	n.a.	n.a.	n.a.	n.a.	+ 50

n.a. - not available

Source: Commonwealth Bureau of Census & Statistics, Monthly Review of Business Statistics.

Exports — The fall in export values, which began in 1953 at the same time as imports began to rise, continued through 1954. The value of merchandise exports in 1954 was about 15 per cent lower than in 1953; over one-half of this decline was accounted for by a fall in wool, and another quarter by a fall in wheat and flour exports (see Table 3).

Because Australia's exports consist principally of primary products, which are produced under fairly inelastic supply conditions, the country's export income is extraordinarily sensitive to changes in world commodity prices. The economy is especially vulnerable to changes in wool prices as wool accounts for about 50 per cent of export receipts. In 1954, export values were heavily influenced by changes in these prices whereas price changes had a negligible effect on imports. At the end of 1953, improved world supply conditions led to a fall in wheat prices, and by the end of 1954 they were approximately 20 per cent below the levels of a year earlier. Wool prices also sagged early in 1954 and again at the beginning of the wool auctions in September; current wool prices are on the average 15 per cent below those of last year. If average 1953 prices had been maintained throughout 1954, exports would have totaled about £A.804 million instead of £A.739 million. In other words, about one-half the decline in exports in 1954 was due to a fall in export prices and the other half to a fall in volume.

Table 3

Merchandise Exports by Commodities

(Millions of Australian pounds)

		Wool	Wheat & Flour	Other	Total
1953	I	115	22	84	221
	II	103	32	91	226
	III	68	23	93	184
	IV	149	13	87	249
Total		435	90	355	880
1954	I	111	12	78	201
	II	84	12	82	178
	III	51	13	87	151
	IV	109	17	83	209
Total		355	54	330	739

Source: Commonwealth Bureau of Census & Statistics, Monthly Review of Business Statistics, Overseas Trade Statistics.

Regional balances of trade and payments -- Fluctuations in Australia's trade and payments in recent years have had an unequal impact on the country's trading partners primarily because of the use of discriminatory import restrictions. Prior to 1952, few restrictions were placed on Australian imports from the non-dollar world while dollar imports were tightly licensed. The restrictions introduced in March 1952 were therefore directed mainly at trade with the non-dollar world. As may be seen in Table 4, the subsequent decline in imports from non-dollar areas was far more precipitous than the fall in dollar imports. The effects on imports from the United Kingdom and western Europe were particularly severe. Conversely, when these restrictions began to be relaxed in 1953, imports from these areas show the greatest increases.

Since mid-1952, Australia's trade with the dollar area has remained fairly stable. Imports from the dollar area have fluctuated much less wildly than those from other areas, owing to continued restrictions on dollar imports. Exports, too, have remained virtually unchanged, showing neither much improvement nor serious deterioration. The prewar pattern of Australian trade was one of deficits with the dollar area offset by surpluses with the rest of the world, and these deficits with the dollar area have persisted in the postwar period.

Fluctuations in the current balance -- These developments illustrate the problems arising from the nature of the Australian balance of payments. Imports usually follow movements in exports after an appreciable lag (normally six months or more) because of transportation problems and because of a lagged adjustment of consumption to changes in income. During the intervening period, export receipts may fall owing to the vagaries of the world wool market. In consequence, when the imports arrive and payment is demanded, current foreign exchange earnings may prove insufficient, and pressure may be exerted on the country's foreign exchange reserves.

In the period under discussion, this phenomenon was accentuated by the existence of import restrictions of varying intensity. As soon as import restrictions were relaxed, the backlog of demand for imported goods became effective and the possibility that the restrictions might be reimposed served to intensify the demand. The recent recourse to import restrictions as a means of correcting the trade imbalance may well lead to a repetition of the 1954 experience once the restrictions are again relaxed.

Table 4

Regional Trade and Payments

(in millions of Australian pounds)

	1952-I	1952-II	1953-I	1953-II	1954-I	1954-II
Exports (f.o.b.)						
U. K.	117	174	174	159	137	143
O.S.A. *	61	59	72	68	58	60
$ Area	45	35	34	38	34	32
O.E.E.C. Countries	87	87	104	112	97	92
Rest of world	38	46	63	56	55	33
Imports (f.o.b.)						
U. K.	231	98	117	155	178	175
O.S.A.	57	46	42	54	57	70
$ Area	82	55	52	41	56	58
O.E.E.C.	93	30	30	43	48	58
Rest of world	55	23	19	25	28	31
Trade Balance						
U. K.	- 144	+ 76	+ 57	+ 4	- 41	- 32
O.S.A.	+ 4	+ 13	+ 30	+ 14	+ 1	- 10
$ Area	- 37	- 20	- 18	- 3	- 22	- 26
O.E.E.C.	- 6	+ 57	+ 74	+ 69	+ 49	+ 34
Rest of world	- 17	+ 23	+ 44	+ 31	+ 27	+ 2
Current Payments Balance						
U. K.	- 155	+ 45	+ 16	- 24	- 81	- 60
O.S.A.	- 9	- 1	+ 13	+ 5	- 8	- 21
$ Area	- 65	- 38	- 38	- 23	- 45	- 46
O.E.E.C.	- 16	+ 53	+ 72	+ 63	+ 44	+ 128
Rest of world	- 31	+ 13	+ 38	+ 25	+ 19	- 6

* Outer Sterling Area

Source: Commonwealth Bureau of Census and Statistics, The Australian Balance of Payments(mimeographed material for the years 1949-50 through the first half of 1954-55).

The balance of capital payments

The burden of financing fluctuations in Australia's current payments has been borne largely by the country's foreign exchange reserves. Earlier in the postwar period, the pressure on these reserves was considerably alleviated by an inflow of investment and speculative capital. Since 1952, however, this private capital inflow has been negligible and in 1952-53 there was in fact an outflow of capital. Private capital as a source of import financing has in part been replaced by the Australian authorities' successful efforts to raise funds from the International Bank and on the Swiss capital market. In 1953 and 1954, however, these funds had largely to be employed for the redemption of Australian obligations abroad and for repayment of drawings from the International Monetary Fund. Thus in 1954 the £A.158 million payments deficit required the running down of Australia's foreign exchange reserves by £A.102 million, which offset the bulk of the £A.147 million accumulated in 1953.

Table 5

Balance of payments: capital account

(Millions of Australian pounds)

	1950/51	1951/52	1952/53	1953/54
Balance on current account	+ 104	- 583	+ 190	- 8
Official: I.M.F. & I.B.R.D.	+ 4	+ 24	+ 31	+ 11
Other	- 20	- 3	- 3	- 11
Private: 1/	+ 86	+ 129	- 29	+ 18
Foreign Exchange Reserves	- 174	+ 431	- 189	- 10
Total	- 104	+ 583	- 190	+ 8

1/ Includes residual item.

Note: (+) indicates increase in liabilities or decrease in assets;
(-) indicates increase in assets or decrease in liabilities.

Source: Commonwealth Bureau of Census and Statistics, The Australian Balance of Payments (mimeographed material for the years 1949-50 through the first half of 1954-55).

The financing of Australia's payments deficit with the dollar area is particularly important since the residual financing is carried out via the sterling area's dollar pool. Although a net contributor to the dollar pool during World War II, Australia in every postwar year save one has drawn on the sterling area's dollar reserves to help finance its dollar payments deficit. 1/ In 1953-54, Australia's drawings on the dollar pool totaled $97 million and its own dollar balances were drawn down by $28 million; drawings on the dollar pool in the last six months of 1954 totaled $69 million.

In recent years the ability of the Australian Government to obtain long-term dollar (or convertible currency) capital has somewhat lessened the pressure on sterling arising from Australia's dollar payments deficit. By the end of March 1955, Australia had drawn $186 million against loans of $255 million from the International Bank; while two bond floatations in Switzerland, one in 1953 and the other early in 1955, had netted the equivalent of $28 million. In addition to helping finance the current dollar payments deficit, the proceeds of these loans made possible the repayment of $42 million of Australia's $50 million debt to the International Monetary Fund and, in 1953-54, the redemption of $32 million of other dollar obligations.

Table 6

Capital transactions with the Dollar area

(Millions of dollars)

	1950/51	1951/52	1952/53	1953/54
Current Account Balance	+ 103	- 193	- 125	- 151
Official: I.M.F. & I.B.R.D.	+ 9	+ 54	+ 70	+ 24
Other	- 3	- 3	- 3	- 32
Private Capital 1/	- 29	+ 32	+ 65	+ 34
Gold Sales to U.K.	+ 21	-----	-----	-----
Drawings (+)/contributions (-) to Sterling Area Dollar Pool	- 97	+ 133	+ 12	+ 97
Australian Dollar Balances	- 4	- 23	- 19	+ 28
Total	- 103	+ 193	+ 125	+ 151

1/ Includes residual item.

Note: (+) indicates increase in liabilities or decrease in assets; (-) indicates increase in assets or decline in liabilities.

Source: Commonwealth Bureau of Census and Statistics, The Australian Balance of Payments (mimeographed material for the years 1949-50 through the first half of 1954-55).

1/ For a general discussion of dollar pooling in the sterling area, including Australia's relationship to the dollar pooling arrangements, see K. M. Wright, "Dollar Pooling in the Sterling Area, 1939-52," *American Economic Review*, September 1954.

Internal financial policies and the trade balance

Given the nature of the Australian balance of payments, Australian financial policies must be designed, first, to maintain foreign exchange reserves at the relatively high level required by the possibility of sudden and substantial shifts in the flow of external payments; and second, to guard against the threat to internal financial stability posed by autonomous fluctuations in the country's export income.

The difficulties of such a stabilization policy are compounded in the Australian case by the fact that the country is undergoing (and the authorities are actively promoting) an extensive development of its natural resources and productive capacity. Gross fixed investment, of which one-third is being undertaken by public authorities, currently accounts for about 25 per cent of gross national expenditure. Since the end of World War II, this volume of investment has contributed to an average annual growth of real product of about 4 per cent. Output of manufactured products alone has increased by more than 30 per cent since 1948-49.

The promotion of a rapid rate of growth and the maintenance of internal and external stability are not necessarily consonant aims. In an "open" economy a rapid rate of development may lead to an external liquidity crisis; over-regard for the level of foreign exchange reserves, on the other hand, may result in dislocations to the development program.

The experience of 1953-54 -- In 1953 and 1954 internal expansion underlay the deterioration in the Australian balance of payments. The rise in imports, which accounted for over one-half of the deterioration, accompanied an upward movement in economic activity. Real national product rose by 5 per cent in 1953-54. In response to rising incomes and increased availability of foreign goods following the relaxation of import restrictions, private consumption rose by £A.243 million, or 9 per cent, a rise which far exceeded the growth in disposable income (£A.142 million). Simultaneously, gross private investment expanded by nearly 50 per cent, mainly because of the rebuilding of inventories. In the second half of 1954, output and employment in virtually every sector of the economy reached new record levels as consumption remained high and as fixed investment showed a strong upsurge 1/ (see Table 7).

Throughout this period of expansion, relative price stability was maintained. Wholesale prices were in fact 2 per cent lower in 1954 than in the previous year and the cost of living remained virtually unchanged. This degree of price stability, which contrasts so with the period 1948 to 1952 when the cost of living

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1/ Capital expenditures in the second half of 1954 was anticipated at 10 per cent above actual expenditures in the first half of the year.

Table 7

National Accounts

(Millions of Australian pounds)

	1951/52	1952/53	1953/54
Personal Consumption	2,429	2,597	2,840
Government Expenditure	837	881	844
(of which: public investment)	(415)	(408)	(408)
Gross private fixed investment	735	657	700
Changes in inventories	383	- 144	63
Net foreign investment	- 583	191	- 2
Gross National Product	3,801	4,182	4,445

Note: Australian national income statistics are based on a geographic definition of income and product flows. The Australian figures have accordingly here been rearranged to conform more to the usual definitions of national income based on income accruing to nationals.

Source: Commonwealth Treasury, National Income and Expenditure 1953-54.

rose by 78 per cent, was greatly assisted by the slackened growth of wages: in 1953-54 nominal wage rates rose by 3 per cent whereas in previous years basic wage increases of 10 per cent or more were not uncommon. 1/

Thus in 1953 and 1954, the financial policies pursued were evidently able to assist economic growth and the maintenance of

1/ The attenuation of wage rate increases was in large part the result of a decision of the Commonwealth Arbitration Court in September 1953 in which the Court abandoned the previous practice of adjusting wages quarterly to changes in the cost of living index, and declared that future wage adjustments would be made in accordance with an industry's capacity to pay. Wage stability has not as yet been achieved, however. Current efforts to widen skill margins could lead to a further rise in the level of production costs.

internal price stability; they proved less successful in restraining domestic spending within the limits set by the balance-of-payments situation. Why this was so may be more clearly understood from an examination of the policies followed and of the means by which they were implemented.

Fiscal policy -- The fiscal operations of the Commonwealth Government in recent years have on balance been expansionary. Although the Commonwealth's cash accounts have shown a surplus in every postwar year, tax concessions in the last three budgets coupled with a virtually uninterrupted rise in the level of expenditures have contributed to an increase in consumption and an expansion of economic activity.

On the other hand, the Commonwealth Government has sought to restrain the outlays of the state and local authorities. The expenditures of these authorities have shown a rapid rise in recent years owing to the growth of public investment. Besides their own resources and grants from the Commonwealth Government, these expenditures are financed by borrowings on the capital market via the Loan Fund. 1/ In the Loan Council, the Commonwealth Government refused to support a borrowing program of greater than £A.200 million in 1953-54 by limiting the amount it would lend from its own resources; for 1954-55, the Commonwealth Government, after successfully restraining the loan program to the previous year's level, refused to guarantee any financial support to Loan Fund borrowings, thereby limiting the state programs to the resources of the capital market.

Banking and monetary policy -- The expansion of domestic activity and imports in 1954 was financed in large part by bank credit. At the end of the year, bank advances were 18 per cent higher than in December 1953 (see Table 8). Credit was also important in the financing of the rising level of consumer expenditures, as installment credit outstanding rose by nearly 50 per cent during the year.

In order to stimulate economic activity in 1952 and 1953, the Commonwealth Bank had deliberately encouraged the expansion of bank credit by increasing the liquidity of the banks. This was

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1/ All borrowings by the Commonwealth Government and by the states are carried out through the Loan Fund. This fund is supervised by a Loan Council consisting of representatives of each of the states and of the Commonwealth Government. Each year, Loan Fund borrowings are decided upon at a meeting of the Loan Council which, after estimating capital market resources for the coming year, allocates the loan proceeds among the various states. The Commonwealth Government acts as the agent of the Loan Council in carrying out borrowing operations.

TABLE 8

Banking Statistics
(in millions of Australian pounds)

	Commonwealth Bank			Check-paying Banks								
	Gold & foreign balances	Govt. & other Securities	Notes with public	Cash	(a)	Govt. & other Securities	(a)	Special Accounts	(a)	Advances	(a)	Deposits
1952 - Dec.	339	439	288	90	7	281	21	158	12	764	58	1,316
1953 - Mar.	412	378	286	101	7	389	27	230	16	716	49	1,463
Jun.	480	448	292	94	7	283	20	302	21	725	51	1,428
Sept.	491	410	296	89	6	295	21	262	19	760	55	1,391
Dec.	512	432	303	99	7	302	20	276	18	802	53	1,502
1954 - Mar.	540	375	301	82	5	355	22	354	22	803	51	1,586
Jun.	521	423	306	87	6	263	17	354	23	845	55	1,531
Sept.	439	473	311	81	5	206	14	327	22	911	61	1,486
Dec.	418	471	323	85	5	234	15	296	19	946	61	1,551

(a) Per cent of total deposits.

Source: Commonwealth Bureau of Census and Statistics, Australian Banking Statistics.

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accomplished by means of releases from the Special Accounts. 1/ Funds from the Special Accounts were released at such a rate in 1952 that the ratio of these accounts to total deposits was reduced from 39 to 12 per cent. With the accumulation of foreign exchange and the rise in deposits early in 1953, the Bank exercised restraint in its calls to the Special Accounts, though at the same time increasing the ratio of the Special Accounts to deposits from 12 to 18 per cent.

Part of the deliberate increase in bank liquidity in 1952 was caused by a change in central bank policy concerning the use of the Special Accounts. In its report for 1952-53, the Bank noted that the commercial banks had sufficient liquid funds to meet seasonal demands for cash, and declared that the Special Accounts were therefore to be reserved for regulating the impact of government finance and fluctuations in the balance of payments on the liquidity of the banking system. 2/ The role of the commercial banks was made more precise in the following report:

> "... it is the view of the central bank that a ratio of liquid assets (comprising cash, deposits with the central bank, and Treasury bills) and Government securities to total deposits of about one quarter, allowing for seasonal and other short-term variations, would be generally appropriate." 3/

In leaving to the commercial banks the responsibility for maintaining a proper liquidity ratio, the central bank restored to the commercial banks a degree of independence in the management of their funds, which they had lost through the operations of the Special Accounts during World War II.

With the rise in domestic activity and assisted by the comfortable liquidity position of the banks, bank advances began to increase in mid-1953 and this trend continued throughout 1954. Central bank policy became more restrictive in the early months of 1954, as judged by the raising of the Special Accounts to equal 22 per cent of deposits. By mid-1954, the Bank felt constrained to

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1/ The "Special Account" is a form of reserve requirement employed in Australia whereby the commercial banks may be required to lodge up to 75 per cent of any increase in deposits over a given date in a "Special Account" with the central bank.

2/ Commonwealth Bank of Australia, Annual Report 1952-53, p. 26.

3/ Commonwealth Bank of Australia, Annual Report 1953-54, p. 24.

say that the rise in advances over the previous twelve months "... may well have beem more than was required to maintain employment and provide for the growth of the economy." 1/ Despite this call for credit restraint, bank advances continued to rise during the remainder of the year as earlier commitments were called upon.

Later in 1954, deposits declined as the flow of foreign exchange was reversed and the liquidity position of the banks became increasingly strained. The banks were forced to sell their security holdings to the Central Bank to pay the maturing import bills of their customers; their position was only slightly eased by releases from the Special Accounts. Accordingly, money and credit became increasingly tight during 1954. Market yields on short-term government securities rose from 2.99 to 3.48 per cent.

In the capital market, security issues more than doubled in 1954 following the abolition of capital issues control in December 1953. The consequent competition for funds resulted in the consistent undersubscription of local authority loans, and in December only three-fourths of a Government loan of £A.50 million was subscribed.

The tools of monetary policy -- The inability of the Central Bank to curb rising bank advances calls attention to some limitations of present techniques of monetary control in Australia, arising mainly from institutional factors and from custom. In the first place, the commercial banks operate on the overdraft principle, and the usual practice is for lines of credit to be established for a year at a time. Since the unutilized portion of existing overdraft facilities may always be called upon, a policy of monetary restraint can prove effective only by influencing the extension of new bank commitments.

Moreover, two techniques available to monetary authorities in financially developed countries are not used by the Australian authorities. First, the narrowness of the Australian money market prevents the effective use of open market operations as a means of influencing monetary and credit conditions; for example, sales of securities could only to a limited extent support the operations of the Special Accounts in neutralizing an inflow of foreign exchange. Secondly, interest rate changes are rare in Australia for social and political reasons: the last change took place late in 1952. In 1954, because of the rigid interest rate policy, companies financing installment credit, which have grown rapidly in recent years and whose activities are outside the purview of the central bank, were able by means of higher interest rates to channel funds away from

1/ Commonwealth Bank of Australia, Annual Report 1953-54, p. 23.

the banking system. 1/ A shift in preference from debenture to equity investment may also in part be ascribed to the rigid interest rate policy.

Consequently, virtually the only effective instrument of monetary control in the hands of the central bank, outside of "moral suasion," is the Special Account. While this is an extremely flexible technique able to prevent a multiple expansion of credit based on a rise in deposits, it cannot offset the primary expansion of money incomes arising from, say, an inflow of foreign exchange. Furthermore, the Central Bank has deliberately limited the function of the Special Accounts without developing alternate methods of credit control.

In view of the reluctance of the Australian monetary authorities to attempt the use of open market operations or changes in interest rates and because of the inability of the Special Account system by itself to restrain credit expansion, the role of monetary policy as a means of correcting the trade balance was necessarily limited. These circumstances induced the Australian authorities to resort to import restrictions in order to protect the country's foreign exchange reserves.

1/ It was for this reason that a small (0.25 per cent) increase in the fixed deposit rates of the banks was allowed at the beginning of 1955.