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THE AUSTRALIAN TARIFF

ECONOMIC SERIES No. 6

THE AUSTRALIAN TARIFF

AN ECONOMIC ENQUIRY

My favourite *dictum* is:—Every statement in regard to economic affairs which is short is a misleading fragment, a fallacy or a truism.—*Alfred Marshall to Louis Fry, 1914.*

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This work is the Report of an Informal Committee set up by the Rt. Hon. S. M. Bruce, Prime Minister of Australia, in the Spring of 1927. The members of the Committee are :—

- J. B. BRIGDEN, M.A., Professor of Economics in the University of Tasmania until May, 1929; now Economist and Deputy Chairman of Executive, Australian Overseas Transport Association. ✓
- D. B. COPLAND, M.A., D.Sc., Professor of Commerce in the University of Melbourne. ✓
- E. C. DYASON, B.Sc., B.M.E., Member of the Stock Exchange of Melbourne. ✓
- L. F. GIBLIN, M.A., Deputy Statistician of Tasmania until February, 1929; now Ritchie Professor of Economics in the University of Melbourne. ✓
- C. H. WICKENS, I.S.O., F.I.A., F.S.S., Hon. M.S.S. (Paris); Commonwealth Statistician and Actuary. ✓

The thanks of the Committee are due for help given in many quarters, and particularly to representatives of manufacturing industry who have in many cases gone to considerable pains to give the information sought; to the staffs of the Bureau of Statistics in Canberra and Hobart for valuable statistical work; and to Mr. H. M. Harrison for untiring care in correction of proofs.

FOREWORD.

*By the Right Hon. S. M. Bruce, C.H., P.C., M.C., Prime
Minister of Australia.*

It is with genuine pleasure that I accede to the request of the Authors to write a foreword to this notable report upon the economic effects of the Australian Tariff. I do this the more willingly because of the opportunity it affords me of paying a tribute to those public-spirited citizens who at my invitation, and at considerable personal sacrifice, have devoted so much time and thought to the comprehensive study they have made of the fiscal problem of Australia.

The Australian policy of protection is based upon the belief that such a policy tends to accelerate our development and to increase our national prosperity. This policy the people of Australia have endorsed on many occasions, and it has become an integral part of the structure of our economic life. Because of its permanence and its profound bearing upon every material activity of the Commonwealth, it is essential that from time to time we should inquire into the methods by which we are striving to apply that policy, in order that we may satisfy ourselves that it is achieving its objects. It is not enough for us to affirm confidently that protection is the only policy for Australia; we should be intelligently and fully informed as to every aspect of its operation; we should be able to assess its benefits and its cost, not in general terms but with all possible exactitude. In a matter of such national importance we should avail ourselves of all the information which impartial research, the experience of the practice of other lands, and the deliberations and conclusions of capable and fearless minds can provide us. There is, it is true, a wealth of world literature on the subject of tariffs, but that will not in itself suffice. Our Australian economic problem, although akin to that of other countries, is in many vital respects local and peculiar.

In view of all these considerations, I was prompted to invite Mr. E. C. Dyason, Mr. L. F. Giblin, Mr. C. H. Wickens and subsequently Professor Brigden and Professor Copland to form themselves into a Committee, and to undertake an independent

inquiry into the economic effects of the Australian tariff. The nature of the response of these gentlemen was in itself sufficient to impart a unique character to the investigation. They not only agreed to undertake the work, but they insisted that they should do so on a purely voluntary basis. The report is a free gift to the Australian people. Some indication of the measure and the quality of this rare act of public service is to be found in the fact that their investigations and the preparation of their report have kept the Committee continuously and heavily engaged for over eighteen months.

It is perhaps desirable that I should stress that the opinions expressed in the report are not to be regarded as in any sense the opinions of the Government, or as representing in any way the policy of the Government. They are exclusively the views of the members of the Committee, acting in the capacity of independent citizens. I do not intend to discuss in any way the conclusions which they have reached. I do, however, commend the obvious impartiality of mind which distinguishes the approach to every phase of this vast subject. I am sure also that every reader will appreciate the admirable sequence and clarity of presentation, the wide knowledge and dispassionate sifting of evidence, and above all the abundant practical common sense which characterise these pages. I am confident that this book will be generally accepted as a notable contribution to our knowledge of Australian affairs. While it may be expected to awaken controversy, it will undoubtedly do much to stimulate that healthy discussion which is so essential to the understanding of our problems. It certainly represents the most considered effort that has yet been made to shed light upon our economic situation so far as it is influenced by the tariff.

The members of the British Economic Mission, who were shown an incomplete draft of this report, expressed in the following terms their admiration of the manner in which the authors had dealt with a very difficult subject:—

“We have been so deeply impressed with the care, the ability, and the impartiality with which this Committee has covered a wide range of subjects intimately connected with the objects of our enquiry that it is literally impossible for us, having read this draft of their report, to refrain from drawing upon it. We are acutely conscious that the time

FOREWORD

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at our disposal in Australia has been so short and so very fully occupied that the study which we have been able to devote to the economic aspects of the tariff problem falls short of that which the members of this Committee have given to it; and we cannot usefully attempt to add much on this subject to the results of their more lengthy, more laborious and more learned researches."

It remains only for me to thank the authors for their generous service, and to commend their excellent and valuable work to all who have the progress of Australia at heart.

S. M. BRUCE,
Prime Minister.

Canberra, 16th May, 1929.

PREFATORY NOTE.

Any Australian with an interest in economics might be expected to have a definite opinion about the Australian tariff. It was curiously not so with the authors of this report. We may have had more or less definite ideas about the operations of tariffs in general. But we were acutely conscious that economic generalizations which were valid for European countries required close examination and often re-statement before they could be applied to Australian conditions. So it happened that when the Prime Minister asked us for a Report on the workings of the tariff we had to confess that we had no reasoned opinion about it—that the job of squaring general ideas with the Australian actualities had always been deferred by each of us to some more convenient season, with some consciousness of the paucity of data and the complexity of the factors that would enter into a reasoned judgement. We have therefore been able to pursue our inquiry quite unhampered by any preconceived opinions of what results would come from it. We have been able to greet the unseen with a cheer, as soon as it became visible—thankful only for any visibility, and quite regardless of which controversial view it supported.

The question first put to us was whether it was possible to arrive at any definite conclusions on the economic effects of the tariff. Our working conditions should be understood. Our time was occupied with other business, and leisure to pursue the tariff enquiry was intermittent and not very ample. Our persons during the course of the inquiry have been dispersed between Melbourne, Hobart, Canberra, and Sydney, and full meetings have been possible only at intervals and with difficulty. Some six months were accordingly taken to arrive at the conclusion that no complete answer was possible, chiefly on account of the inadequacy of the information available. We were asked then to make a statement on the position we had reached in our inquiry. It is difficult to describe satisfactorily one's state of uncertainty, and out of our attempts to do so the present Report has grown in the course of the last twelve months. Some of the missing data have been supplied by inquiry. In other

cases it was found possible to make estimates on reasonable grounds, and frequent reconsideration and revision have gradually built up a conviction that these estimates are near enough to the facts to justify broad conclusions of considerable importance. What has given us most trouble has been the principles on which the effects of the tariff on prices and on the costs of industry should be estimated. It has been a long story of trial and error, of fresh difficulties being continually found and (we hope) surmounted, of approaches from different angles which with frequent revision gradually converged to approximately the same results. Here again, though still more conscious of omissions, and of disturbing factors insufficiently explored, conviction has grown of the rough validity of our conclusions, and that the corrections and additions which will probably have to be made to our analysis will not significantly alter the final results.

It has been somewhat of a surprise and a considerable satisfaction to us, working under the geographical conditions mentioned above, that we have been able to reach agreement on all the principal issues. There may be some difference of opinion on details and modes of expression, some variation in feeling as to the degree of adequacy of our imperfect estimates, and the importance of our conscious omissions. But there has been no compromise of divergent views. Much of the work is tentative and exploratory. Some of it has been finished under pressure, and for the whole of it we should have preferred to delay publication until we had leisure for a complete re-survey of all the ground covered. But with these reservations and limitations, we take individual responsibility for all the main conclusions reached.

Some apology must be offered for minor discrepancies in the Report. Our view of the tariff has been gradually developing, and some parts of the Report completed at an earlier stage reflect our state of mind at the time. They have been amended as far as possible, but it would not have been possible to bring the tone and emphasis into complete harmony without re-writing the whole; and that very desirable course time did not permit. Some unprofitable repetition may ask for pardon on the same grounds.

We have pleaded "time" in extenuation of the deficiencies and weaknesses of this Report. The work was asked of us on

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the ground that it was of urgent importance to stir up, and so far as possible inform, public opinion in Australia on the economic aspects of the tariff. With that view we concur, and therefore make our Report in this form with all its roughnesses. We had in fact undertaken to complete it at a considerably earlier date, and we desire to express our thanks to the Prime Minister for the forbearance he has shown for the delays which we have found unavoidable.

J.B.B.
D.B.C.
E.C.D.
L.F.G.
C.H.W.

Australia (*passim*),
June 20th, 1929.

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APPENDIX A.

CHRONOLOGICAL SKETCH OF THE TARIFF OF AUSTRALIA.

The First Commonwealth Tariff: Customs Tariff 1902 (No. 14 of 1902). The scope and character of the first Commonwealth tariff was dictated in some measure by the obligations of the Commonwealth to the States under the terms of the Constitution. The Constitution provided that "During a period of ten years after the establishment of the Commonwealth and thereafter until Parliament otherwise provides, of the net revenue of the Commonwealth from duties of Customs and Excise not more than one-fourth shall be applied annually by the Commonwealth towards its expenditure."

"The balance shall in accordance with this Constitution be paid to the several States taken over by the Commonwealth."

The financial requirements of the States at that time demanded that the three-fourths of the net customs and excise revenue which was hypothecated to them should be about £6,000,000, and to ensure the fulfilment of this obligation a revenue of £9,000,000 from customs and excise was budgeted for—£7,500,000 from customs and £1,500,000 from excise duties.

On the introduction of the uniform tariff (8th October, 1901), trade between the States became free except that Western Australia exercised the right to levy duty on the goods from other States for five years; a privilege conferred under Section 95 of the Constitution Act.

The aggregate oversea and interstate trade of the States at that time represented approximately £63,000,000 as a possible subject of taxation under the old regime. The exemption of interstate trade from taxation by the Commonwealth Government reduced the amount by about £29,000,000. The £34,000,000 of imports from oversea countries included £2,000,000 of bullion and specie, leaving about £32,000,000 of merchandise as a possible subject for taxation. It was anticipated that the effect of the new tariff, with the free interchange between the States, would displace £5,000,000 of imports, and the free list provided for was estimated at £6,000,000, thus leaving £21,000,000 of

dutiable imports to provide a customs revenue of £7,500,000, an average *ad valorem* rate of 35.71 per cent. Excluding narcotics and stimulants, the equivalent average *ad valorem* rate on dutiable merchandise was to be about 23½ per cent. Many changes were made in Committee, the tendency being towards reduction, though there were instances in the other direction. Notable cases of the reduction of duties were those proposed on tea and kerosene. The proposed duties on tea were 2d. per lb. in bulk and 3d. per lb. in packets, with 20 per cent. *ad valorem* added, and on kerosene a duty of 3d. per gallon was originally imposed, but both tea and kerosene were added to the free list.

The Minister for Trade and Customs (The Right Hon. C. C. Kingston), referring to the difficulty of preparing the first Commonwealth Tariff, said (*Hansard*, 8/10/1901, pp. 5698-9): "We recognize fully that at this time in our history neither free-trader nor protectionist can have his way entirely. The Tariff is a compromise Tariff, but, at the same time, it gives effect to our policy as stated to the country and accepted by the people who sent us here. That policy, as declared at Maitland, required that our Tariff should be framed so as to produce an amount sufficient to allow of there being returned to the States—as nearly as practicable—their ordinary receipts, then roughly estimated at £8,000,000, plus their share of the federal expenditure, which was then also roughly estimated at from £300,000 to £750,000. That policy was further for moderate protection, particularly avoiding the unnecessary destruction of existing industries whose magnitude and suitability rendered them worthy of fiscal protection. There was no desire—and it has never been attempted to be debited to this Government—that we should indulge in the fostering of exotic industries, one-man industries, microscopic industries. . . . There can be no extremes of revenue-production and protection-giving in any one line—the two things are mutually destructive. We stand in a position to-day in which we are bound to give fair attention to both. The first condition is revenue, but protection, to existing industries at least, must accompany it."

Customs Tariff 1908 (No. 7 of 1908). (Lyne Tariff.) The first general revision of the Tariff of 1902 was made by the tariff of 1908, which was introduced by a resolution by Sir William Lyne on the 8th August, 1907, and assented to on the 3rd June, 1908.

This tariff provided for a general increase in the rates of duty throughout; and provided also for preferential rates of duty in favour of goods which were the produce or manufacture of the United Kingdom.

Customs Tariff of 1914. (Tudor Tariff.) On the 3rd December, 1914, the Right Hon. Andrew Fisher (Prime Minister and Treasurer), in association with the Budget, introduced by resolution a complete revision of the Customs Tariff; of the Excise Tariff; and of the South African Tariff.

The rates of duty were again extended and very generally increased, and the ambit of the preferential duties in favour of the United Kingdom was also increased, as well as the margin of difference from the general tariff rates. Although the rates submitted in this Tariff came into operation from the 3rd December, 1914, they were not specifically covered by legislation until the passing of the Customs Tariff Validation Act of 1917.

Customs Tariff 1921 (No. 25 of 1921). (Greene Tariff.) The next Act embodying a major revision was the "Greene" Tariff introduced by the Hon. Massy Greene, Minister for Trade and Customs.

In moving the resolution, Mr. Greene quoted from the policy speech of the Prime Minister (Mr. W. M. Hughes) as follows:— "Experience has shown that the present Tariff, imposed when different conditions existed, is inadequate. During the War it was impossible for many reasons to amend it, and the early appeal to the electors precluded its introduction after peace had been signed.

"The Government has carefully prepared a new Tariff. It believes it will prove satisfactory to the manufacturers of the Commonwealth, and intends to lay this tariff on the table of the House, and give effect to it at the earliest possible moment after the new Parliament assembles." Continuing, Mr. Greene said: "I believe that it will protect industries born during the war, will encourage others that are desirable, and will diversify and extend existing industries."

In addition to providing higher duties under the general tariff, the margin of preference in favour of goods of United Kingdom manufacture was very materially increased from about 6 per cent. of the value of the goods to about 12 per cent.

This Act introduced a new feature in the "Intermediate

Tariff." The Tariff Act provides that the Preferential Tariff or the Intermediate Tariff may, under reciprocal arrangements, be extended to other British Dominions, and that the Intermediate Tariff may in certain circumstances apply to imports from foreign countries.

Customs Tariff 1922 (No. 16 of 1922). On the 13th September, 1922, the Minister of Customs (Mr. Rodgers) moved by resolution the reduction of duties on fencing wire, wire netting, and traction engines, and the imposition of a duty on alternating current recording watt-hour meters. The protection on wire, wire netting and traction engines was restored in the form of bounty (Iron and Steel Products Bounty Act—No. 29 of 1922).

Customs Tariff 1926 (No. 26 of 1926). (Pratten Tariff.) The schedule (subsequently slightly amended) was presented to the House of Representatives by the Minister for Trade and Customs (Mr. Pratten) on the 2nd September, 1925, and the rates of duty therein were subsequently ratified by the Customs Tariff Validation Act (No. 31 of 1925).

Explaining the schedule on the 3rd March, 1926, Mr. Pratten said: "There are in the schedule 53 proposals to increase duties. These, in the opinion of the Government, will create a great deal of further employment, and are particularly directed towards placing some of the main branches of the textile industry and our engineering trades upon a much healthier basis than has existed during the past few years. The reductions in duty cover 47 items. There are 13 items inserted purely for the simplification of administration, so that there are in all about 113 items, major and minor, for the consideration of honourable members. As the result of subsequent inquiry and experience a few minor alterations were found to be necessary in the proposals first placed before the House."

In support of his resolution of the 2nd September, 1925, Mr. Pratten had said: "The purpose of the tariff now placed before honourable members is a direct one, namely, to protect local industries and to revise revenue duties in order to give relief from taxation.

". . . Owing to the reduction of wages overseas, and the consequent lowering abroad of manufacturing costs compared with only four years ago, it has been the responsibility of the Government to see that this great industry (engineering) does not perish, or that our important engineering shops do not depreciate until they become merely repair shops.

"The scope of Australian industry must be considerably widened before even the requirements of our own people can be reasonably met. I therefore submit to the Committee these carefully considered tariff alterations, which constitute a business-like effort on the part of all concerned to meet many of the requirements of our home industries."

Customs Tariff 1928 (No. 2 of 1928). (Pratten Tariff.) On the 24th November, 1927, the Minister for Trade and Customs moved the amendment of the existing Tariff according to a schedule embracing goods in twelve of the sixteen divisions of the Tariff. The number of duties which were increased in both the British and foreign schedules was 23. The number of foreign duties only in which increases were made (the duties on British goods being unaltered) was 49. There were 10 alterations to remove anomalies and 52 alterations to give increased preference to the United Kingdom. Twenty-four alterations gave substantial reductions. In the words of Mr. Pratten, "The present resolution can, perhaps, best be described as an adjustment of the Tariff, so designed that our national development shall be assisted, and accompanying it is the Government's sincere desire that in the aggregate British trade with us will also be increased at the expense of foreign trade."

DUMPING.

Industries Preservation Acts. Anti-dumping. As early as 1906 legislative efforts were made to combat the dumping of goods into Australia. The Australian Industries Preservation Act of 1906 (No. 9 of 1906) was enacted for the repression of monopolies, and for the prevention of dumping. For the successful prosecution for dumping it was necessary for the Comptroller-General of Trade and Customs to prove that the dumped goods were imported with intent to destroy or injure Australian industry by their sale or disposal within the Commonwealth in unfair competition with Australian goods. Owing to the difficulty of proving "intent" the Act remained inoperative.

Customs Tariff (Industries Preservation Act—Anti-Dumping—1921), (No. 28 of 1921). On the 6th July, 1921, the Minister for Trade and Customs moved a resolution that after inquiry and report by the Tariff Board special duties should be collected in the following cases, when the importation of goods referred to might be detrimental to an Australian industry. In

the case of goods sold for export to Australia at a price less than the fair market price for home consumption, or at a price which is less than a reasonable price, a special dumping duty shall be collected equal to the difference between the price at which the goods were sold and a fair market price. Similar provision is made for goods consigned to Australia for sale. With regard to goods exported to Australia at rates of freight less than the rates prevailing at the time of shipment, there shall be collected a dumping freight duty equal to 5 per cent. of the fair market value of the goods at the time of shipment. Special duties are also proposed in the case of goods imported from countries whose currency is depreciated. Provision is also made for the protection of the trade of the United Kingdom in the Australian market from depreciated foreign currency.

The principle of the Act was not altered by the Amending Act—No. 20 of 1922.

Preferential and Reciprocal Tariffs. United Kingdom Preference. The Preferential Tariff in favour of the United Kingdom is an integral part of the Schedules to the Custom Tariff Acts, and reference has already been made to the extensions of the United Kingdom Preference when dealing with the various revisions of the Tariff.

Some modification of the degree of preference given to manufacturers of the United Kingdom has been made by changes in the definition of "produce or manufacture of the United Kingdom," apart from the rates of duty contained in the tariff schedule. To procure the benefit of the preferential rates contained in the Tariff of 1908, it was required that the goods should be "goods the produce or manufacture of the United Kingdom which are shipped in the United Kingdom and not transhipped, or if transhipped, then only if it is proved to the satisfaction of the Collector (of Customs) that the goods have not, since they were shipped in the United Kingdom, been subject to any process of manufacture."

In 1908 it was required that British material and/or labour should represent one-fourth of the value of the goods. From the 1st September, 1911, it was required, in regard to goods only partially manufactured in the United Kingdom, that the final process or processes of manufacture should have been performed in the United Kingdom, and that the expenditure on material of British production and/or British labour should have been

not less than one-fourth of the factory or works cost of the finished goods. From the 1st April, 1925, the following conditions apply:—

“(a) To goods which are wholly produced or wholly manufactured in the United Kingdom:

As to manufactured goods, these will only be considered ‘wholly manufactured in the United Kingdom’ if in the raw materials used and in the finished goods no manufacturing process has been performed outside the United Kingdom which is being commercially performed in the United Kingdom. The Minister shall determine what are to be regarded as raw materials, and in such determination may include partially manufactured Australian materials.

“(b) To goods not wholly produced or wholly manufactured in the United Kingdom in the terms of paragraph (a), provided they contain at least 75 per cent. of United Kingdom labour and/or material in their factory or works cost.

“(c) Notwithstanding anything contained in the preceding paragraphs, to goods of a class or kind not commercially manufactured in Australia, provided they contain at least 25 per cent. of United Kingdom labour and/or material in their factory or works cost.

“(d) It is essential in every case that the final process or processes of manufacture shall take place in the United Kingdom, and that the goods are consigned therefrom direct to Australia.”

The Commonwealth Preferential Tariff is free from terms of reciprocity, though within later years the British Government has extended preferential treatment to some Australian products.

Papua and New Guinea Preference. Some fruits and other vegetable substances produced in and imported from the Territories of Papua and New Guinea are admitted to Australia free from duty, though similar goods from elsewhere are subject to duty.

Reciprocal Tariffs Within the Empire. At the present time Australia has reciprocal tariff agreements with Canada and New Zealand. A similar agreement with the South African Union was recently terminated at the instance of the Union.

APPENDIX B.

CUSTOMS TAXATION IN VARIOUS COUNTRIES AND IN AUSTRALIA.

- (i.) The Relative Levels of the Australian Tariff.
- (ii.) Percentages of Customs Duties Collected on the Value of All Imported Merchandise Since 1909.
- (iii.) The Tariff Board's Evidence.

(i.) THE RELATIVE LEVELS OF THE AUSTRALIAN TARIFF.

1. No information is available to measure different levels of the Australian tariff in different years, except the very general and defective measure of the average percentage of customs revenue collected on all imports, which is given in part (ii.) of this Appendix. Nor is it possible to get a satisfactory measure of the level of the Australian tariff relatively to those of other countries. But two sources of information are available which give some indication of these two things, and their information is as follows:

The Tariff on British Exports in 1914 and 1924.

2. The British Committee on Industry and Trade, in its Report of June, 1925, entitled, *Survey of Overseas Markets*, published information prepared by the Board of Trade on Dominion and Foreign Customs Tariffs, giving comparisons of rates and the effects of changes between 1914 and 1924. The summarised results of the investigations are given on page 545 of the Survey, as "Index Numbers expressing estimated *ad valorem* Incidence" in percentages. The figures for Australia are as follows:

	1914.	1924.
Level of Duties on staple British exports . . .	6½	9½
Extent of Preference over foreign goods ..	3½	11½
Level of Duties on British exports, excluding cotton yarn and piece goods (admitted free: other free goods are included) . . .	10	15

3. The last item is given in a note on p. 546, which also states: "Apart from cottons, present duties (in 1924) are higher than

pre-war duties in practically all groups. They are practically twice as high as before in the iron and steel and machinery group, but only slightly higher on woollens and apparel."

4. By comparison most foreign countries had higher tariffs against British exports. Canada also had a higher tariff, but it had fallen since 1914. South Africa and New Zealand had relatively higher tariffs in 1914 and lower tariffs in 1924 against British exports. Australia had increased its tariff against British goods more than the other Dominions, but it had also increased its margin of preference more than any Dominion except New Zealand.

International Comparisons.

5. Among the documents prepared for the International Economic Conference, organised under the authority of the League of Nations in 1927, was one on Tariff Indices (Doc. C.R.I., 37). This gave a summary of investigations conducted by a Preparatory Committee, and the following may be quoted as a rough guide to the relative intensity of the customs tariffs in the countries mentioned. Different methods were used, the most important being to take typical export articles from 14 different countries, and to compare the average percentages of duty collected on these articles in each of the importing countries.

6. A special calculation was made for manufactured commodities, with 110 articles as the basis, with the following general results:

Level of Duties on Typical Manufactures: 1925.

(Percentages of duty collected in different countries.)

Over 40 per cent.	Spain.
35-40	U.S.A.
30-35	Poland.
25-30	Argentine, Australia, Czecho-Slovakia, Hungary.
20-25	Canada, France, Germany, Italy, Jugoslavia.
15-20	Austria, Belgium, India, Sweden.
10-15	Denmark, Switzerland.
Under 10	The Netherlands, United Kingdom.

The document states that the method used placed the Australian level rather too high, but the special effect of free cotton goods may counteract this. (See also para. 10 below.)

7. Comparisons are also made between the levels of 1913 and 1925, and for Australia the 1925 level is given as 145 per cent. of the level in 1913, which estimate is in harmony with the conclusions of the British investigation. The increase may be slightly exaggerated in both cases, but only two countries showed greater increases, namely, Italy and Switzerland. Their increases were due to the fact that before the war they had much lower tariffs, and their levels were still below that of Australia. Canada and the U.S.A. showed reductions from a level previously higher than Australia. No country with as high a level as Australia in 1913 had made a corresponding increase by 1925. Since 1925 some tariffs, including the Australian, have been increased, while others have been reduced.

The Significance of Tariff Levels.

8. The figures from both sources are inevitably defective because of the technical difficulties encountered. But they suggest methods by which changes in the Australian tariff might be measured. Typical import commodities could be selected in different classes of goods to show the level of customs duties in those classes, and for protected goods as a whole, as well as on imports as a whole. This could be done for comparisons between years.

9. In part (ii.) of this Appendix we give the percentages of duty collected to the whole of imports: the most easily available measure. But while this is some guide to taxation, it is no guide to the protective effect of the tariff, or to its burden on industry. For example, the United Kingdom, with a revenue tariff avoiding the taxation of raw materials and strict necessities, collected in 1925 an average duty of 9 per cent. on all imports, while several European countries with high protective tariffs collected average duties of less than half that percentage on the whole of their imports (see document cited above, p. 21): and the U.S.A. with a higher level of duties than Australia collected a smaller proportion of duty on all imports.

10. The explanation lies in the fact that certain high duties may exclude all imports or a large proportion of possible im-

ports. Other imports may be free or lightly taxed, and the duties actually collected will be less than if they were at uniform rates for the whole. For example, we may imagine two countries, one excluding imports by embargoes, and the other with a small but general revenue tariff. The first would have no tariff level at all expressed in duties collected, while the other might have a high proportion of duties to imports. When Australia placed an embargo on sugar it did not reduce the level of the tariff, although it collected less duty, and the proportion of duties collected to total imports must have fallen from this cause.

The methods used to reach the figures we have quoted on tariff levels do not wholly avoid this difficulty, and the result is that for countries with some duties high enough to exclude certain classes of imports, the tariff level is understated.

11. The level of duties gives no guide to the "effectiveness" of a tariff in protecting local industries. Of two countries each imposing the same duties, one may be able to produce at lower prices than the other. Spain, for example, has the highest level of duties, but its tariff is apparently less effective than that of the U.S.A. with a lower level. Effectiveness depends primarily on the productive capacity of the country concerned, for the particular commodity. The striking fact that Spain and the U.S.A. together head the list of high tariff countries suggests that the difference in the prosperity of these two countries must be due to something other than the tariff.

12. The prosperity of a country, founded on its natural resources, determines the *burden* of any tariff level, the amount of imports which can enter and pay the duties, and the amount of protected local production which can be sustained. The burden is also relative to the incidence of the tariff on necessities, and the extent to which prices of protected local goods are increased. The level of a tariff is no guide to the excess costs of locally produced goods, as we show above, and in Appendix N.

The difficulties of measuring tariff effects are discussed in the League of Nations document referred to, which is based on the joint work of some of the world's leading economists and tariff administrators. The British Survey also deals with this subject. There is no need for us to pursue it further, but our

remarks will serve to show the danger of drawing erroneous conclusions from the estimates given, and the reasons for our inability (with the evidence available) to measure the growth of the tariff in Australia. We do not endorse the figures quoted, and they are used as they were intended to be used, merely to illustrate the general position.

(ii.) PERCENTAGES OF GROSS AMOUNT OF CUSTOMS DUTIES
COLLECTED ON THE VALUE OF ALL IMPORTED
MERCHANDISE, 1909 TO 1927.

Year.	U.S. America (a).	New Zealand.	Canada.	Australia.
	%	%	%	%
1909	23	18	17	18
1910	21	18	16	17
1911	20	17	16	17
1912	19	16	17	17
1913	18	16	17	16
1914	15	16	17	(b)
1915	12	15	17	19
1916	10	15	15	18
1917	8	16	13	17
1918	6	15	12	16
1919	6	15	12	13
1920	6	13	15	15
1921	11	13	14	14
1922	15	16	16	18
1923	15	17	17	18
1924	15	15	15	18
1925	13	16	15	18
1926	13	17	15	19
1927	14	17	15	20

(a) Year ended 30th June, 1909 to 1918; 31st December thereafter.

(b) Year ended 31st December, 1909 to 1913; 30th June, 1915 to 1927.

(iii.) THE TARIFF BOARD'S EVIDENCE.

Australian Tariff Levels.

Further evidence of increases in the level of the Australian tariff is furnished in the last Annual Report of the Tariff Board (August, 1928). On page 16 the Board states:

“The tariff wall is markedly rising. In the Customs Tariff 1908 there were only eight items which provided *ad valorem* duties of 40 per cent. or over. Of these, six were 40 per cent. and the remaining two 45 per cent. In the existing Customs

Tariff there are 259 items or sub-items which provide *ad valorem* rates of 40 per cent. or over, as set out hereunder:—

- 93 providing 40 per cent.
- 72 providing 45 per cent.
- 35 providing 50 per cent.
- 19 providing 55 per cent.
- 38 providing 60 per cent.
- 2 providing 65 per cent.

(For the purpose of the above comparison the rates under the General Tariff only have been used.)

“The disparity, comparing 1908 with 1928, in duties framed on specific lines, *i.e.*, per ton, per gallon, per pound, and the like, is probably equally as great as the disparity existing in the *ad valorem* rates.”

APPENDIX C.

THE TARIFF BOARD.

1. We have referred in our Report to the inadequacy of the methods practised by the Tariff Board in informing itself and the public of the true conditions of the protected industries. We desire to say again that no reflection on the Board or on its members (past or present) is intended by these criticisms of the system under which the work has been done and of the facilities available. Nor do we fail to appreciate the advances that have been made on previous methods in Australia, and indeed on existing methods in most other countries, and we are inclined to agree with the American eulogy cited in Section 253 of the Report. This eulogy refers to the independent and courageous criticisms made by the Board in its Annual Reports, and to the intentions expressed in the Tariff Board Act. Our proposals are designed to bring about a more effective realization of those intentions.

2. The idea of a Tariff Board, as a definite Government policy, dates back as far as 1910, but it was not until after the war that it took definite shape, and an Act constituting it was passed in 1921.*

The intentions of the Act are set out in section 15, as follows:

(1) The Minister shall refer to the Board for inquiry and report the following matters:—

- (a), (b) and (c) refer to classification and values of goods, etc.)
- (d) the necessity for new, increased, or reduced duties, and the deferment of existing or proposed deferred duties;
- (e) the necessity for granting bounties for the encouragement of any primary or secondary industry in Australia;

*A brief account of the history of the Australian tariff, the circumstances in which the Tariff Board Act was passed, together with an account of its functions and policy to 1926, is given in an article by Professor R. C. Mills, LL.M., D.Sc. (Econ.), in the *Economic Record* for May, 1927 (Vol. III., No. 4).

The recent Amending Act (1929) relieves the Board of minor responsibilities, and allows it to take evidence in two sections. These amendments were made on the recommendation of the Board. A new clause was added empowering the Board to confer with the Director of Economic Research. An Act to provide for a Bureau of Economic Research was passed in the same session of Parliament.

- (f) the effect of existing bounties or of bounties subsequently granted;
 - (g) any proposal for the application of the British Preferential Tariff or the Intermediate Tariff to any part of the British Dominions or any foreign country, together with any requests received from Australian producers or exporters in relation to the export of their goods to any such part or country;
 - (h) any complaint that a manufacturer is taking undue advantage of the protection afforded him by the tariff, and in particular in regard to his—
 - (i.) charging unnecessarily high prices for his goods, or
 - (ii.) acting in restraint of trade to the detriment of the public; or
 - (iii.) acting in a manner which results in unnecessarily high prices being charged to the consumer for his goods;and shall not take any action in respect of any of those matters until he has received the report of the Board.
- (2) The Minister may refer to the Board for their inquiry and report the following matters:—
- (a) the general effect of the working of the Customs Tariff and the Excise Tariff, in relation to the primary and secondary industries of the Commonwealth;
 - (b) the fiscal and industrial effects of the Customs laws of the Commonwealth;
 - (c) the incidence between the rates of duty on raw materials and on finished or partly finished products; and
 - (d) any other matter in any way affecting the encouragement of any primary or secondary industry in relation to the tariff.
- (3) If the Board finds on inquiry that any complaint referred to it under paragraph (h) of sub-section (1) of this section is justified, it may recommend—

- (a) that the amount of duty payable on the goods the subject of the complaint be reduced or abolished; or
- (b) that such other action as the Board thinks desirable be taken;

but shall, before it makes any such recommendation, consider carefully the conditions obtaining in the industry as a whole.

Section 17 of the Act provides that the Board may, on its own initiative, inquire into and report on any of the matters referred to it in sub-section (2) of Section 15 of the Act.

3. In carrying out the onerous duties assigned to it the Board seems to have been occupied chiefly with the work imposed by sub-section (1), clauses (a) to (g), and to have had time to make only incidental reference to the other duties laid upon it. The most important criticism of the Board is that it seems hitherto to have made no comparisons between industries or to have any standard of what degree of protection might be warranted, with a view to discrimination. This has been due partly to the fact that the Board has lacked information, but it has also felt itself debarred from discriminating between industries. For example, in its Report on an application for increased duties on "Vessels up to 1,000 tons Gross Register" (dated 6th April, 1926, and published December, 1927), it recommended that the duties on vessels not exceeding 500 tons should be doubled (to 50, 60 and 70 per cent. *ad. val.*), and stated that "the solution of the very serious predicament in which the Shipping Companies find themselves is a matter for Parliament" (p. 22). The report also stated:

"The Board realises that any extra costs arising from increased duty will probably be reflected in additional freights on the products of the primary producers, as the vessels coming within the provisions of the item will be of a class used only on the Australian coast, most of them trading within the boundaries of a State" (p. 20).

4. The principle upon which the Board acted is stated at the foot of the same page, as follows:—

" . . . This fact is really the determining factor in the Tariff Board's recommendation—since the policy of the Government is protection to industries, and since, were it a matter of the con-

struction of locomotives or carriages or trucks for land transportation, an attempt would be made to equalize the disabilities under which local firms labour by reason of the discrepancy in wages and material costs, the Tariff Board has no alternative but to recommend that this request be granted. It is not within the province of the Board to discriminate—such discrimination is a matter for Parliament. In this regard the Federal Government itself has decided in favour of local construction independent of additional costs; and actually, in the last instance of calling for tenders, confined such to Australian manufacturers.”

5. The reference to Parliament seems to have been either an evasion of an essential part of the information required by Parliament, or a suggestion that the Shipping Companies should be compensated. While this example is an isolated one, it suggests what has been in the minds of members of the Board, and it explains some of the increase in production costs, concerning which the Board has issued warnings in later reports. The Board might apply its warnings to its own policy, which appears to have been to give the benefit of any doubt to the applicants for protection.

(b) The Board's Recognition of Tariff Dangers.

6. This criticism of the earlier work of the Board must now be read in the light of its later Reports, and of the gradual development of the idea of a “scientific tariff.” In its last Annual Report (for 1928) the Board remarked:—

“It is well to know the difficulties which lie in the way of the framing of a scientific tariff. The Commonwealth has had close on 28 years' experience of tariff making, the tabling of a Federal Tariff being one of the earliest acts of the Commonwealth Parliament. The appointment of a Tariff Board was made only after some twenty years' experience in other methods of tariff investigation. Therefore the Board inherited a legacy, the result of past methods, and can obviously claim no credit for the result of those methods, nor can it be expected to accept any blame for the condition of affairs which existed at the time of its appointment.”

7. Our criticisms of the Board are made in the same spirit as its criticism of Parliament, which follows the above remarks.

In commenting upon the actions of Parliament in sometimes ignoring the Reports, the Board says:

“Another difficulty experienced in tariff framing is that when alterations in tariff proposals are made during the passage of a Tariff Schedule through Parliament, the effect of such alterations cannot be fully foreseen. The Tariff Board, in its consideration of applications for alterations in the tariff, has in mind always the effect that any recommendation it might make would have on other industries. Alterations necessarily somewhat hurriedly considered in the heat of discussion are liable to result in a badly-balanced tariff, with consequential dislocation of industries affected by the alteration.”

8. The Board appears to be well aware of the need for a comprehensive survey so that the determination of individual duties and bounties may be made in the light of the knowledge of general conditions. It is only fair to the Board that we should quote its warnings. In its Annual Report for 1927 the Board stated (p. 18) that it “obviously cannot let the interests of the consumer alone be the determining factor, but it reiterates the statement that this aspect receives the most careful consideration in every instance.”

The Board then proceeded to renew its former warnings “as to the danger of the tariff being used to bolster up the ever-increasing cost of production,” and “in view of the public trust” imposed upon it by the Act, to report on the general effects of the tariff: “The Tariff Board considers it obligatory upon it, not only to refer to this very critical matter again, but to reaffirm and further emphasize the warning it issued last year, being convinced that the situation has become even more ominous.”

9. In an earlier part of the same Annual Report (p. 13) the Board states:

“A feature of the year has been the large number of applications for increased duties, a great many (of) which come from industries which already enjoy a very considerable measure of protection. Duties which were considered adequate a few years ago are now claimed to be quite insufficient to prevent competition from abroad to an extent that is said to threaten the existence of the local industry.

“In some cases applications are made for further increases in duties that were raised as late as in the Tariff of 1925, on the

grounds that such increases were insufficient to ensure the continuance of the manufacture of the goods concerned in Australia."

(c) *Wages and "The Abuse of Protection."*

10. The Board was inclined to lay the blame for this condition chiefly upon wages. There is, of course, no measure available of either the increases in the tariff or in the costs of labour since 1925, and therefore no evidence of the extent to which wages and other labour conditions have been responsible for increased costs. The Board, however, cited an example, and stated (p. 19) that "numerous cases could be quoted as illustrating the detrimental effect of this ever-widening of the margin between wages obtaining in Australia and those prevailing in some of the overseas countries, even on those industries using wholly imported materials in manufacture."

11. In a striking summary at the end of the 1927 Report, the Board devoted four pages to "The abuse of protection," from which the following excerpts are taken:—

"The Board regrets being compelled to place on record its conclusions, arrived at after the most intimate touch with all phases of industry within the Commonwealth, that there is a prevailing tendency which is calculated to abuse the protective system, and by forcing the pace under disadvantageous conditions to actually endanger the efficacy of the system. This tendency is not confined to one section alone, but is common to the industrial unions, the secondary producers, and the primary producers of the Commonwealth."

12. Of the industrial unions the Report says:

"The Board is profoundly convinced that if Australian industry is to be maintained and safeguarded, it is absolutely essential that the leaders of industrial unions should recognise this serious menace of rising costs of production which the Board has indicated."

Nine important industries are mentioned in which, simultaneously with the Board being asked to consider large increases in duties to enable them to exist, applications had been lodged elsewhere for increased wages and improved working conditions.

13. The manufacturers are also subjected to criticism from the points of view of efficiency and of their protected profits, as follows:—

“Generally speaking, the Tariff Board is satisfied that in its experience secondary manufacturers in Australia are endeavouring to maintain a high standard of efficiency, and the management in the main succeeds. However, it does happen that at times attempts are made to make use of the tariff to shelter plant, machinery and methods which have passed, or are passing out of date under stress of modern development. . . .

“Manufacturers have been known to request additional protection to enable them to continue working a plant to produce goods in competition with those produced overseas by the use of more up-to-date machinery which greatly improves production at lessened cost.

“There are times when the local manufacturer desires the superior article he is making at a far greater cost to be so protected as to force the cheaper one off the market, and there are, on the other hand, instances known to the Board where he is making an inferior article and asks that it be protected against a superior one. Then again, his ranges, sections and patterns are sometimes limited, and he is not prepared to sympathize with the demand that exists for essential variety.

“A remarkable characteristic of modern industry is that developments in the manufacture of various commodities occur so rapidly and involve such radical improvements in the mechanisms of such plants that a much cheaper and frequently a much better article is placed upon the market, with the result that the old plant and the old methods require to be completely scrapped. Obviously, the protectionist system under such circumstances can be made a convenient shelter for obsolete plants and methods, and it does sometimes occur that applicants for increased duties appear before the Board with requests that have this objective in view.”

“Another feature of the situation is the use made by manufacturers of profits arising as the result of a high degree of protection. Parliament has imposed protective duties in the interests of the community as a whole, and distinctly not for the purpose only of enriching certain manufacturers. When such duties are imposed upon the community, and under the shelter of such protection an Australian industry is made possible, one of the first duties of a protected manufacturer is to see that the community gets an adequate return for the protection it has accorded him, and that local prices sheltered by the

duty are kept down to the lowest possible limit consistent with a reasonable and legitimate return on capital. In an industry that tends to be a monopoly this is more than ever important and essential. Where a highly protected industry returns to its shareholders dividends considerably in excess of the ordinary commercial rates, it is obvious that the object of the protective duties is being abused, and that an appreciable amount of the profits disclosed should have been devoted to reduction in prices rather than as payments to shareholders. The Board calls pointed attention to this state of affairs, which, if it continues, may involve consideration of whether the duties imposed have not been higher than were necessary to protect the industry."

14. The primary producer is referred to in the following paragraph:—

"It is quite obvious that both primary and secondary producers expect to hold their own domestic market against all outsiders. Costs of production are now so heavy in Australia that in order to effect this object the tariff on primary, and especially secondary, commodities has to be kept high and, if production costs are not checked, may have to be raised still higher. The result of this condition is that no market other than the domestic is open to the secondary producer. He cannot compete with the outside world and is confined within the area controlled by the Commonwealth. The primary producer is tending in the same direction and has been saved from the same actual position, firstly by reason of the application of machinery to his harvesting, and secondly, by the unequalled pastoral advantages possessed by some parts of Australia. For the products of these industries he still has a market overseas, and is able to survive at the world's parity. Outside of those products he is in much the same position as the secondary producer and has been pressing for the same consideration at the hands of Parliament, namely, the assurance to him of his own domestic market against the world. In these directions he does not hesitate to ask for duties high enough to effect this purpose, and even at times for a complete embargo. In this way, whilst frequently protesting against the alleged burdens heaped upon him by the secondary producer, he himself demands complete immunity at any cost from overseas competition, and is not always on his guard against sheltering inferior products and inefficient methods. This characteristic is illustrated by the

applications of the primary producer for embargoes either by tariff or other means against competition, not merely from foreign countries but from sister dominions. Such examples as sugar, hops, millet, maize, potatoes, bananas, peanuts, tomatoes, eggs, butter, cheese, wine, tobacco, dried fruits, can be cited as illustrating this tendency."

(d) Increases in Costs Due to the Tariff.

15. The increase of costs through the burden of customs duties is frequently referred to in these Reports, but the increase in cost through protected production receives much less emphasis, although "it is taken into consideration." In the Report for 1928 the importance of "basic raw materials" is given attention. On page 10 this Report states:

"The alteration of the Customs Tariff is a matter of considerable importance in that its effects are in most instances far-reaching. An increase in the rates of duty on any particular commodity is not only of interest to the particular industry producing it, but the effect may extend to many other industries. For example, the granting of increased duty on certain metals may, if the producers of such metals found it necessary to take advantage of the additional duty to increase their selling prices, place the whole of the engineering and metal-working industries in an unfavourable position in the matter of competition and render necessary a readjustment of the tariff as affecting the products of such industries. A similar position may arise in connection with any of the basic raw materials of other manufacturing industries.

"In dealing with requests of the nature indicated, therefore, the Board has to take into consideration the effect which any action it recommends would, if adopted, have on other Australian industries. In many cases the applicants claim that the granting of additional duty will not mean increased prices for the reason that the increased output, which they anticipate will result, will mean decreased costs of production and will enable existing prices to be maintained, if not lowered. Some applicants have given definite undertakings not to increase their prices in the event of the duty being increased. Past experience has shown that these undertakings have not only been honored, but in quite a number of instances the result of increasing the duty on goods has been that consumers have

been enabled to purchase the commodities at prices considerably lower than they otherwise would."

16. This experience is very encouraging, and it would, perhaps, be only just to the industries concerned to give them due publicity. A further statement showing the promises made and the results achieved in all industries would be very illuminating. We need scarcely repeat that the influence of tariff costs is no less important when the commodities enter into "the cost of living." For by the automatic adjustment of wages to prices, a recommendation of the Board may result in increased wages, and so widen the gap between wages in Australia and abroad, of which the Tariff Board itself complains.

17. In the 1928 Report the Board, after repeating its warnings as to increasing costs of production, and giving the higher level of duties cited in Appendix B (iii.), says that: "Much of the cause for the high cost of production can be ascribed to three main causes—

- (1) Over-capitalization of industries, both Governmental (or *quasi*-Governmental) and privately owned.
- (2) High rates of pay, short hours of labour and other specially favorable conditions of employment, as compared with the relative conditions in competing countries.
- (3) Restriction of output."

Three other reasons are given also, namely, the increased price of coal, high coastal freights, and high costs of distributing and marketing goods. We may remark that each of these costs is influenced by the tariff.

(e) The Idea of Maximum Protection Available.

18. The last observation of the Board to which we wish to call attention is perhaps the most significant of all. In the 1928 Report, after remarking (on p. 16) that "there is an apparent need for co-operation between the authorities fixing the rates of wages and the conditions of employment, and the framers of the tariff," the Board offers the following suggestion:—

"If the conjoint efforts of employers and employees, whose interests are inseparably interwoven, fail to arrive at a satisfactory solution, it would seem to be worthy of consideration whether the Government of the day should not then, after full and exhaustive enquiry, fix the general maximum limit of the rate

of tariff assistance which it is considered economically sound to grant to any industry. It would then be for employers and employees to find a means of adjusting costs of production in Australia to a basis that would allow of successful competition with imported goods, taking into consideration the maximum measure of protection available.

“Unless the cost of production can be reduced by other means it would seem that there will be no alternative but to reduce the standard of living in Australia. Such action would, it is considered, be regarded by all parties as a retrograde step and highly undesirable. In this view the Board concurs.”

19. This is a distinct recognition of the fact that protected goods impose costs which may not be “economically sound,” and that there should be limits to the “maximum measure of protection available.” We see no reason, however, why the Government of the day should be called upon to fix the maximum limit, or how it could do so except after receiving the recommendations of the Board. The Board has ample powers under Section 17 of the Act to conduct “the full and exhaustive inquiry” it recommends. We have suggested, however (in section 252), that the Board’s authority should be strengthened by an amendment of the Act.

(f) Our Agreement with the Board.

20. It will be obvious that the general trend of our Report is not in conflict with the conclusions of the Tariff Board. The Board, quite naturally, may have hesitated to criticize the policy which it has been established to forward; and its emphasis on different aspects of that policy, where it differs from our own, can be explained by this cause.

It will also be obvious that the time has now arrived in the history of the tariff when further developments are both natural and necessary to ensure the greatest economy. We can appreciate the difficulties felt by the Board in going any further than it has gone in offering the warnings and suggestions quoted above, and we trust that our proposals will be welcomed by it.

21. Our suggestion for a general investigation may be beyond the capacities of the Board itself, occupied as it is likely to be for most of its time with a programme of applications on specific items. We have therefore proposed a special enquiry,

which should naturally be undertaken in friendly co-operation with the Board. But we suggest that for both general and particular purposes the methods used in Great Britain and in Canada might be studied in detail. We do not recommend the extensive investigations carried out by the U.S.A. Tariff Commission, but its methods and experience, and probably its information also, together with those of Great Britain and Canada, would be of great assistance in Australia. With the establishment of the Bureau of Economic Research this information will no doubt be made available to the Board.

APPENDIX D.

FREE IMPORTS.

PERCENTAGE OF FREE GOODS CONTAINED IN THE IMPORTS OF VARIOUS COUNTRIES, 1909 TO 1927.

Year.	U.S. America (a).	New Zealand.	Canada.	Australia.
	%	%	%	%
1909	47	51	39	42
1910	49	50	39	44
1911	51	50	38	41
1912	54	52	36	39
1913	56	52	34	43
1914	60	54	34	(b)
1915	63	57	39	34
1916	69	51	43	31
1917	69	54	45	36
1918	74	55	44	25
1919	71	54	43	39
1920	61	49	35	39
1921	61	56	32	38
1922	61	49	34	37
1923	58	45	33	33
1924	59	47	34	31
1925	65	47	35	34
1926	66	45	37	37
1927	64	42	36	36

(a) Year ended 30th June, 1909 to 1918; 31st December thereafter.

(b) Year ended 31st December, 1909 to 1913; 30th June, 1915 to 1927.

APPENDIX E.

**COMMONWEALTH OF AUSTRALIA.
SUMMARY OF GOODS (MERCHANDISE ONLY) ADMITTED FREE OF DUTY*—YEAR 1927-28.**

Class.	GROUP A.	GROUP B.	GROUP C.	GROUP D.	TOTAL.
	Free under General Tariff, independent of By-laws.	Free under Preferential Tariffs, independent of By-laws.	Free under By-laws.	Free for Commonwealth Government.	Free Goods.
	£	£	£	£	£
1. Foodstuffs of Animal Origin	307,699	99,027	—	281	407,007
2. Foodstuffs of Vegetable Origin	4,201,342	26,803	86,726	595	4,315,466
3. Spirituous and Alcoholic Liquors	—	—	—	1,645	1,645
4. Tobacco	—	—	—	35	35
5. Live Animals	120,007	—	—	—	120,007
6. Animal Substances (mainly unmanufactured) not Foodstuffs	2,119,458	5,112	176	—	2,124,746
7. Vegetable Substances and Fibres	2,576,341	1,050	416,632	4,053	2,998,076
8. Apparel, Textiles and Manufactured Fibres	4,344,153	10,178,656	535,130	12,036	15,060,975
9. Oils, Fats and Waxes	1,967,450	45,716	110,443	3,142	2,126,751
10. Paints and Varnishes	33	85,866	59,913	1,311	147,123
11. Stones and Minerals, including Ores and Concentrates	729,505	65,918	4,853	50	800,326
12. Metals, Metal Manufactures and Machinery	220,697	6,321,663	4,105,600	279,120	10,927,080
13. Rubber and Leather and Manufactures thereof and substitutes therefor	2,285,287	—	23,252	2,545	2,311,084
14. Wood and Wicker, raw and manufactured	63,179	430,356	44,516	12,269	550,320
15. Earthenware, Cements, China, Glass and Stoneware	11	145,099	14,264	4,735	164,700
16. Paper and Stationery	1,449,267	3,555,316	130,264	11,457	5,146,304
17. Jewellery, Timepieces and Fancy Goods	558,923	53,396	50,043	533	662,895
18. Optical, Surgical and Scientific Instruments	61,373	335,424	60,262	4,202	461,261
19. Drugs, Chemicals and Fertilizers	1,242,636	371,019	888,161	2,297	2,504,113
20. Miscellaneous	1,227,052	765,789	169,217	130,922	2,292,980
TOTAL	23,474,413	22,486,810	6,699,452	471,228	53,131,903

*Excluding exported goods reintroduced.

Commonwealth Bureau of Census and Statistics,
17th April, 1929.

APPENDIX F.

**IMPORTS AS CLASSIFIED, WITH AVERAGE
AD VALOREM RATES.**

STATISTICAL CLASSIFICATION OF IMPORTS.

Class.

- I.—Foodstuffs of animal origin, excluding living animals.
- II.—Foodstuffs of vegetable origin; non-alcoholic beverages and substances used in making.
- III.—Spirituous and alcoholic liquors.
- IV.—Tobacco, and preparations thereof.
- V.—Live animals.
- VI.—Animal substances (mainly unmanufactured) not foodstuffs.
- VII.—Vegetable substances and fibres.
- VIII.—(a) Apparel, (b) textiles, and (c) manufactured fibres.
- IX.—Oils, fats, and waxes.
- X.—Paints and varnishes.
- XI.—Stones and minerals, including ores and concentrates.
- XII.—Metals, metal manufactures and machinery.
- XIII.—Rubber and leather and manufactures thereof and substitutes therefor.
- XIV.—Wood and wicker, raw and manufactured.
- XV.—Earthenware, cements, china, glass and stoneware.
- XVI.—Paper and stationery.
- XVII.—Jewellery, timepieces, and fancy goods.
- XVIII.—Optical, surgical, and scientific instruments.
- XIX.—Drugs, chemicals, and fertilizers.
- XX.—Miscellaneous.

NET IMPORTS, DUTY COLLECTED, AND EQUIVALENT AVERAGE AD VAL. RATE OF DUTY COLLECTED ON EACH CLASS OF IMPORTS DURING THE YEAR MENTIONED.

Class No.	1911.			1915-16.			1920-21.		
	Net Imports.	Duty Collected.	Average ad val. Duty.	Net Imports.	Duty Collected.	Average ad val. Duty.	Net Imports.	Duty Collected.	Average ad val. Duty.
	£	£	%	£	£	%	£	£	%
1	791,546	147,889	18.68	1,668,295	326,047	19.54	1,152,899	151,446	13.14
2	3,680,047	714,063	19.40	10,287,447	1,460,890	14.20	10,254,268	432,969	4.22
3	1,772,468	2,596,084	146.47	1,274,940	2,449,529	192.13	1,844,700	1,663,064	90.15
4	846,413	1,259,436	148.80	899,033	1,569,235	174.54	3,724,042	1,814,507	48.72
5	383,648	851	.22	156,839	245	.17	72,589	321	.44
6	259,432	12,358	4.76	469,881	11,253	2.40	696,625	7,107	1.02
7	1,029,922	43,917	4.26	2,237,106	58,714	2.62	2,750,895	92,136	3.35
8	17,898,000	2,317,766	12.95	21,076,746	3,094,363	14.68	51,522,182	6,582,108	12.78
9	1,754,396	189,247	10.79	2,710,652	353,903	13.06	8,156,117	430,273	5.28
10	477,832	88,753	18.57	588,008	96,281	16.37	619,231	125,148	20.21
11-12	17,851,510	1,623,032	9.09	17,555,775	2,124,343	12.10	41,793,668	6,001,297	14.36
13	1,496,322	223,061	14.91	1,719,656	390,149	22.69	2,985,811	632,459	21.18
14	3,326,511	502,020	15.09	2,018,451	371,765	18.42	5,615,643	560,221	9.98
15	1,209,092	316,888	26.21	1,333,080	333,635	25.03	3,154,084	613,788	19.46
16	2,753,857	225,015	8.17	2,890,755	353,528	12.23	8,864,360	1,140,935	12.87
17	1,639,785	327,657	19.98	1,119,406	273,415	24.43	2,436,169	692,441	28.42
18	438,604	21,778	4.97	534,739	109,296	20.44	998,363	198,091	19.84
19	2,306,320	160,170	6.94	3,091,832	223,190	7.54	5,461,919	562,128	10.29
20	3,449,294	458,784	13.30	2,733,881	462,238	16.91	5,959,495	815,373	13.68
TOTAL	63,364,999	11,228,769	17.72	74,366,322	14,062,019	18.91	158,063,060	22,515,812	14.24

NET IMPORTS, DUTY COLLECTED, AND EQUIVALENT AVERAGE AD VAL. RATE OF DUTY COLLECTED ON EACH CLASS OF IMPORTS DURING THE YEAR MENTIONED.—Continued.

Class No.	1925-26.			1926-27.			1927-28.		
	Net Imports.	Duty Collected.	Average ad val. Duty.	Net Imports.	Duty Collected.	Average ad val. Duty.	Net Imports.	Duty Collected.	Average ad val. Duty.
	£	£	%	£	£	%	£	£	%
1	2,449,682	328,296	13.40	3,059,790	419,786	13.72	2,845,053	391,343	13.76
2	6,728,587	694,555	10.32	7,270,380	867,029	11.93	6,320,161	754,603	11.94
3	2,250,669	2,827,474	125.63	1,780,290	2,771,418	115.67	1,726,972	2,711,039	156.98
4	2,680,356	2,085,222	77.80	2,621,097	2,554,829	97.47	2,857,227	2,390,342	83.66
5	177,879	—	—	156,667	—	—	92,997	—	—
6	1,073,349	12,396	1.15	1,698,303	13,757	.81	2,144,339	12,184	.57
7	2,992,143	73,361	2.45	2,803,717	84,310	3.01	2,739,628	73,313	2.68
8	38,680,066	5,631,893	14.56	42,035,047	6,818,496	16.22	38,119,825	6,310,529	16.55
9	9,928,879	821,827	8.28	10,899,737	2,028,158	18.61	9,785,834	2,457,884	25.12
10	604,936	150,396	21.64	805,753	171,561	21.29	770,245	152,626	19.82
11-12	45,736,846	8,548,798	18.69	51,598,386	9,624,940	18.65	43,141,293	8,381,898	19.43
13	5,691,111	1,648,287	28.97	5,527,621	1,452,174	26.27	4,089,435	985,805	24.11
14	5,861,434	1,377,761	23.51	5,471,838	1,409,579	25.76	5,761,412	1,635,071	28.38
15	2,438,789	623,715	25.57	2,597,138	675,202	26.00	2,408,994	649,715	26.97
16	7,038,979	705,551	10.02	7,859,190	779,359	9.92	7,782,593	790,319	10.15
17	2,645,455	708,146	26.77	2,725,447	782,711	28.72	2,568,362	660,015	25.70
18	1,749,148	331,462	18.95	1,743,176	355,889	20.42	1,373,389	349,678	25.46
19	4,264,880	655,217	15.36	4,980,328	704,222	14.14	4,763,226	659,001	13.84
20	5,114,886	1,177,093	23.01	5,456,352	1,270,573	23.29	3,350,860	1,025,917	30.62
TOTAL ..	148,198,064	28,401,450	19.16	161,080,259	32,783,983	20.35	142,641,845	30,391,282	21.31

Commonwealth Bureau of Census and Statistics,
MELBOURNE, 17th April, 1929.

APPENDIX G.

IMPORTS AND CORRESPONDING AUSTRALIAN PRODUCTION.

VALUE OF IMPORTS INTO AUSTRALIA, COMPARED WITH THE VALUE OF OUTPUT C AUSTRALIAN MANUFACTURING INDUSTRIES, 1923-24 TO 1925-26.

In the following statement the imports of manufactured goods have been classified according the industrial grouping adopted by the Bureau of Census and Statistics in the presentation of particulars relating to the manufacturing in Australia, and so far as possible, from the details available in the classifications, the figures in the statement have been compiled on comparative lines.

Nature of Industry.	1923-24		1924-25		1925-26	
	Imports.	Value of output of Manu- facturing Industries.	Imports.	Value of output of Manu- facturing Industries.	Imports.	Value of output of Manu- facturing Industries.
	£	£	£	£	£	£
Tanneries	350,340	5,475,956	284,224	5,171,005	270,061	5,564,661
Sausage Skins, etc.	147,143	812,320	205,436	873,673	311,701	396,411
Oil and Grease	6,524,740	1,731,946	7,705,774	2,128,659	9,152,606	2,040,211
Soap and Candle	96,956	2,915,030	86,492	3,365,010	107,572	3,592,831
Brick, Tiles, Pottery and Earthenware..	756,432	4,898,544	977,826	4,656,110	716,882	4,991,901
Glass (inc. bottles)	434,302	1,308,838	389,435	1,398,578	430,469	1,518,865
Other and Ornamental	831,671	941,280	860,197	921,375	858,079	856,157
Lime, Plaster, Cement, Asbestos and Asphalt	334,902	3,723,911	321,258	4,185,295	306,691	4,566,311
Marble, Slate, etc.	89,307	739,802	98,740	622,716	116,335	313,754
Cooperage	4,899	345,480	9,058	429,083	31,607	460,361
Joinery, Boxes, Cases, etc.	217,475	8,347,466	234,820	8,677,963	220,662	8,386,477
Saw-mills	1,473,046	12,408,386	1,216,628	12,551,003	1,293,793	13,837,541
Wood-turning, Carving, etc.	336,124	899,329	313,503	952,691	358,994	1,040,801
Agricultural and Dairy Implements ..	939,164	3,132,305	1,110,911	3,283,008	1,126,225	3,228,501
Brass and Copper	653,864	2,636,171	509,751	2,783,618	508,784	2,699,364
Cutlery	626,187	79,860	694,043	83,805	674,971	85,677
Engineering, Ironworks & Foundries ..	13,567,870	24,151,439	12,969,543	25,644,739	14,090,123	26,865,900
Galvanized Ironworking and Tinsmithing	5,260,451	4,130,010	5,379,506	4,315,560	4,486,899	4,659,162
Nails	152,400	325,159	132,185	352,394	123,282	368,706
Stoves and Ovens	40,262	1,034,378	35,318	1,134,713	42,499	1,333,594
Wireworking	444,388	3,464,133	136,975	3,552,195	136,429	3,992,844
Electric Apparatus	4,865,975	1,233,317	6,257,451	1,482,967	5,798,934	1,726,464
Lamps and Fittings	450,758	45,454	467,561	43,974	464,768	45,431
Sewing Machines	489,744	45,526	478,772	47,929	502,995	58,091
Bacon Curing	19,005	4,399,429	18,492	4,408,204	33,773	4,844,166
Butter, Cheese and Condensed Milk ..	289,859	19,526,119	71,147	22,726,214	378,928	22,971,414
Butterine and Margarine	17,973	875,221	5,608	849,202	9,870	869,371
Meat and Fish Preserving	1,498,671	3,717,145	1,422,147	3,231,710	1,489,021	7,402,371
Biscuits	15,761	4,807,198	20,176	4,908,086	26,462	5,021,407
Confectionery	67,362	6,162,631	82,186	6,623,828	114,659	6,993,564
Cornflour, Oatmeal, etc.	202,390	1,631,879	166,191	1,736,366	190,394	2,022,654
Flour Mills	855	15,866,848	1,175	17,727,392	1,510	20,709,271
Jam and Fruit Preserving, Pickles, Sauces and Vinegar.. . . .	276,080	4,722,383	299,808	4,995,671	317,201	5,002,467
Sugar Refining	64,793	11,034,304	100,935	11,366,270	56,720	10,830,696
Aerated Waters, Cordials, etc.	33,186	2,402,050	20,399	2,389,534	22,864	2,614,682
Breweries	217,126	6,887,462	200,191	7,117,029	206,581	7,842,190
Condiments, Coffee, Spices, etc.	315,009	2,462,250	284,040	2,566,907	318,908	2,667,252
Distilleries	1,790,550	596,644	1,871,134	695,194	1,987,719	855,183
Tobacco, Cigars, Cigarettes, etc.	358,367	6,645,451	404,251	6,927,087	509,871	6,892,333
Salt	57,732	200,824	55,742	236,554	73,978	213,477
Cider	147	5,210	171	4,600	243	4,200
Animal and Poultry Foods	2,114	170,990	203	220,959	87	336,466

VALUES OF IMPORTS INTO AUSTRALIA, COMPARED WITH THE VALUE OF OUTPUT OF AUSTRALIAN MANUFACTURING INDUSTRIES, 1923-24 TO 1925-26—Continued.

Nature of Industry.	1923-24		1924-25		1925-26	
	Imports.	Value of output of Manufacturing Industries.	Imports.	Value of output of Manufacturing Industries.	Imports.	Value of output of Manufacturing Industries.
	£	£	£	£	£	£
Woollen and Tweed Mills	5,112,374	4,963,857	6,077,081	5,071,124	4,699,872	5,758,267
Cotton Mills	12,537,515	861,773	12,895,394	542,329	12,015,904	534,050
Books and Shoes	423,342	9,999,903	466,583	9,811,222	433,579	10,206,520
Clothing (Men's Tailoring and Shop)	219,355	10,527,577	273,762	10,881,664	229,580	11,274,589
Dressmaking and Millinery	639,109	4,999,412	808,807	4,920,650	760,237	5,243,483
Furriers	338,244	699,988	394,155	764,888	326,397	808,625
Hats and Caps	868,561	1,588,944	417,816	1,823,901	525,074	1,722,186
Waterproof and Oilskins	235,947	185,132	170,356	225,590	188,799	256,581
Shirts, Ties, Scarves, Underclothing, etc.	425,721	5,190,082	395,335	5,211,949	229,140	5,366,790
Hosiery and Knitted Goods	1,890,265	3,311,405	2,163,501	3,785,168	1,968,941	4,579,734
Rope, Cordage and Bags	2,988,991	1,799,425	4,270,516	2,077,839	4,403,139	2,131,137
Tents and Sailmaking, etc.	2,987	878,866	5,903	960,369	4,925	691,294
Printing and Binding	1,780,375	14,503,930	1,835,591	13,532,372	2,063,944	14,392,036
Papermaking, Paper Boxes, Bags, etc.	4,189,571	3,448,563	4,644,867	3,777,924	4,711,055	3,973,336
Musical Instruments	1,329,804	848,026	1,370,983		1,240,556	1,116,604
Arms and Explosives	955,034	490,711	842,954	966,115	1,074,841	567,912
Coach and Wagon Building and Repairing	1,190,770	2,458,509	1,636,294	2,305,301	1,337,216	2,176,622
Cycles and Motors	12,514,053	6,997,974	13,146,700	8,767,145	13,604,597	9,343,599
Perambulators	15,305	160,342	23,397	151,244	28,970	162,280
Saddlery, Harness, Whips, etc.	9,619	702,241	5,583	654,429	4,499	865,498
Spokes, etc.	14,404	86,896	6,023	87,913	4,144	83,635
Ship and Boat Building and Repairing, Docks, etc.	255,182	2,332,111	459,954	2,515,273	515,439	2,602,197
Billiard Tables, Cabinet Making and Furniture	151,888	5,046,137	162,349	5,331,718	167,404	5,523,629
Picture Frames	14,337	182,659	24,871	213,296	28,051	231,377
Window Blinds	46,713	126,092	42,139	140,837	36,593	154,117
Seagrass, Wicker and Bamboo Furniture	17,338	82,930	11,774	137,199	10,273	137,747
Basket, Wickerware and Matting	96,005	143,016	87,676	152,280	77,208	186,043
Brooms and Brushware	326,990	588,197	328,914	545,567	322,732	645,168
Chemicals, Drugs and Medicines	2,349,132	3,138,340	2,387,324	3,345,105	2,528,466	3,590,409
Fertilisers	899,582	2,558,515	1,023,233	3,232,696	987,136	2,641,524
Paints, Varnishes and By-products	835,814	1,755,439	667,073	1,878,035	706,748	2,095,312
Essential Oils	103,424	107,669	130,793	135,910	159,241	64,300
Inks, Polishes, etc.	161,845	1,124,309	143,906	1,161,823	134,292	1,148,343
Surgical, Optical and Scientific Instruments	456,870	287,257	466,242	324,534	470,648	336,794
Electroplating	373,099	292,414	237,034	231,166	177,233	339,809
Manufacturing Jewellery, etc.	771,064	846,018	817,458	877,673	867,327	839,235
Coke Works	49,050	1,231,070	54,265	1,417,975	66,063	1,249,029
Kerosene, Illuminating Oils	849,429	72,640	862,389	317,417	921,271	545,331
Matches	267,165	474,354	243,935	578,746	279,519	512,516
Carbide	28,227	57,327	34,275	73,176	41,732	68,106
Leather Belting, Fancy Leather, Portmanteaux and Bags	150,583	1,470,666	194,889	1,357,471	198,354	1,378,250
Rubber Goods, Tyres	2,499,307	2,407,154	2,360,248	3,137,178	3,257,500	6,157,417
Toys	870,457	68,222	318,053	66,003	363,499	69,141
Umbrellas	11,743	231,116	20,561	249,603	22,795	280,278
All Other Articles, Merchandise	38,273,919	73,663,267	37,795,735	84,403,732	41,008,217	67,258,211
Specie and Bullion	61,792	—	10,542,897	—	420,768	—
TOTAL	140,618,293	348,577,583	157,143,296	380,843,996	151,638,178	400,342,993
Value per Head	£24/9/1	£60/12/6	£26/15/1	£64/16/10	£25/6/2	£66/16/3

Commonwealth Bureau of Census and Statistics,
4th April, 1928.

APPENDIX H.

EXPORTS AND MATERIAL PRODUCTION.

Changes in the ratio of exports of Australian products to total recorded production of primary and manufacturing industries.

Year.	Value of primary and manufacturing production in Australia.	Value of Exports of Australian Products.	Ratio per cent. of Exports to production.
	£1000	£1000	%
1901	114,585	47,742	41.67
1902	109,615	41,269	37.65
1903	117,672	45,659	38.80
1904	122,343	55,100	45.04
1905	135,846	54,128	39.85
1906	147,043	66,300	45.09
1907	165,881	69,817	42.09
1908	162,490	62,119	38.23
1909	173,268	62,844	36.27
1910	185,399	71,836	38.75
1911	188,359	76,205	40.46
1912	209,236	75,962	36.30
1913	220,884	75,138	34.02
1914	213,543	58,123	27.22
1915	255,543	71,793	28.09
1916	261,945	95,040	36.28
1917	279,356	78,449	28.08
1918	291,786	106,027	36.34
1919-20	343,608	144,569	42.07
1920-21	390,514	126,431	32.38
1921-22	344,302	123,488	35.87
1922-23	379,382	114,751	30.25
1923-24	400,183	116,163	29.03
1924-25	454,106	158,942	35.00
1925-26	431,504	145,705	33.77
1926-27	446,874	142,151	31.81

Commonwealth Bureau of Census and Statistics,
Melbourne, 17th April, 1929.

APPENDIX J.

EXCISE TAXATION AND CORRESPONDING CUSTOMS TAXATION.

Statement, showing the quantity of goods on which Excise Duty was paid, together with the rates and amounts of Excise Duty paid; also the quantity of similar goods imported with the rates and amounts of Customs Duty paid—Year 1927-28.

EXCISE.				IMPORTS—Goods Cleared.			
Item.	Rate of Duty.	Quantity on which paid.	Amount Collected.	Item.	Quantity Cleared.	Average Rate of Duty.	Amount of Duty.
	per proof gal.	proof gal.	£		proof gal.	per proof gal.	£
SPIRITS—				SPIRITS (Beverages)—			
Brandy (Pure Australian Standard Brandy)	26/-	230,817	300,062	Brandy	80,848	36/-	145,801
Brandy (Blended Wine Brandy, etc.) ..	27/-	1,224	1,652	Gin	294,670	35/8	525,354
Gin (Distilled from Barley, Malt, Grain, Grape Wine, Apples, or other Approved Fruit)	28/-	48,420	67,801	Whisky	981,911	35/-	1,718,648
Whisky (Australian Standard Malt Whisky)	26/-	206,922	263,999	Rum	51,898	31/1	80,752
Whisky (Australian Blended Whisky) ..	28/-	—	—	Liqueurs and Bitters	42,673	36/11	78,654
Rum (Australia's Standard Rum) ..	28/-	550,211	770,295				
Rum (Blended) ..	29/-	—	—	SPIRITS—Other (Beverages)	456	28/2	643
Liqueurs	28/-	163	228				
Spirits, n.e.l.	28/-	1,759	2,342	Spirits and Spirituous Preparations ..	292,206	—	123,114
Spirits for industrial or Scientific Purposes	25/-	138,279	172,649				
Spirits for fortifying Wine (Distilled from Doradillo Grapes) ..	5/-	406,489	101,622	TOTAL SPIRITS, gal.	1,452,451	—	2,549,850
Spirits for fortifying Wine (other) ..	6/-	797,258	239,177		£292,266		£123,114
Spirits for making Vinegar	2/-	43,303	4,330				
Spirits for the Manufacture of Soaps, etc.	17/-	11,345	9,677				
Amylic, Alcohol and Fuel Oil	20/-	483	483				
	23/-	24,306	27,962				
	29/-	25	38				
TOTAL SPIRITS ..	—	2,461,052	1,968,604				

EXCISE TAXATION AND CORRESPONDING CUSTOMS TAXATION—Continued.

EXCISE.				IMPORTS—Goods Cleared.			
Item.	Rate of Duty.	Quantity on which Paid.	Amount Collected.	Item.	Quantity Cleared.	Average Rate of Duty.	Amount of Duty.
BEER	per gal. 1/9	gal. 70,755,800	£ 6,191,115	ALE, BEER and PORTER	gal. 543,657	per gal. 3/2	£ 86,189
TOBACCO—	per lb.	lb.		TOBACCO—	lb.	per lb.	
Manufactured, n.e.i.	2/4	13,110,308	1,529,536	Manufactured, n.e.i.	360,832	5/6	99,748
Handmade	2/1	308,574	32,143	Cut Fine, for Manu- facture of Cigarettes	5,652	12/-	3,394
Fine-cut, suitable for Cigarettes	7/-	24,396	8,539	TOTAL TOBACCO ..	366,484		103,142
TOTAL TOBACCO ..		13,443,278	1,570,218	CIGARS	116,762	12/8	73,941
CIGARS—				CIGARETTES	914,730	11/7	539,897
Machine-made	3/8	86,425	6,678	SNUFF	3,943	6/6	1,282
Hand-made	2/8	348,002	46,400	STARCH	245,320	2/3rd.	2,445
TOTAL CIGARS ..		384,427	53,078	STARCH FLOUR	352,838	1/25d.	1,836
CIGARETTES—							
Machine-made	7/3	5,318,668	1,928,017				
Handmade	7/-	6,939	2,429				
TOTAL CIGARETTES		5,325,607	1,930,446				
SNUFF	4/-	—	—				
STARCH, made from im- ported Rice	*1d.	1,114,320	4,643				

*Excise Duty repealed in 1927.

In addition, 16,575,154 lbs. of Unmanufactured Tobacco were cleared, Average Rate of Duty, 2/- per lb. Amount of Duty Received, £1,672,080.

Commonwealth Bureau of Census and Statistics,
MELBOURNE, 17th April, 1929.

APPENDIX K.

**THE PROPORTIONS OF CUSTOMS AND EXCISE
TO TOTAL TAXATION.**

- (i.) Commonwealth and State Taxation, 1908 to 1928, and the proportions of Customs and Excise.
- (ii.) Total Taxation in Australia, including local rates, 1926-27, and the proportions of Customs and Excise.
- (iii.) Total Taxation in the United Kingdom, including local rates, 1925-26, and the proportions of Customs and Excise.
- (iv.) A comparison between Australia and the United Kingdom.
- (i.) *Commonwealth and State Taxation, 1908 to 1928, and the Proportions of Customs and Excise.*

Year ended 30th June.	Commonwealth Taxation.			State Total	Commonwealth and State Total.	Percentage of Customs and Excise.
	Customs and Excise.	Other	Total			
1908	£m. 11.6	—	£m. 11.6	£m. 3.6	£m. 15.2	% 76.4
1909	10.8	—	10.8	3.5	14.3	75.5
1910	11.5	—	11.5	4.0	15.6	74.2
1911	12.9	1.3	14.3	4.1	18.5	70.0
1912	14.7	1.3	16.0	5.4	21.4	68.4
1913	15.5	1.5	17.1	5.0	22.1	70.1
1914	14.9	1.6	16.5	6.3	22.8	65.4
1915	14.8	1.9	16.8	7.0	23.8	62.3
1916	16.9	6.6	23.5	8.1	31.6	53.4
1917	15.6	8.9	24.5	8.9	33.5	46.5
1918	13.2	11.3	24.6	10.0	34.6	38.2
1919	17.4	15.4	32.8	12.0	44.8	38.8
1920	21.5	20.2	41.8	14.4	56.2	38.3
1921	31.8	20.6	52.4	18.3	70.7	45.0
1922	27.6	22.0	49.6	18.0	67.6	40.8
1923	32.8	17.0	49.8	19.0	68.8	47.7
1924	35.7	15.1	50.8	20.4	71.2	50.1
1925	37.2	15.6	52.8	22.9	75.7	49.1
1926	39.2	15.1	54.3	25.4	79.7	49.2
1927	43.6	15.4	59.0	29.3	88.3	49.4
1928	41.4	15.2	56.6	31.1	87.7	47.2

NOTE.—Motor Vehicle Taxation and Licenses are included with State Taxation.

(ii.) TOTAL TAXATION IN AUSTRALIA, 1926-27, AND THE PROPORTION OF CUSTOMS AND EXCISE.

(*Finance Bulletin* No. 19.)

	£m.
Total Customs and Excise Revenue (p. 8)	43·6
Total Taxation, Commonwealth and State	88·3
Proportion of Customs and Excise to Central Taxation	<u>49·4%</u>
<i>Local Taxation:</i>	
Local rates are not given fully, but from <i>Finance Bulletin</i> No. 19 (1927) they may be estimated at about	14·0
Total Taxation, Commonwealth, State and Local ..	102·3
Proportion of Customs and Excise to All Taxation ..	<u>42·6%</u>

Note.—In New Zealand, the proportion was 38·7%.

(iii.) TOTAL TAXATION IN THE UNITED KINGDOM, 1926-1927, AND THE PROPORTION OF CUSTOMS AND EXCISE.

(*Statesman's Year Book*, pp. 32-34, 1927.)

	£m.
Total Customs and Excise	240·0
But this includes—	
Entertainment	£5·7m.
Licenses	£4·9m.
Which in Australia are included in other taxation, so these are deducted	10·6
Customs and Excise (adjusted)	<u>229·4</u>
Other Taxation, including Motor Licenses and Stamps, and the £10·6m. omitted above	453·2
Total Taxation (central)	682·6
Proportion of Customs and Excise (adjusted) to Central Taxation	<u>33·6%</u>
Local Government Taxation (p. 38)	179·9
Total Taxation, Central and Local	862·5
Proportions of Customs and Excise (adjusted) to all Taxation	<u>26·6%</u>

(iv.) A COMPARISON BETWEEN AUSTRALIA AND THE UNITED KINGDOM.

In making a comparison in this respect between Australia and other countries, it is necessary to add Commonwealth and State Taxation to get a basis for comparison.

In comparing with the United Kingdom it is desirable to include also local taxation, because of the large local government expenditure in the United Kingdom on education, police and poor relief—expenditure which in Australia all falls on the State Governments.

The figures for Central taxation are easily accessible, but adjustment must be made for the fact that for the United Kingdom Excise includes entertainments tax and licenses which in Australia are counted with other taxation.

A figure for total local Government taxation for the United Kingdom is given in the *Statesman's Year Book*. It is probable, however, that this amount does not cover all the services provided under Australian Local Government. The error on this account will not be large.

The Australian figures are not completely available, chiefly because the City of Sydney is apparently unable to discriminate between revenue from rates and other sources. An estimate, however, can be made within narrow limits.

The results of the comparisons are as follows, to the nearest decimal:—

	United Kingdom.	Australia.
Customs and Excise (adjusted).		
As percentage of Central* Taxation	33·6	49·4
As percentage of Central* and Local Taxation	26·6	42·6

Notes.—The U.S.A. collects about 30·8 per cent. (1927) of its central taxation from customs and excise, and Canada 46·8 per cent. (1927). Both of these are “protectionist” countries. Other “protectionist” countries collect larger proportions.

*“Central” for Australia includes both Commonwealth and State taxation.

APPENDIX L.

**AUSTRALIAN CUSTOMS TAXATION: AMOUNTS AND
PERCENTAGES ON NET IMPORTS OF ALCOHOLIC
LIQUORS, TOBACCO AND OTHER MERCHANDISE.**

Class of Imports.	Net Customs Duties on Merchandise.					
	Amount.			Percentage on Net Imports.		
	1925-26.	1926-27.	1927-28.	1925-26.	1926-27.	1927-28.
	£1,000's	£1,000's	£1,000's	%	%	%
Alcoholic Liquors	2,849	2,803	2,734	126.6	157.5	158.3
Tobacco	2,076	2,203	2,371	77.5	84.0	83.0
Other Merchandise	23,147	26,747	24,682	16.2	17.1	17.9
TOTAL MERCHANDISE ..	28,072	31,753	29,787	18.9	19.7	20.9

APPENDIX M.

DIRECT AND INDIRECT TAXATION.

1. We have suggested that the protective tariff has resulted in too high a proportion of customs to total taxation, and that this proportion should be reduced. The reason given is that income and other direct taxation is not so readily passed on, and therefore does not fall so heavily upon costs. As some further explanation may be necessary, we give a summary of the main principles in this Appendix.

2. The justification of taxation from the beginning lies in the fact that the community is agreed upon a transfer of income from individuals for general purposes. It is agreed that up to some indefinite point the income is better spent by the community, as for example on the maintenance of order. It has also to be transferred to pay debts, as war debts, or at least the interest on debts. When individuals are taxed to pay interest on roads and other productive expenditure, it is further assumed that the taxation is spent more productively than the money would be spent by the taxpayers themselves. Other taxation is imposed on the same assumption, *e.g.*, for education and welfare, and if it is not spent productively (as on pensions), it may still be spent to better advantage from a social point of view. Taxation may indeed stimulate further effort on the part of individuals to maintain their customary incomes, and so far as it does this it increases production.

3. The limits of benefit are not clear, and it is not to be expected that the benefits will be entirely additional. Costs must be deducted and the balance of advantage must be estimated. Taxation may cost more than its expenditure is worth, in which case it defeats its object. The costs of taxation are the burdens it imposes upon production and the discouragement it affords to saving and enterprise. Broadly stated, indirect taxation imposes relatively greater burdens on production, and direct taxation relatively greater burdens on saving and enterprise. The limits are set by customary standards and the weight of similar taxation elsewhere, rather than by any definite absolute figure. Indeed, the indefiniteness of the limits,

and the subtle and complex ways in which they operate, are the chief difficulties in determining what can be done at any one time.

4. We are concerned here, however, with the distribution of a given amount of taxation, the final results of which are supposed to be beneficial to the community. Whatever the methods by which it is raised, and whoever the individuals who first pay it, the effects are bound to be diffused to some extent. Every endeavour will be made to escape the incidence by passing it on. Interest rates, for example, will tend to rise because of taxation, and the discouragement to saving will allow this to be done. The economic system, in short, will adjust itself to the changed conditions. But there are again limits to the adjustments themselves, and the method of taxation is important. With customs taxation the adjustment through "passing on" is more complete and with direct taxation is less complete.

5. We have explained this by showing how customs taxation falls equally on all production, whether it is profitable or not, and on "the beginnings of income," whereas direct taxation falls on net receipts gained *after* the income has been produced. Customs taxation falls more on costs and income taxation falls more on the surplus income after costs have been met. While an absolute distinction is impossible, the general tendency is clear. From the point of view of production which has to compete with foreign production, either at home or abroad, direct taxation is the least burdensome, despite the fact that it is more acutely (because directly) felt.

6. Direct taxation is also the more generally economic form of taxation because it involves the minimum of sacrifice for utility and welfare. It can be, and is, applied progressively to the surplus elements in incomes, as those surpluses are larger. The progression is arbitrary and needs to be used with discretion. But to impose the same taxation in any other way would be to throw greater burdens on the community as a whole, and especially on the incomes with no margin beyond what is necessary to efficiency or to production itself. Moreover, where common commodities are by comparison heavily taxed, a larger proportion is taken from the smaller incomes than from the larger incomes, and the opposite effect is attained; instead of being progressive, the taxation is "regressive."

7. Direct taxation has its justification, therefore, in greater economy all round. But this does not imply that all indirect taxation is less economic; it implies the need for a careful discrimination in the use of customs and excise. Indirect taxation is economic when it is used with the same effects as direct taxation, and when these effects are attained with greater administrative economy than direct taxation.

It is not economic to tax small incomes directly; the expedient of exempting some income is partially due to this fact, but it is also an acknowledgment that the necessary expenditure for livelihood should not be taxed at all. Nevertheless some parts of most incomes, including the smaller incomes, are spent on other things; upon "conventional necessities" or mere luxuries. These are also surplus elements, and they are taxed most conveniently on the expenditures. The result is that indirect taxation, falling more than proportionately on the smaller incomes, is able to supply a very considerable proportion of the whole without seriously invading the necessary costs of living or of production. A balanced system is achieved, fair to all classes, and the Treasuries receive the maximum of income with the minimum of disturbance and of sacrifice.

8. We come now to consider the objections to this summary statement, as they affect the relative incidence of direct taxation and the extent to which it is passed on. It is a question of proportion. It is not a question of whether some income tax is passed on, but of how much relatively to customs taxation.

Criticism of the general statement of tendency comes from business men familiar with the accountancy practice of budgeting for income tax as a cost. The answer to this criticism is that it confuses formality with facts. The psychological effect is doubtless important in determining the prices which companies attempt to get. But it remains true that the formality of entering income tax among costs does not induce the companies to pay that tax unless the income is first received. Nothing can be a cost that can be avoided and yet allow production to continue without change in its quality, and that is not paid until profits are made.

9. The statement follows upon the accepted theory of the determination of prices by demand and supply. It is assumed that producers have sufficient business acumen to have obtained the highest prices that the demand will allow, and that these

prices just cover the supply costs of the least efficient or the least fortunate producers. These producers are on the margin of profit and pay practically no income tax; they therefore have nothing to pass on. The more fortunate cannot get higher prices for the same products merely because their profits are taxed. If they attempt to do so, either demand contracts or new competition enters to gain the margin of profit. Profits which are derived from some competitive advantage giving lower costs must bear the income tax imposed upon them. This applies with even greater force where monopoly conditions exist, and the maximum profit is being obtained by an industry.

10. The effect is very different from a customs tax which falls in the first place in equal proportions on every producer, and increases the actual expenses of production throughout the whole industry. The facts may indeed be obscured by the changing conditions of industry, and the natural extensions of demand from a growing population, and the many other influences affecting costs and prices. The entry of new producers, especially in industries where large equipment requires Company organisation, is undoubtedly determined by the conditions of taxation, but the limits to the shifting of incidence are much more stubborn than with indirect taxation.

11. The income tax which is passed on must in general be limited to the tax on the lowest grades of incomes. With the flat rate on companies this is important, and new companies must take this into account before estimating their net returns. So far as taxation is imposed upon the profits necessary to enterprise, it tends to be passed on. This is equally true of interest, and it applies to all taxation. The effect in the professions illustrates this qualification. A certain customary standard of real income is necessary to attract sufficient recruits, and if any taxation is imposed on the money income of this class, that income has to be raised to cover the taxation. In the course of time an income of £500 would be increased sufficiently to provide £500 plus tax, the tax being passed on. The incomes necessary to production do indeed adjust themselves to any taxation, and in the course of time all prices tend to be influenced to some extent by income tax. We agree, therefore, that some income tax is passed on.

But the incomes above those strictly necessary to production are substantial in the aggregate, and progressive taxation

in these levels must remain with the taxpayer. Indeed, the objection to direct taxation is largely due to this fact.

12. We may conclude by citing the conclusions of the British Committee on National Debt and Taxation, presided over by Lord Colwyn and composed of eminent economists and men of affairs. The Committee's work was based upon exhaustive statistical investigation, and its conclusions have high authority. The subject of the relative incidence of income tax was fully explored and the objections to the accepted principles were examined. In §324 of this Report, the following statement appears:—"We conclude that the broad general economic argument is true over the whole field and for practically the whole of the time, the exceptions being local or temporary, and insufficient to invalidate it."

APPENDIX N.

THE EXCESS COSTS OF PROTECTED PRODUCTION.

(i.) THE EXCESS COSTS OF PROTECTED MANUFACTURES, 1926-27.

1. The following tables contain the data on which an estimate of the cost of protected manufactures is attempted. The first column gives the item of manufacturing production in the order in which it is set out in the Commonwealth Production Bulletin. Many items are omitted; on most of the omitted items we have been satisfied as a result of inquiry that in spite of a high nominal duty there is in fact no effective protection; on a good many there is some measure of protection, but it is small or difficult to assess. The items retained are those on which we have no doubt that the added cost due to the tariff is substantial and at least roughly measurable. But they are divided into three sections, (a), (b), and (c), as explained in the text of the report, according to the degree to which the full extent of the protection offered is actually used by the industry.

2. The second column gives the average rate of duty paid on the imports which most closely correspond to the item of Australian production, but this rate is expressed as a percentage, not of the invoice value of the imports, but of the total cost in Australia, after duty, freight, and all charges have been paid. This percentage gives us a measure of the maximum possible amount of the price of the corresponding Australian product which is due to protection, and is applied to the value of the output of Australian factories in the third column to give the maximum excess cost or price of Australian manufactures, which is set out in the fourth column. (Varying proportions of this maximum are taken for the different classes in the final result.) The fifth column gives the salaries and wages paid in each industry. The sixth column gives the value added to raw material in process of manufacture, and includes here the value of fuel and power used, and of containers and packing.

3. The tariff items do not correspond exactly to the items of manufactured production. We have had to use a rough practical judgment in deciding which tariff items correspond

to a given production item and the extent of the correspondence. Occasionally it has been advisable to take the rate of duty from the tariff schedule instead of from the actual imports and duties paid.

ESTIMATE OF COST OF PROTECTED MANUFACTURES.

Class (a). Imports considerable.

Production Item.	Import Duty Per Cent. of Cost Landed.	Value of Output.	Excess Cost if Whole Duty Added.	Salaries and Wages Paid.	Value Added to Raw Material.
	%	£1,000's	£1,000's	£1,000's	£1,000's
Tiles and Earthenware	23	1590	370	678	1419
Glass, Ornamental	15	940	141	255	454
Wood-turning, Carving, etc. .. .	24	1211	291	336	648
Cutlery	14	109	15	38	83
Galvanized Iron	6	5016	301	1258	2300
Nails	18	274	49	41	87
Wire-working	10	3826	383	759	1278
Gas Fittings and Meters	23	377	87	163	255
Electric Apparatus	28	2358	660	793	1329
Lamps and Fittings.. .. .	24	87	21	22	51
Sewing Machines	12	80	10	22	75
Corn-flour	44	91	40	11	38
Blankets and Flannel	27	1733	468	399	849
Knitting Factories	32	5310	1699	1269	2687
Clothing, Waterproof	33	232	77	66	125
Dressmaking and Millinery	36	5294	1905	1507	2465
Furriers	16	1077	172	176	396
Hats and Caps	31	2054	637	622	1072
Paper	22	3638	800	869	1842
Musical Instruments	27	1492	403	431	805
Motor-bodies	39	5686	1876	1977	2900
Perambulators	21	157	33	55	84
Brooms and Brushware	27	660	178	180	298
Chemicals and Drugs	20	3955	790	649	241
Paints and Varnishes	17	2043	347	317	1030
Surgical, etc., Instruments	16	353	57	128	241
Jewellery	23	777	179	256	455
Matches	40	566	226	141	364
Carbide	31	46	14	16	34
Rubber Goods	35	6222	2178	1337	2655
Leather, Belting, etc.	24	1429	346	385	673
Umbrellas	26	282	73	59	131
	25	58,963	14,826	15,213	29,454

ESTIMATE OF COST OF PROTECTED MANUFACTURES.

Class (b). Imports small, relatively to home production.

Production Item.	Import Duty Per Cent. of Cost Landcd.	Value of Output.	Excess Cost if Whole Duty Added.	Salaries and Wages Paid.	Value Added to Raw Material.
	%	£1,000's	£1,000's	£1,000's	£1,000
Cement	24	2796	658	666	2067
Marble, Slate, etc. .. .	31	871	269	362	599
Brass and Copper .. .	26	2762	729	720	1460
Stoves and Ovens .. .	26	1452	377	675	957
Confectionery .. .	28	7098	1974	1427	3768
Boots and Shoes .. .	28	9739	2874	3285	4980
Clothing (Tailoring, etc.) .. .	33	11,118	3628	3665	5685
Shirts, Ties, Underclothing .. .	34	6427	2209	1547	2699
Ropes and Cordage .. .	24	1073	258	204	455
Saddlery and Harness, etc. .. .	20	456	91	160	234
Furniture .. .	32	6159	1941	2115	3461
Inks, Polishes, etc. .. .	27	1142	308	154	681
	30	51,093	15,316	14,980	27,025
Class (c). Special.					
Sawmills .. .	20	12,744	2549	3553	5950
Agricultural Implements .. .	30	3,819	1146	1502	2302
Engineering .. .	20	11,220	2244	4197	6582
Ironworks and Foundries .. .	20	15,678	3136	3451	5705
Railway Workshops, etc. .. .	26	15,590	4022	7815	9820
	22	59,051	13,097	20,518	30,359

(ii.) Excess Costs of Protected Primary Production.

5. We have given in the text of the report estimates of the cost, in the shape of increased prices, of protecting raw sugar and butter at £4m. and £3m. respectively. We give here a brief discussion of the protection of other primary products, omitting timber, which is included with manufactures.

6. The amount of protection given to other primary industries cannot be estimated without a close examination into the production of each industry and the consumption of its products. In some cases the protection is only required and used for a

certain season of the year; in others it is required and used only by those parts of Australia in good communication with New Zealand or the Pacific Islands; in others, such as wheat, it may be ineffective for years and come into operation only when all Australia has suffered from a serious drought.

7. We give in the following table some of the primary products for which protection is at least partially effective, and the maximum cost to the community, supposing the duty was always effective to its full extent:—

Product.	Approximate Duty.	Maximum added cost of home production.
		£1,000's
Oats	About 7%	160
Maize	About 16%	310
Hops	About 30%	100
Peas and Beans	About 6%	16
Nut	25 to 100%	22
Onions.. .. .	5/- per cwt.	135
Potatoes	1/- per cwt.	313
Cheese	2½d. per lb.	240
Eggs	9d. per doz.	2000
Fish	About 10%	100
Bacon	About 12%	500
Pork	About 10%	120
Meat in Tins	About 16%	1000
Citrus Fruit	1d. per lb.	300
Bananas	1d. per lb.	300
Tobacco	2/- per lb.	115
		<hr/> 5731 <hr/>

8. Some of the amounts specified, *e.g.*, for hops and tobacco, represent the real added cost of protection to Australia. For others, such as onions and bananas, they do not greatly exaggerate it. In other cases, such as eggs, the cost is greatly inflated, but it is difficult to estimate the extent.

There are other products protected for which no figures are suggested. The duty of 6s. per cental on apples no doubt protects the market from American competition during the spring and early summer. The protection of condensed milk is another obscure question. Bounties have been taken into account in §82 of the Report, but it may be noted that they included £217,000 for wine export in 1925-26. Something must also be allowed for the protection of wine consumed in Aus-

tralia. The protection of dried fruits has been estimated (§88) at £250,000.

9. From these considerations we make a very rough estimate of the cost of protecting primary products, other than sugar, butter, timber and export wine, at £3m.

APPENDIX O.

OTHER ASSISTANCE TO PRIMARY PRODUCTION.

THE AMOUNT, AND ITS INCIDENCE FOR BURDEN AND BENEFIT.

1. A very rough provisional estimate gives the following expenditure from revenue in 1926-27:—

	£1,000's.
Loss on State Railways	4,282
Agricultural Departments, silos, etc.	1,600
Mines Departments, and other help to mining ..	335
Water, Irrigation, bores, River Murray, etc. . . .	868
Soldier Settlements, Closer Settlement, Advances, etc.	1,100
Roads, bridges, jetties, etc.	852
Commonwealth aid to roads, with States' contribu- tions from Revenue	2,187
	11,224

2. The data are imperfect, and the list is incomplete. We think it safe to put the total at a minimum of £12m. A more detailed estimate for Tasmania, based on more intimate knowledge, gives a total of £920,000, or £4 8s. per head of population. The same rate per head for Australia would give a total of £27m., but the expenditure is no doubt much greater in Tasmania in proportion to population, partly from the greater railway loss and partly from the heavy burden of interest on road construction.

3. The following notes are added in explanation of the estimate:—

Railways: The suburban traffic and through passenger traffic are assumed to incur no loss, if not to make a profit. Consequently the whole loss is counted as an aid to primary production. This assumption no doubt requires some qualification. The loss on the Transcontinental Railway is not included.

Capital Expenditure: Only the interest on capital expenditure is counted in the table.

Roads: The road expenditure excludes the large expenditure from motor taxation.

Local Government Expenditure is not included on the ground that the money is provided roughly by the interests which benefit.

4. We have now to consider who receives the benefit and bears the burden of this assistance. It is to be noted that the estimate of £12m. excludes expenditure from motor taxation and local taxation, and generally any expenditure which is paid for mainly by the interests which benefit by it.

5. First, consider the burden. Of the £12m., £3m. is provided by the Commonwealth, and may be taken to come from Customs and Excise. This may be taken to fall almost wholly on industry by increasing the price of goods in common use. Much of it certainly comes from taxes on beer and tobacco; but beer and tobacco must be classed as "conventional" necessities, on the accepted criterion that for the greater part of their consumption people generally will sacrifice admitted necessities in order to obtain them. We may reckon, then, at least £2m. as falling on industry. The other £9m. spent by the States may be regarded as coming from direct taxation. The extent to which direct taxation imposes costs on industry is a controversial question. We may perhaps reckon as a compromise between extreme views that nearly one-third, or £3m., falls on industrial costs. We have, then, £5m. in all falling on industry and the remaining £7m. borne by surplus elements of income.

6. The £5m. will fall in the first place uniformly over all industry, and what falls on sheltered industry will be passed on as any other excess costs are. Anticipating the figures of §119 of the Report, we may say roughly that £3m. will fall on the export industries and £2m. on protected industry. The £2m. that falls on protected industry will have been taken into account in the actual excess prices of protected goods (£36m.), and are, in fact, part of the specific disability (see §111) of each protected industry.

7. The benefits of the £12m. have to be discounted because some of the assistance is not effective, *e.g.*, the loss on disused railways, and expenditure on transport and irrigation projects too big for any use that could possibly be made of them. For this we estimate roughly that £3m. may be deducted. The remaining £9m. may be taken roughly as assistance to primary production, both export, sheltered, and protected. We cannot without special inquiry divide the benefit accurately between

these three classes, but we may allot it roughly in proportion to the value of production in these three classes of primary industry, which is about 5 to 3 to 1. That will give us £5m. as a benefit to export industry, £3m. to sheltered primary industry, and £1m. to protected primary industry.

8. The net results are:—

Export industry receives £5m. and pays £3m. towards it. It receives a net benefit of £2m.

Sheltered primary industry receives £3m. without contributing anything except the small amount which sticks in passing on. (*Cf* §101.)

The £1m. received by protected primary industry, like the burden on protected industry (para. 6 above), is an element in the net specific disability of the protected industries, and is covered by the total estimate of actual excess costs in these industries.

APPENDIX P.

THE VALUE OF PROTECTED PRODUCTION.

1. The material for making an estimate of the value of protected manufacturing production (see §93) is given in the tables following para. 4 of Appendix N. The last column gives the value added to raw materials, obtained by deducting the value of raw materials used from the value of the output, but not deducting the cost of power, repairs to plant, and containers. The value is therefore not the same as the "added value" given in recent Commonwealth statistics, which deducts these costs, though it is the same as that used up to the year 1922-23. For our present purpose these costs represent production or services dependent on the tariff, as their existence depends on that of the tariff-protected industry. To get the total production dependent on the tariff, we have further to add the value of raw material, where that raw material is produced in Australia, and could not be exported at a profitable price if it was not used for Australian manufactures. The same result will be obtained if we deduct from the output value the cost of raw material imported or exportable at world's prices.

2. Sufficient information about the quantities and value of different kinds of raw material is not available for close estimate of protected production on the lines indicated above. For some items of protected manufacture, it is obvious that substantially all raw material is produced in Australia and cannot be exported. Such are beer, spirits, nails, glass, carbide, cement. In other cases, such as rubber goods, furs, jewellery, and biscuits, the raw material is clearly imported or exportable. But in a number of other items—such as most clothing items and confectionery—the raw material used comes into both categories, and we have had to make a rough judgment with insufficient data as to the amount to be combined with "Value added" to give the full quantity of protected production. Large errors may be expected in some individual items, but for the whole the result may be expected to be roughly accurate. Further information on quantities of raw material used and finished articles turned out is now being collected by the Commonwealth Bureau of Statistics, which will make a more exact estimate possible. Meanwhile we use the rough figures now possible as

a basis for the estimates discussed and set out in Sections 93 to 96 of the Report.

3. The following tables gives an estimate of the value of raw material which should be deducted from the output value because it is imported or exportable. The first column gives the industry, omitting those for which no deduction appears necessary. The second column gives a rough estimate of the proportion of total raw material to be deducted for that industry, and the third column the actual amount so to be deducted.

Industry.	Raw Material Imported or Exportable. Proportion.	Amount. £1,000's.
CLASS (a) Blankets and Flannel . . .	All	884
Knitting Factories . . .	Two-thirds	1,740
Dressmaking	" "	1,900
Furriers	All	681
Hats and Caps	" "	982
Paper	" "	1,796
Musical Instruments . .	One-half	343
Motor Bodies	" "	1,443
Perambulators	" "	36
Brooms and Brushware	" "	181
Chemicals	" "	762
Paints	" "	506
Surgical Instruments . .	All	112
Jewellery	" "	322
Matches	Two-thirds	135
Rubber	All	3,567
Leather	" "	756
Umbrellas	One-half	75
		<u>16,221</u>
CLASS (b) Brass and Copper . . .	All	1,300
Confectionery	One-third	1,110
Clothing (Men's) . . .	Three-quarters	4,200
Shirts, etc.	" "	2,700
Ropes, etc.	All	620
Saddlery	" "	220
Furniture	One-half	1,250
Inks, Polishes, etc. . . .	" "	230
		<u>11,630</u>

CLASS (c) As a whole One-sixth 4,800

4. We make the above deductions from the value of the output, and obtain the value of production dependent on the tariff as follows:—

	Output.	Deduction.	Production Dependent on Tariff.
	£1,000's.	£1,000's.	£1,000's.
Class (a)	58,963	16,221	42,742
Class (b)	51,093	11,630	39,463
Half of Class (c) . .	29,525	2,400	27,125
	<hr/>		<hr/>
	<u>139,581</u>		<u>109,330</u>

Note.—For Class (c), only one-half of the production is regarded as in any way dependent on the tariff. (See Report, §95.)

We may therefore put the value of protected manufacturing production with the subsidiary production of raw material at about £110m.

5. Nothing useful can here be added to the very rough estimates of primary production dependent on the tariff, which are set out in §95.

APPENDIX Q.

LUXURY EXPENDITURE ON PROTECTED GOODS.

We give below a rough estimate of the amount of excess cost of protected Australian products which falls on what may be classed as luxury expenditure, and so does not much affect industrial costs. The second column gives the proportion of the Australian output which we judge may be so classed, and the third column the corresponding percentage of excess costs estimated in Appendix N for the whole industry. In support of the comparatively high percentage taken for some Class (b) industries, it may be noted that it is the more luxurious goods in this class which account for most of the excess cost.

The fourth column gives the same proportion of the output, which may be taken to be the income spent on home-made protected luxuries. We require also the income spent on the corresponding imported luxuries, and the fifth column gives the same percentage of the value of corresponding imports with the duty added.

For our purpose it is essential that the same classification of luxuries should be adopted for both imports and home production. We are taking out a considerable amount of luxury expenditure in order to get more exactly the burden on industrial costs. It does not matter much that some luxury expenditure is not deducted. There are luxury imports with no corresponding Australian protected production, and these are omitted, except that we have added motor-chassis and petrol to complete the story begun by motor-bodies and rubber tyres, which are Australian protected products. We are trying to find the effect of the tariff on the general level of prices which enter into industrial costs. The effect of having some luxury expenditure in will be that some luxury prices will be included in this general level of prices at which we are aiming. But we are taking out a very considerable luxury expenditure, £55m., and what is left in will not appreciably affect our price-level as a measure of industrial costs.

Class of Goods.	Proportion Classified as Luxury Goods.	Excess Cost on Luxury Expenditure.	Value of Luxury Goods.	
			Home Produced.	Imported (with Duty).
	%	£1,000's	£1,000's	£1,000
Confectionery	50	493	3549	134
Dressmaking and Millinery	50	953	2647	1331
Knitted Goods	30	510	1593	756
Shirts, Ties, etc.	30	330	1928	327
Boots and Shoes	30	431	2992	143
Furs	100	172	1077	687
Hats and Caps	25	159	513	320
Motor-cars, Chassis	70	—	—	11,290
Motor Bodies.. .. .	70	1313	3980	
Petrol	70	—	—	5810
Rubber Goods	60	1307	3733	2260
Furniture	20	184	1232	72
Glassware	50	73	470	235
Jewellery	100	179	777	230
Musical Instruments	100	403	1492	1760
Other	—	500	2000	1800
		7017	27,911	27,155

We conclude, therefore, that £7m. of the £36m. excess prices on Australian protected products are on luxury goods of the value of £28m.; and that the value of imports of similar luxury goods, with duty added, is about £27m.

APPENDIX R.

DUMPING.

1. "Dumping" is generally the selling of goods in distant or minor markets at a lower price than in the home or chief markets. Its chief types are as follows:—

(a) *Permanent Dumping.*

2. Goods may be sold abroad at prices lower than home prices where mass production, beyond the absorbing capacity of the home market, allows of lower costs per unit, and therefore of lower prices. The home prices may be not greater than would be necessary if the output were confined to the home market, the lowered costs per unit being entirely due to the exports. Even if the export prices are lower than the cost per unit produced, the gain through lower costs on the whole output may make the export profitable. In such circumstances, higher home prices are not unfair to the home consumers, and the export trade even at lower prices is a gain to the exporting country. This is a natural development from the technique of production, but it makes it more difficult for such industries to establish themselves in new countries. Mass production tends to concentrate manufacturing industries in the older or most favourable locations.

3. The pressure on the home markets of rival firms, each seeking to gain the advantages of mass production, leads to trade combinations which seek to protect the price in the chief (generally the home) markets, and therefore to divert the surplus abroad. Such combinations have become common in recent years. The exported goods can be sold in foreign markets at a profit, even if the export price is considerably below the home price at the factory, provided the home market is effectively controlled and is protected by a tariff. The tariff is necessary as a rule, not only to prevent foreign goods entering in competition, but to prevent the exported goods re-entering. Transport costs may prevent re-entry, and they may also absorb the difference between prices to the home and the foreign consumers.

4. In these circumstances there may be no "world price," or parity, determined by production costs plus transport and other marketing costs. The price will be determined separately for each market according to the demand, and the conditions of local and international competition in each market. The exporter will get as much as he can above the minimum price which pays him to continue the volume of output. An import duty may therefore be paid partly or even wholly by him in order to retain his market. This appears to be the situation with American agricultural implements imported into Australia, and it would apply also to cinema films, whether a duty was intended to protect Australian production or not.

5. Some permanent dumping of this nature must be expected as a condition to be faced by Australian industry. Customs taxation levied upon such imports does not protect local production to the full extent of the duty. So far as it is paid by the foreign exporter, it is not protective. But usually it is only partially paid by him, and the extent is difficult to determine. With no duty at all, and no international dumping competition, the price of the imported goods would probably be the full home market price plus transport costs, and the extent to which the Australian price for the same commodity exceeds that price may be taken to represent the unavoidable costs of protection.

(b) Occasional Dumping.

6. A more serious form of dumping is that resulting from the over-production of goods beyond the capacity of their home and other chief markets, by foreign producers. To avoid a reduction in prices over the whole of the output, the excess quantity is dumped abroad, and costs of production bear no relation to the prices received abroad, for example, in Australia. If an import duty is imposed, the net return will be so much less to the exporter, but a duty based on normal conditions will not protect the Australian producer. And his business is liable to be invaded and perhaps destroyed merely because of some false judgment or dislocation overseas.

This class of dumping does not include the seasonal dumping of fashion goods, nor any other dumping which can be anticipated because it is fairly regular.

(c) *Malignant Dumping.*

7. A special class is that distinguished by the *intention* of overseas exporters. Goods may be dumped into a market to prevent the establishment of an industry producing those goods, or to destroy it. This policy is probable only where an international monopoly exists, and it is a precarious one to follow. The cost may easily be more than the market is worth, even if the object is attained. A subsequent increase in price is limited by the competition of substitutes and of the possible revival of the local industry.

It is virtually impossible to prove or disprove this intention, and therefore to distinguish this kind of dumping, and it is natural to exaggerate its extent.

(d) "*Exchange Dumping.*"

8. A very special kind of dumping is that due to depreciation of the currency of the exporting country. When the currency is actually depreciating the foreign exchange value of that currency falls. Internal prices rise also, but the fall in the foreign exchange value of the currency is relatively greater. The result is that the increased costs of production are less than the value of the goods sold abroad, in terms of foreign money.

9. For example, during the rapid depreciation of the mark, German prices rose, and therefore export prices. But the exports were sold for (say) Australian pounds. If foreign exchange rates had remained the same, the prices in pounds would have risen, and German exports to Australia would have stopped. But the value of the mark fell to a greater extent, and the price in pounds did not rise: it actually fell, because of the rapid depreciation of the mark in the foreign exchanges. The result was a stimulus to German exports, because more marks could be obtained for them by exporting than by selling at home. The effect was the same as dumping.

10. But this cannot continue longer than the currency continues to depreciate. When it has reached stability, the foreign exchange value reaches stability also. There is then no gain to be had from the exchange of currencies which can lead to dumping. As most of the disturbed currencies have now reached stability, this form of dumping can be neglected.

(e) *The Prevalence of Dumping.*

11. The important classes are the first two. Permanent dumping has to be recognised as a natural development and an important element in international trade. Australia has an importance in this trade much greater than its relative population would suggest, and it is a natural dumping ground. "Occasional" dumping was very prevalent after the war, and it may be expected to follow any similar disturbance. The "rationalization" and greater control of production and of markets overseas may be expected to reduce the mistakes of over-production, which are the main cause of this dumping, but they will also have the effect of increasing the dumping necessary to correct the mistakes that are made. The same applies to primary production and the surpluses from good seasons. Our fruit growers meet dumping in overseas markets, and they use dumping themselves. Prominent examples of Australian dumping are our Sugar and Butter exports. Australian producers are therefore always liable to suffer the consequences of fluctuations in trade elsewhere, and especially in their home market, with those industries most liable to fluctuation, *e.g.*, iron and steel and other constructional industries. The trend of modern developments makes dumping an aspect of growing importance.

(f) *Protection Against Dumping.*

12. Three interests need consideration before an approach to the social policy can be made clear. They are those of the consumers, the Treasury and the local producers. The consumers benefit from dumping as they benefit from all cheapness. The Treasury can benefit from an import duty which intercepts the difference between normal prices and the low dumping prices acceptable to the foreign exporter, and is a revenue duty chiefly paid by the foreign exporter. If the import duty is not levied, the benefit is shared between the consumer and the foreign exporter. The local producer suffers.

13. The protection of local production against dumping, to its exclusion, implies the sacrifice of revenue in the taxation paid from abroad. That taxation must be raised at home. The home consumer pays the difference between what the foreign exporter would have obtained without a duty, and the local producer's price. This difference can be estimated only by reference to the prices obtained in some other export market,

and then only very roughly. The important fact is that to any excess cost paid by the consumer must be added the loss of taxation that could have been raised on imports, and would have been paid by the foreign exporter.

14. The protection of local production against occasional dumping raises very difficult problems. If it is agreed that an infant industry offering prospects of establishing itself independently may be protected temporarily with advantage, it follows that an established industry may be protected temporarily with equal advantage against the effect of disturbances abroad. Even under completely free trade conditions an exception might be thought warranted if the existence of an industry was threatened by a purely abnormal and temporary condition. The loss to the community of an industry, even temporarily, may well be greater than the temporary gain to consumers.

15. Yet the administrative difficulties of special and temporary protection are very great. It requires quick action both in applying and removing special duties, and a degree of delicacy in adjustments not to be expected from our administrative machinery. All that can be reasonably expected is that the shock to local industry should be reduced. Dumping duties cannot be expected to protect an industry against all the vicissitudes of foreign competition. Similar conditions occur in the home market, and dumping is common enough within the home market, and by our own people in other markets.

16. We are unable to go more fully into this special question, and if this Appendix illustrates the difficulties and the need for the fullest information, and for the most careful revision and administration of our dumping duties and of our general tariff where dumping conditions obtain, our object will have been served.

Among the papers prepared for the International Economic Conference of the League of Nations in 1927 (many of which contain very important information) are two which we should mention here for reference. One is a Memorandum on Dumping by Professor Viner, of Chicago, dealing with the general question, and the other a Memorandum dealing specifically with "exchange dumping." These are published as League of Nations Documents: Economic and Financial, 1926, II., 63 and 66.

APPENDIX S.

PREFERENTIAL TRADE.

(a) The Aims of Preference.

1. The policy of preferential trade within the Empire has received much support in recent years in both Great Britain and the Dominions on the rather vague assumption that it will stimulate trade within the Empire, and thus promote its economic development. Its association with Imperial sentiment has given it a wide popular appeal, and it has had much influence with tariff makers in all parts of the Empire. Advocacy of preference in both Great Britain and the Dominions is, however, most active among those who favour the policy of protection. It is in reality a form of protection, applied by reciprocity between different autonomous customs areas. It presupposes the existence of duties upon foreign goods, and where revenue or protective duties are levied upon British goods the duties upon foreign goods are levied at higher rates. If there was no conflict of interest between Dominion and British tariff policies the political advantages of such a system might be considerable. But the young industries of the Dominions require protection against imports of manufactures from Great Britain, whilst the need for cheap raw materials and foodstuffs in Great Britain weighs heavily against the taxation of foreign supplies of these goods. The Dominions may find it expedient to grant British preference as part of a general protectionist policy; Great Britain cannot reciprocate by taxing foreign supplies of raw materials and foodstuffs. There is, therefore, no common basis for action, and the costs and benefits of a general system of preference would weigh unevenly on the different parts of the Empire.

2. We shall briefly examine the economic considerations between Great Britain and Australia. The British consumer is to pay more for certain Australian products than he need pay in the world's markets, in order that the British market for Australian goods may be safeguarded. It is expected that Australian economic development will be accelerated, increasing her capacity to absorb British immigrants and to purchase

British goods. The Australian consumer is to pay more for certain imported products than he need pay in the world's markets, in order that the Australian market for British goods may be safeguarded. It is expected that British imports to Australia will be increased and that Great Britain will then be able to purchase more from Australia. The aim is to relieve unemployment in Great Britain by promoting emigration and increasing British exports, and to accelerate Australian economic development and expand her exports.

3. Substantial preferences exist through national and sentimental connections, but these are increased by taxing or super-taxing foreign goods, and an extension of this mutual protection is advocated.

4. Under this exchange of protection each country incurs costs, although at present they are small. Great Britain gains some additional Australian trade and produces more of certain manufactured goods than it otherwise would, and the cost is the protection afforded to Australian products in the British market. Australia gains some additional trade in Great Britain, and produces more of certain primary products than it otherwise would, and the cost is the protection afforded to British products in the Australian market. It is impossible to judge how these costs and benefits balance. The benefits are obvious, but the costs need to be explained.

(b) British Policy.

5. In estimating the cost of preference to Great Britain, we may take the preferential duty as a normal revenue duty and consider the cost of imposing a higher duty on imports from other countries. (The preferential duty may, of course, be nothing at all.) The price to consumers is in general raised by the amount of preference for the total imports from all sources, but the Treasury has obtained in taxation the excess cost of the imports under the general tariff. The burden on industry comes in two ways:—

- (a) The additional customs taxation on "general" imports is passed on to consumers, and bears more heavily on costs of production than the corresponding direct taxation.

- (b) The amount of preference on preferential goods adds to the general level of prices without any compensating additions to Government revenue. If goods in general use are the subject of preference, the amount of preference will become almost entirely a burden on industry, falling in the last resort on the export industries and the industries exposed to competition from imports.

6. So long as preference is confined, as at present, to luxuries or semi-luxuries, the cost to British industry is small. But if preference was extended to necessities, or "conventional necessities" of any importance, the cost to British industry would be very serious, and Australia, to make fair compensation, would have to give very much greater *effective* preference to British goods than she does at present. It is doubtful if such greatly increased preference is possible with due regard to Australian industry. Australia does not desire to encourage imports from any country, and British manufacturers are the chief competitors of Australian manufacturers. Despite the existing Australian preference to British goods, the share of Great Britain in the import trade of Australia has declined since the war. An increase in British imports to Australia could be achieved only at the expense of Australian production, and there is little likelihood of Australia lowering her duties upon British goods to permit this. Hence Great Britain could not expect to secure compensation in the Australian market for her loss of trade in other markets due to the increasing costs imposed by granting preference to Australian goods.

7. The extension of British preference (protection to Australian products) is limited by these vital facts. It is at present confined to semi-luxuries such as fruits and wines, which comprise less than a half per cent. of the total British imports. Even this small degree of preference has come about rather fortuitously from reductions in taxation imposed on semi-luxuries in Great Britain during the war. An extension of British preference that would substantially benefit Australia would require the imposition of duties upon foodstuffs and raw materials most of which are now admitted free. The common objection to such extensions in Great Britain seems to be soundly based.

8. An answer made to this objection is that the Dominions could supply the British market without dependence upon foreigners, and Dominion protection could be expanded. It is assumed that sufficient supplies of certain products could be obtained in the Dominions to satisfy British requirements *without an increase in price*. We shall comment upon this assumption as it affects Australia. Nothing would be gained by granting preference to wool. The British Empire supplies nearly 90 per cent. of the British imports of wool, and it is important that Australia should have free access to foreign markets, which at present take nearly 60 per cent. of Australian exports of wool. Preference to sugar would be more beneficial to other Empire supplies than to Australian production. Wheat and dairy products are the only important Australian exports that would benefit. They would both have to compete with large supplies from other Empire countries. We have touched on the possibilities of the extension of Australian production of these products in Part VI. Both are limited by the disabilities of soil, climate and transport, and a substantial increase in output would be possible only if prices were higher. Even then Australia could not compensate Great Britain for the loss of imports from other sources. Great Britain would thus, in any case, have to pay more for her imports, and the increased costs would fall upon her exporting industries. She would have to forgo some imports of other commodities from other countries, the purchasing power of which, for her own exports, would be reduced.

(c) *Australian Policy.*

9. Australia grants a considerable degree of preference to British goods by taxing foreign goods at a higher rate. This is, of course, much less effective than would be a preference brought about by reducing the taxation on British goods. Such a reduction could only be made by abandoning some of the protection afforded to Australian industries and by moving towards Imperial free trade. The obstacles to such a movement are imposed by the Dominions and, in particular, by Australia, which insists upon a substantial protection to its own manufacturing industries with which British imports would compete. The policy of preference cannot, therefore, establish free trade within the Empire. It can only develop British trade at the expense of foreign trade.

10. It is difficult to measure the value of Australian preference to British goods. The rebates allowed in the Australian tariff have been estimated at about £8,000,000 per annum, that is, if the British goods upon which preference is given were imported at the rates of duty payable upon equivalent goods from foreign countries, the increase in the duties would amount to £8,000,000. A crude comparison of this kind is of little value. Preference is only of importance when it is applied to the particular goods with which British exporters have difficulty in competing in foreign markets. In the case of those goods in which Britain has a definite supremacy without preference, the margin of preference, however great, does not lead to an expansion of British trade in Australia. This is the essential point to consider in estimating the total value of the preference to Great Britain, and it will be necessary to analyse the trade fully before arriving at definite conclusions. The Australian duties on British products have been increased in recent years, but the margin between those duties and the duties on foreign goods has been further increased. British exporters have been placed at a disadvantage with Australian producers, but at an advantage compared with foreign exporters. The estimate of £8,000,000 as representing the rebate on British exports cannot be considered as a measure of this advantage. That Great Britain does receive a substantial benefit in the Australian market is quite obvious. Given the protectionist policy of Australia, the granting of preference places Britain in a favourable position in the Australian market.

11. Whatever the actual amount of preference given in Australia, it must involve a cost additional to the costs imposed by the tariff, unless the preference is restricted (as it is in Great Britain) to luxuries or semi-luxuries. To be effective the preference must give British exporters some advantage over their competitors in the Australian market. On goods in which Great Britain is at a disadvantage the price in Australia will tend to be the cost of free imports plus the higher duty on non-British goods. The duty on British goods may be taken as the margin of protection desired, but this is not the effective duty if Great Britain takes advantage of the preference given. Hence preference involves an additional cost to consumers, and this cost is ultimately passed on to the export trades, the output of which is thus restricted. The cost of Australian imports is

increased, as is the cost of British imports by the preference granted in Great Britain. Imports into Australia are reduced, and the higher cost of Australian exports necessitates compensation in Great Britain through increased preference. It would, therefore, appear that the costs of preference in both countries are greater than the benefits to be derived. (The value of preference and its cost are discussed also in the Report, §§80 and 92.)

12. These costs in Australia would be reduced to a minimum (as they are in Great Britain) by the choice of luxuries and semi-luxuries as commodities for preferential treatment. These could be admitted free from Great Britain or, where revenue was desired, at lower rates of duty than the same goods from foreign sources. If there was no protective intention, the costs would be limited to the added price on British supplies. This is the most promising field for preference if the ill-effects are to be avoided. Any extension beyond these classes of goods in Australia or Great Britain probably induces greater costs than benefits. These costs and benefits would be shared unevenly by the two countries, just as the costs and benefits of the Australian tariff are shared unevenly by the six States. This conclusion is reinforced by the considered view of the most eminent of modern economists. In a somewhat prophetic passage in a memorandum on *England's Fiscal Policy* in 1908, Professor Alfred Marshall exposed the weaknesses of preferential arrangements as follows:—"There is danger in the fact that in these schemes the gain which either side is invited to expect is greater than the loss which she is to incur; and yet, as the scheme includes differential duties which are essentially wasteful, the aggregate material gain must in my belief be less than the aggregate material loss. The schemes would be less dangerous if they started with the frank statement, 'Imperial unity is an ideal worth much material loss: let us consider how best to share this loss among us!' As it is, the schemes appear to me likely to breed more of disappointment and friction between England and her Colonies than of goodwill and the true spirit of Imperial unity. And, if approached in a spirit of greed rather than of self-sacrifice, they are likely to rouse animosity in other lands, and to postpone the day at which it may be possible to work towards a federated Anglo-Saxondom, which seems to be even a higher ideal than Imperial unity."

APPENDIX T.

THE PRINCIPLES OF INTERNATIONAL TRADE AND THE BALANCE OF TRADE AND PAYMENT.

1. In the course of the Report we have had occasion to discuss the principles of international trade as they have been affected by tariff policy, but we have made no attempt to deal with them comprehensively. This Appendix is added for the purpose of giving a brief but general summary, and a more particular account of the balances of trade and of all obligations between Australia and other countries.

2. The simple principles of international trade would be more easily understood if they were thought of as principles which apply to individuals engaged in personal trading, or to groups of individuals operating separately in domestic trade, either in one town or in one State, or in different States. The fundamental principles are the same: the complexities which seems to give them a different character are due to distance, to differences in language and currencies, and to the fact that international trade has to pass over national boundaries, and to meet the special obstacles of different laws, of tariffs, and of national interests. Before Federation, Australia had more "international trade" than at present; it was called "inter-colonial trade." It differed from international trade only in that the language and currency were the same for both parties. The special obstacles of different laws, of tariffs, and of "national interests" were abolished by Federation.

3. The importance of international or external trade is commonly exaggerated. It is always small in proportion to domestic trade, including what in Australia is now "interstate trade"; and its volume is no indication of the prosperity of a community. Tasmania has a larger *per capita* external trade than N.S.W., but it is not more prosperous, and the same applies as between, say, Belgium and the U.S.A. The United Kingdom and Australia each have a large external trade in proportion to population, because they have special (though different) aptitudes for export products; it suits them to exchange just as it suits town and country to exchange products within any

national area. But popular attention is concentrated upon international trade because records are kept which make it conspicuous, and national boundaries give opportunities for its taxation and regulation.

4. The international trade, both total and *per capita*, of different countries, is given in the 1928 *Year Book* (No. 21) at p. 236. Examples of trade per head are as follows:—

New Zealand	£60	France	£19
Australia	50	Germany	15
Canada	50	The U.S.A.	15
United Kingdom	39	Italy	8
Belgium	35	Spain	6
The Argentine	30	Japan	6

The external trade of Tasmania is over £80 per head.

(a) *The Natural Course of Production and Trade.*

5. The large international trade *per capita* in Australia is due to the fact of its specialised conditions. Its settlement and production has been due chiefly to the fact that its wool, wheat and minerals have been saleable at a profit in the world's markets. And just as it has been profitable to the pastoralist, the farmer and the miner to produce these things and to buy their requisites rather than to make them themselves, so it has been profitable to the country. The farmer might make his own implements, but it pays him better to buy them, and the same applies to all the goods and services he consumes but does not produce.

6. In the natural order of things some of these goods and services can only be produced near at hand, and others can be produced most economically in Australia. Other goods must be imported, because they cannot be produced at all in Australia. Others again can be produced, but only at a greater cost than imported goods. This is the position in Australia at present, and the accessory (including the "secondary") industries are of two sorts: the larger group being the sheltered industries, which follow naturally from the demands of the primary export industries, and from each other's demands, and the small group being the protected industries.

7. The extent to which the unsheltered secondary industries become established depends upon (a) the size of the market provided by the export and other natural industries, and (b)

the conditions of foreign competition. The size of the market, (a), in turn depends on the two factors of natural resources and foreign demand for export products. If both of these are extensive, the home market grows and makes possible the establishment of industries which depend upon the size of their output for their capacity to produce in competition with imports. These industries are added to those already existing, and each extension of the whole market brings an increase in the number of industries. The result is an increase of production, not merely in proportion to the increase in exports, but a progressive increase because of the new industries added.

8. The following are the cumulative effects:—The industries so established themselves increase the home market and are able to reduce their costs still further as that market grows, and to export in competition with the countries originally imported from. In turn the growth of these industries absorbs more and more of the production of the original primary industries. Both exports of primary materials and imports of accessory goods grow proportionately less; and the export trade changes its character. This cumulative effect is demonstrated by the experience of the U.S.A., which has had remarkably favourable conditions, both of resources and markets.

9. A comparison may be made with a manufacturing business. It first specializes in the production of something for which there is a profitable market, but if the business grows it may become profitable for it to produce many of its own requirements rather than to buy them from others, and it may eventually sell these also.

(b) The Importance of Natural Resources.

10. We have shown that international trade, like all trade, begins by specialization on the production of something for which a nation (like an individual) has a special aptitude. This is called a "comparative advantage." This specialization may be exploited to the limits of physical and market capacities. It has been suggested that the extent of these capacities determines the extent to which a country so specializing may develop other industries incidentally, including secondary industries competing with imports.

11. But a qualification has to be made. Countries have resources, both natural and human, for this accessory production

in varying degrees. If an area is very highly specialized (as is Broken Hill), it does not develop accessory industries. The same principle might apply to a continent. On the other hand, an area may have diverse resources, some of which only await a local demand of sufficient magnitude to be exploited.

12. The suitability of these other resources, together with the scale of possible production, will determine where and when production competing with imports can be established. Cheap accessible coal is one of the most important of these resources. If all other resources are equal to those of competing countries, nothing but the necessary experience, human capacity and large-scale operations are required to establish local production of many staple commodities formerly imported. The commodities which continue to be imported continue because other countries still have greater advantages in their production.

13. The basis for all this local production is the home market, provided in the first place by the export industries, and secondly by industries dependent on them—the naturally sheltered industries and services not competing with imports. A diversity of export industries will attain a greater volume than a narrow range of exports, because it is less likely to exhaust the capacity of the external market. It follows, therefore, that the richer a country and the more varied its resources, the more it is likely to build up industries to supply its own needs.

14. We have shown in the Report (§§167-172) that the standard of living in a country is determined by its natural resources and human capacity in proportion to population. Both capital and population tend to migrate with increasing ease to and from natural resources in different countries—of soil, climate, minerals, etc. If a country is poor in these, it will have a small population or a low standard of living, or even both. But it will have an international trade by concentrating on the best of its poor resources. Whether a country is rich or poor, it will pay its producers best to concentrate on the best resources, just as it pays an individual. For example, it pays a business man to concentrate his special abilities and employ a clerk to economize his time. He "imports" the services of the clerk with a profit to himself. Similarly, a country imports the products which would be a waste of its special abilities to produce itself. The two countries so exchanging may have different wage levels and different standards of living, the differ-

ences being due to the differences in resources in proportion to population.

15. We may note that with the growing importance of machinery and of management in industrial production, differences in wages become of less importance in costs, and a high-wage country is often able to establish an industry in competition with a low-wage country, if the scale of its operations makes possible the highest economy of labour. These new industries become established either because the conditions of the home market make them as attractive as the older export industries, and offer the same earnings, or because the older export industries can no longer be expanded with the same advantage, and offer less per head than before. In the latter case the population will have grown beyond the capacities of specialization for export.

16. These are the principles which explain the *fact* of international trade, and the natural growth of local industry in a new country whose inhabitants follow the most profitable occupations without interference. In practice the course of development is interfered with by tariffs and other disturbing influences. But the natural and human resources of a country remain the dominating influence on its production, its trade and its standard of living.

(c) *The Effects of Tariffs.*

17. The cause of international trade is the differences in both natural and human resources in different countries. Were the world one political unit free from tariff and other impediments, we might expect specialisation to be carried to its fullest economy. The natural development would be the same concentration of manufacturing and of commerce, according to geographical conditions, but to a greater degree than at present. Certain parts of Europe and North America would become "the workshops of the world," and "rationalization" would bring about such an international division of labour that standardized articles would be produced, perhaps only in one place, for the whole world market. Goods would be at their cheapest production costs: population and mechanical production would be even more intensely concentrated in some places, and other places would be more sparsely populated. Trade would be multiplied extensively, and both goods and people would move freely

from place to place. There would be a paradise of material economy, provided there was peace.

18. National boundaries prevent this, and among the impediments of different languages, sentiments and laws are the numerous customs tariffs, and restrictions upon immigration.

19. A customs tariff is usually designed to handicap imports. It might be applied in the interests of permanent national strength to reduce exports, where the exports are of wasting assets, such as minerals. By placing duties on imports and choosing to produce the goods itself, a nation deprives itself of the benefits of international specialization and cheapness in order to enjoy the benefits of local production. The world as a whole is the poorer. A larger world income would be obtained for the same population by free exchange of goods. But for this particular country the case is different. A larger income per head will be obtained by free exchange of goods, but it may be for a smaller population in that country. How much smaller will depend on how readily protected production and export production would expand with an increase in price by protection and a decrease in costs respectively.

20. A country with very rich gold mines, which provided all the exports, and no lower grade ore, could gain a very considerable population by using the profits of the mines to subsidize manufacturing industry, unless its disadvantages in manufacturing were very exceptional. But if the country depended for its exports on low grade ore, mostly near the margin of production, with large resources just below the margin, no appreciable increase of population could be achieved by protection in any form. Protection, in fact, would be disastrous, unless the comparative disadvantage in manufactures was very slight.

21. If "protection" be used in the generalized sense of the subsidizing, directly or indirectly, of any form of production, whether for home-production or export, then the extent to which population can be increased by protection (in the particular country, *not* in the world) will be dependent on the quantity of its natural resources, and their richness, or in other words, the total surplus value of its potential products in the world's market above the costs of their production.

22. For Australia, wool takes the place of gold in our illustration of para. 20, though gold has contributed largely in the past to the surplus available for protection. In Australia, we

have judged that a very considerable increase of population has been made possible by the policy of tariff protection, though with some reduction in the average income per head. Whether this large population is worth while is a problem involving other than economic considerations, but its economy depends on how much the reduction in income per head may be. According to the conclusions in our report, we might have had in 1926-27, instead of six million people with an average income of £100 per head, some smaller number such as five million people with an average income of perhaps £110 per head.

23. The problem is, therefore, whether Australia, or any other country in similar circumstances, could have expanded its rather specialized exports under free trade conditions sufficiently to have maintained the same income for the same population as at present with tariff protection. Consideration must be given to the capacity of each group of industries to absorb population, to provide employment, and to maintain the standard of living, as well as to the primary problem of natural resources and markets.

24. While, therefore, the effects of tariffs are detrimental to the material prosperity of the world as a whole, and doubtless are commonly detrimental to the prosperity of individual countries, they may in special circumstances be no worse than the effects of dependence on the world's markets. And they may even be better if the tariff is judiciously used. The case against tariffs is that they are not judiciously used.

25. We should not omit some reference to the experience of older and larger countries, from which popular and erroneous generalisations are often made. The prosperity of the U.S.A. and of Germany before the war are cited as consequences of protection, simply because those countries have had protective tariffs. Spain, and other less successful protectionist countries, are not mentioned, although their experiences are equally apposite, and the prosperity of the United Kingdom under free trade is not accounted for. The explanation of differences in prosperity is not to be found in tariff policy, which is a minor and much exaggerated influence, but in the resources* available to

*These resources include, of course, the capacities of its population. Successful manufacturing production depends not only on the general capacity of the population for skilled work in factories, but still more on the supply of business capacity and initiative, on an endemic itch to get things made well at minimum cost, which drives the best brains to manufacturing production. The presence or absence of this higher type of business capacity among a country's resources may well be the discriminant between success and failure for the result of a policy of protection.

the respective countries, and the large free trade home markets which have developed from these resources. Britain grew to greatness under protection, but not necessarily because of it, and her greatness was vastly enhanced under free trade. German prosperity began with the abolition of petty tariffs, and there is no doubt that if Europe had the free trade area of the U.S.A. it would be more prosperous. No Australian would argue that greater prosperity would be enjoyed if we were to revert to pre-Federation tariffs and each State were to attempt to become self-contained.

(d) *The "Real Terms" of International Trade.*

26. An important aspect of international trade is the gain which it may bring, over and above that of specialization, to one party or the other. The values of imports and exports do not inform us as to the profitableness of the exchange, or whether a country gets more or less goods for its exports at different times. If the world's prices for (say) wool are increased this year more than the world's prices for (say) cotton goods, we may send away the same quantity of wool and receive a larger quantity of cotton goods in exchange. Similarly, if the price of wheat were to fall, while the prices of our imports remain the same, we should get fewer imports per bushel of wheat. The prices of goods sold in the world's markets are constantly changing with the changes in supply and demand.

27. It is possible to measure the movements of prices for different groups of commodities, and separately for export and import commodities. This is done for exports by the Commonwealth Statistician and for imports by the N.S.W. Statistician, and Dr. F. C. Benham has brought the two together in his book, *The Prosperity of Australia*, page 119. The index numbers are open to criticism, and only broad inferences should be drawn from them. The following movements appear beyond doubt:—

- (i.) From 1901 to 1906, the prices of Australian exports increased progressively, compared with the prices of imports.
- (ii.) After 1906, export prices fell away in comparison with import prices for a year or two, and thereafter oscillated till 1915, but keeping above the relatively low level of 1901.

- (iii.) From 1916 the ratio of export to import prices fell heavily to a very low level in 1921-22.
- (iv.) The next three years showed a strong recovery to a record high level in 1924-25.
- (v.) The next two years show a decline again, and probably 1927-28 and 1928-29, for which figures are not yet available, show a further decline, leaving the ratio very much where it was in 1901.

28. There has, then, been no steady movement of export prices in comparison with import prices, which can be related to the growth of protection; but the recovery since 1921-22 has put the exporter in a very much better position than during the war years, and enabled him to carry the increase in tariff costs without embarrassment up to 1925-26. The relative decline in export prices compared with import prices for the next three years has, however, brought upon him the full burden of the increase in costs, accumulated during several years when favourable prices made him unconscious of the growing level. His consciousness of it now is therefore acute, and apt to be exaggerated.

(e) The Balance of Trade.

29. In all exchanges there are at any time outstanding balances owing on one side or the other, and these are of importance in relation to the whole of the business done, or to the total resources of the parties engaged. A 10 per cent. "adverse balance" is of more importance to a country (or to a business) largely occupied with external trade than to a country with a smaller proportion. As Australia is a country with a large external trade, its balance of trade is of importance. An adverse balance may mean over-buying with bank credit, with consequent dislocations and financial stringency, or it may be due to investments of savings from abroad—a normal condition of the economic development of any new country.

30. For the five years ending June, 1928, the goods imported into Australia exceeded in value the goods exported by about £44m., or nearly 6 per cent. of the imports; in other words, purchases exceeded sales by that amount. This is a large excess, and if there had been no other transactions this indebtedness could scarcely have gone so far. But the other transactions have been on so large a scale as to determine the balance of trade

in goods. The chief of these transactions have been public borrowing abroad and payments of interest; the latter obligation greatly exceeded the balance of indebtedness on account of goods imported. Under Australian conditions, therefore, the balance of trade in goods can be understood, and its significance can be appreciated, only by reference to the larger balance of payments arising from the total of all credit and debit items in the international account.

(f) The Balance of Payments.

31. The trade in goods is the principal but not the only element in the accounts which have to be settled between any one country and all others. It is the subject of the most exact statistics, but, unfortunately, there are no records of the numerous other items which go to make up the total payments. These other items are known as "invisible" exports and imports. Many of them are the transactions of private individuals and companies, and they include private investments from abroad, funds introduced by immigrants, expenditure by tourists, and other items which add to the payments received in Australia for our exports. On the other hand, there is interest sent abroad on private accounts, insurances, freights and commissions, and other charges for services, due from Australia. Finally, there are the very large items arising out of public investments and public debt; on the one hand interest on and any repayments of old debt, and on the other hand new loans raised abroad. In these circumstances it is possible to have an adverse trade balance and at the same time a favourable cash balance. In the year 1925-26, Australia imported more than was exported, but borrowed so much more than the interest obligation that the year ended with an increase in the funds available abroad. The minor unrecorded items, though they appear nearly to balance one another, may have contributed in some small degree to this result.

32. The trade balance by itself, therefore, is no indication of the country's financial position. The loans certainly increase the capital obligations and the interest payable in the future; but in the year for which the balance is calculated they add to the cash resources. The visible trade balance indicates chiefly the extent of the country's dependence on external loans, and that may reasonably be considerable for a country at Aus-

tralia's state of development, provided that the loans are so expended as to bring about, directly or indirectly, a real increase in production for export sufficient to pay the added interest and sinking fund.

(g) *Natural Adjustments.*

33. The borrowing and lending of *income* disturbs the natural tendency for exports to balance imports, and it must be distinguished from the borrowing and lending of bank credit. So long as real wealth is being loaned to a country, its imports may exceed its exports and current obligations may be postponed. But with the mere financing of trade this cannot be done, and neither an adverse nor a favourable balance of trade, or of total payments, can be continued indefinitely. The resources of financial institutions are ample to cover the normal balances of ordinary trading; but they are not large enough to go further. Unless a deficiency can be repaid at an early date, it cannot be allowed at all. Bank funds must remain liquid: they cannot be used to an abnormal extent for financing international trade without reducing the amount available for all ordinary business purposes.

34. Apart from specially contracted loans, such as those made by Governments and private interests, and derived from income in the lending country, there cannot be any great variations between imports and interest on the one hand and exports on the other. Any variations that do occur must bring their own consequential adjustments.

35. These adjustments may be explained most simply by assuming the absence of any transactions except the exchange of goods between Australia and Great Britain.

36. The financing of both exports and imports is done by the banks in the ordinary way of business as part of their regular routine, and if the values are equal their work is largely bookkeeping, for the debits and credits, both here and abroad, cancel one another. Every export requires a payment by the bank in Australia and to the bank in London. Every import requires a payment by the bank in London and to the bank in Australia. If imports and exports balance, the payments in London and the payments in Australia balance also; the banks in London receive the payments for Australian exports and pay the same funds for Australian imports; the banks in

Australia receive payments for Australian imports and pay the same funds for Australian exports. All this is done for a multitude of different clients and through many agencies, but the net effect is a mutual cancellation of indebtedness. It is not essentially different from the banking transactions in any town or State.

37. In practice, of course, the payments never balance so exactly at any place and time, and the financial resources of the banks are normally occupied in a constant adjustment of relatively small balances.

38. We come now to the abnormal condition of an adverse balance of trade in goods, assuming that the only transactions are in goods, and that no credits are provided by loans derived from income outside the resources of the banks.

39. If the balance of trade becomes abnormal it threatens the resources of the banks, which are obliged to take action to protect themselves. If Australian imports exceed exports there is a strain on the funds of the Australian banks, both in Australia and in London, for their total credit is being absorbed to an abnormal degree in financing international trade. This can best be explained by noting the effects first in London and then in Australia.

40. If Australia is buying more than her exports will pay for, the London offices of the banks are being called upon to pay more than they receive. They therefore require a transfer of funds from Australia. In default of payments for Australian exports these funds can come only from the resources of the banks themselves. The deficit in London is a liability of the Australian banks, and this liability reduces their capacity to finance ordinary business in Australia. The obvious remedy is to curtail advances to importers and to reduce their liabilities in London, until the receipts in London for exports from Australia approach equality with the payments for imports, and the strain is removed.

41. The banks are able to do this in two ways: either by reducing the overdrafts and advances on which importers operate, or by increasing the exchange charges, or by both methods. The Australian importer must then either buy less or pay more for what he buys, or both. He may be asked to pay £101 instead of £100 10s. in Australia, for a payment of £100 in London, and his goods will cost him so much more. At the same time the

Australian exporter will receive a little more for his exports: possibly the same 10s. in each £100, and exports will be stimulated. Meanwhile, the financial stringency caused by the curtailment of credit in Australia will have reduced the demand for goods, including imports. The chief effects are that the profits of the importers are reduced by high exchange charges, by a reduced volume of business, and by a reduced demand for their imports: importing is discouraged, and the adverse balance is corrected. Trade conditions which have been inflated by overbuying adjust themselves naturally after a short period of inevitable dislocation.

42. This explains the terms favourable and unfavourable as applied to the balance of trade. An adverse balance is unfavourable to imports.

(h) The Effect of Interest and Loans.

43. We have shown that the balance of trade is only the largest item in the balance of payments, and that the other principal items are loan transactions and interest payments. These items amount to about 20 per cent. of the total trade in goods. Our obligations abroad are made up of payments required for imports, for interest and for minor liabilities, both public and private. To meet these we have exports, minor items not recorded, and new loans. If no new loans had been raised abroad and placed to our credit in London banks during the last ten years, we should have had, perhaps, 20 per cent. fewer imports for that period.

44. The interest and loan transactions on public account are not less important than the trade in goods, and they are of sufficient magnitude to determine the actual balance of exchange liabilities at any time. Their importance is obscured by the fact that in recent years they have tended to cancel one another, the loan credits almost balancing the interest liabilities. The most important item, because the most precarious one, is the loans raised abroad, for any variations in borrowing abroad have the same effects on the exchange as variations in the balance of trade, and through the exchange on bank credit and business conditions in Australia.

(i) Imports and Loans.

45. We may refer with advantage to some remarks in Part III. (b) of the Report, where we deal with the relation between

overseas borrowing and imports. The inevitable conjuncture of the two things may be understood from an explanation of the process.

46. A loan raised abroad becomes an Australian credit in London, and a more favourable balance is created. The funds are wanted by the Governments in Australia to pay contractors, wages, etc., and the Australian banks make advances, which immediately become deposits also. The favourable balance allows the banks to accept liability for payments in London; trade is made brisker in Australia because of the loan expenditure, and importers respond. They purchase goods abroad; the banks pay for them out of the credits in London, and the importers repay the banks in Australia. In this way the imports bring the proceeds of the loan to Australia, and the cash is received through the sales of imported goods.

47. The loan and credit it creates abroad makes trading conditions easier for importers, and in specific lines of goods where competition is keen, the local producers may suffer. But the demand for goods created by the loan is shared by Australian producers as a whole. The trade that the importer gets is not at the expense of Australian producers, except where the exchange condition and the larger scale of business allow of specially advantageous purchases abroad. The trade is additional trade, and the importers get most of it simply because the loan must come to Australia in some tangible form. It is, in effect, the loan of a portion of the production of other people, and it is ineffective until that production is transferred.

48. A loan raised in Australia certainly does not increase imports, but neither does it increase income and the demand for Australian goods. The Australian loan leaves the volume of Australian production much as it was before. An overseas loan increases the demand for goods in Australia, and while it does not diminish the demand for Australian goods, but rather increases it, its chief effect is inevitably to stimulate still more the demand for goods from abroad.

49. We may conclude with a note on the effect of any attempt to prevent this natural consequence of overseas loans. The alternative to an import of goods is an import of gold, which would be the importation of some of our exports. If the gold were to be used as money it would increase prices just as the issue of notes increased prices during the war. The higher

prices being peculiar to Australia would attract imports, and the higher costs would discourage exports, so that there could be no increase in production or employment.

50. If neither gold nor goods was imported, the banks would be unable to make advances to the Government, and their credits would remain abroad; the sole effect being to make more difficult the transfer of our normal export credit to Australia.

51. The absurdity can best be imagined by supposing Australia to have neither exports nor imports, nor any obligations abroad, and then to raise a loan while refusing to accept anything from it; or by supposing an individual to borrow a pound and refuse to buy anything with it.

APPENDIX W.

THE EFFECTS OF THE TARIFF UPON STATE FINANCES.

1. In the Report we have dealt with the effects of the Tariff upon Australia as a whole. We have limited the scope of our enquiries as much as possible, and have avoided many important but subordinate issues. But the effects of the Tariff upon different areas, and especially upon the States, are so important that a summary statement is called for.

A Memorandum on the unequal effects between States was submitted by two of our members to the Royal Commission on the Constitution in August, 1928, and has been published in the Commission's Evidence. The estimates there made were very tentative and provisional. We have not been able to complete them satisfactorily, and we limit our discussion here to a conservative statement in somewhat general terms of the main effects.

2. The unequal effects between States are probably the most embarrassing consequences of the tariff, but they have their roots in the unequal effects between industries, which are natural and inevitable consequences of tariff protection. Were Australia one small, compact economic unit, in which the benefits of protection were thoroughly diffused, in which one common tax system operated, and in which development expenditure was equally shared, differences between areas would be less important. But with our diverse geographical conditions and our Federal system of government this is not the case.

3. The distribution of Australian industries has been substantially modified by the tariff. Assistance to protected industries has been provided chiefly at the expense of the export industries. We have shown that these industries are retarded and that their land values have been curtailed. The costs imposed upon them have been borne chiefly in the country districts and in the outlying States, which are more naturally adapted for the export industries.

The geographical differences between the States account for differences in aptitude, and the benefits of increased production

have been transferred from areas and States having natural aptitudes for export industries to areas and States having natural aptitudes for the protected industries. The tariff has, therefore, materially affected the relative prosperity of the different States.

4. The established producers in these areas and States have undoubtedly been penalised by the tariff. From the point of view of the States themselves the consequences are not less important. Not only have the incomes of the established producers been curtailed, and therefore the taxation derived from land and incomes generally, but some production has been prevented, and the State revenue which would have been received from that production has been lost. This applies not only to tax revenue, but to revenue from various State services, and especially from railways. The cost of the tariff has prevented the full use of development utilities and the full response to State efforts to stimulate production. (The same influence hampers the efforts of the Commonwealth.)

5. Further, the costs of these development enterprises, both for interest on capital and for working expenses, have been greatly inflated through the tariff, and that is discriminating against the relatively undeveloped States. The discrimination on this account is, however, probably not very considerable.

6. The importance of these effects is entirely a question of their magnitude. If the total costs were small, or the States were more alike, the differences might be neglected. The various units of a Commonwealth cannot be expected to march together in any uniform order of prosperity. But the different effects as between (say) Victoria and Tasmania, or between Queensland and Western Australia, are very marked.

7. We have not been able to complete our inquiry into this question and arrive at any measure of the effect of this discrimination on State finances. But something may be said of the magnitude of some of the factors.

8. The subsidies to production through the tariff are £36m., which would average all round £6 per head of population. But if the £36m. is distributed among States in proportion to the quantity of protected industry,* the amount per head will

*The salaries and wages paid are taken as measuring the relative quantities of protected manufacturing production. For primary production, rough actual values of the quantity of production are available for States.

vary greatly from State to State, as shown approximately in the following table:—

Subsidies to Protected Production Per Head of Population in Each State.

	£
New South Wales	5·5
Victoria	7·0
Queensland	8·0
South Australia	3·7
Western Australia	3·6
Tasmania	4·0
	<hr/>
Average	6·0

9. These amounts are additions made to the income per head in each State, and no immediate deduction can be made as to the consequent effect on State Revenue. But it is to be noticed that the subsidies to Victoria and Queensland are twice as great as those to Western Australia, South Australia and Tasmania.

10. We next inquire in what proportion these subsidies are contributed by the different States in paying the excess prices of protected Australian products. We have found that these excess costs are borne in the last resort partly by luxury expenditure and fixed incomes and protected production itself, but most of all by the export industries. Without attempting to give a full distribution of costs on these lines, we may say that the result is to make the burden per head of Victoria and Queensland, which have relatively small exports, much below the general average, with the other States above the average and Western Australia particularly high.

11. So it comes about that the same two States, Victoria and Queensland, both get the greatest increase to income per head and pay least per head for it; New South Wales is in a middle position; and the other three States both receive least and pay most, with Western Australia in a somewhat worse position than South Australia and Tasmania. It is to be noted that these three States are all claimants for special Commonwealth assistance.

12. The effect on State revenue from these combined causes

is obvious, though not easily measurable. Still more difficult to measure with our inadequate data is the probably more important effect of the loss of export production which would have taken place without the excess costs of the Tariff (para. 4). This will depend amongst other things on the varying degree to which the natural resources in each State would respond to a given decrease in production costs, a matter on which we have noted our ignorance in §134 of the Report. We will only say that the discriminating effect on the revenue of different States appears to be substantial on account of the causes considered both in this paragraph and the preceding one.

13. It is natural that the harmful effects of the tariff should express themselves most acutely as difficulties of State finance. The effects are not felt directly by landowners, nor in the check to production. Land generally does not decline in value, nor does it go out of production. It merely fails to respond adequately to development expenditure, and insofar as State assistance succeeds in cancelling the tariff costs borne by the farmers, it does so at State expense. The State taxpayers are called upon to meet deficits on railways (the capital and working expenses of which are inflated because of the tariff), because tariff costs do not allow of freights being raised. The State finances therefore bear a substantial share of the tariff costs.

14. The States which enjoy more than their proportional share of the benefits of protected industries may be able to afford this result. Their taxable capacity is increased through the protected industries established in their territories. But opposite results are experienced in the other States. Their taxable capacity is lowered, so that their rates of taxation have to be increased; industry is further encouraged to concentrate in the more fortunate States, and the cumulative effects which follow intensify the inequalities created by the tariff itself.