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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



PREFATORY NOTE

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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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## PART I.

### INTRODUCTION.

1. We have directed our investigations to two general problems arising from the operation of the protective tariff in Australia. These are:—

- (a) The effects of tariff policy upon national prosperity.
- (b) The principles which should guide the application of a tariff policy in Australia.

*(a) The Effects of Tariff Policy.*

2. A complete answer to the first question involves an extensive investigation into all the relevant economic facts and influences, their measurement and their relative importance. A considerable part of our work has been devoted to such an investigation, but with the facilities at our disposal and the data available, we have not been able to bring our inquiries on these points to a conclusive stage. On the first question we have worked out a line of reasoning which should lead to a complete answer, and stated the requirements in the way of information and numerical data to which the reasoning should be applied. Much of the information required was not available, but we have tried, so far as time permitted, to supply rough and provisional estimates, and applied our reasoning to these estimates and drawn conclusions. It will be obvious that our line of reasoning is open to criticism, and approval or disapproval quite irrespective of the accuracy of our numerical estimates. These we know to be rough, but we believe that errors in them will not, in general, invalidate the general tenor of our conclusions.

3. From our conclusions we may pick out and state here three of the greatest generality:—

- (a) The evidence available does not support the contention that Australia could have maintained its present population at a higher standard of living under free trade.
- (b) Some applications and extensions of protection have been wasteful, and cost more than the benefits gained.

- (c) The evidence available does not justify more precise statements on these two questions—the benefits of protection as a whole, and the extent of its excesses.

We suggest lines of investigation which should lead to a more satisfactory and more complete evaluation of the effects of the tariff.

4. A statement of the main questions to be faced in any tariff inquiry will indicate the complexities of the problem. In most tariff discussions some of them are overlooked or evaded, and it is useful to state them summarily as follows:—

- (i.) What are the aims of the tariff:
  - (a) General, in furtherance of public policy?
  - (b) Economic, in promoting material welfare?
- (ii.) Can protection increase industry and employment, and how much has it done so?
- (iii.) Does the tariff impose a substantial net cost on the community? If so, how great, and what is the effect on the national income?
- (iv.) Given that we must provide for our present population, and absorb our annual increase, consider the alternative free trade policy:—
  - (a) How far could primary production have been expanded to take the place of protected industries?
  - (b) How much would the protected industries have grown without the added costs of production due to the tariff?
  - (c) What would have been the net effect on national income?
- (v.) To what extent is the community justified in incurring costs to promote the general aims of the tariff in furtherance of public policy?

5. These are the main questions. Satisfactory answers to the next two questions would help to answer them, and two others may be added on other aspects:—

- (vi.) By how much does the tariff raise prices, and so increase the costs of industry?
- (vii.) To what extent are primary industries protected by Government assistance (through transport, etc.), or otherwise at the expense of the community? How

far does this compensate these industries for the increased costs due to the protective tariff?

- (viii.) How does customs taxation bear on Australian indebtedness and borrowing policy?
- (ix.) Is the taxation incidental to a protective tariff a good way of raising revenue?

(b) *Summary of Conclusions on Effects.*

6. We give here for convenience a summary of our main conclusions on the effects of the tariff as a whole, as discussed in the appropriate Parts of the report. The summary statements necessarily omit the qualifications, as well as the general reasoning, and should be considered as merely provisional.

- (i.) The tariff imposes heavy costs, but there are compensations. Australian resources in relation to population are sufficient at present to carry without distress any net burden there may be.
- (ii.) The adoption of a considerable, but not unlimited, amount of protection is justifiable on economic grounds in the circumstances of Australian industry. But the extreme applications of the tariff have undoubtedly been a cause of net loss. Further extensions may involve a more than proportionately increased loss.
- (iii.) The principal effect on production and employment has been to divert them from export industries to protected industries.
- (iv.) We estimate that Australian *products* which are protected cost £36m.\* more than the same goods could be imported for, duty free. In considering the costs of protection, we take no account of the added price of imported goods, because the duty paid goes to the Treasury and takes the place of other taxation.
- (v.) Protected manufactured goods cost about £26m. more than free imports, and protected primary products about £10m. There is also, partly in consequence of protection, about £12m. of assistance to primary industry given by Governments from general revenue, but not all of this assistance is effective. Preferential duties against non-British goods add something

\**i.e.*, £36,000,000. We shall use the m. throughout as an abbreviation for million.

more to Australian prices, perhaps £2m. or £3m., but this is a cost of preference and not of protection, and is not further considered.

- (vi.) Of this £36m., the excess cost of protected products, £7m. is for luxuries, and £6m. "sticks" in sheltered industry in process of passing on or is cancelled by Government assistance. The remainder is borne by fixed incomes and by industry dependent on world prices. The final effect is to raise the general price level (excluding luxuries) by 10 per cent. above prices with a purely revenue tariff. Taking Government assistance into account, costs of production in the export industries are raised 9 per cent. by protection.
- (vii.) The effects of this cost are to increase the number of industries and the volume of production which cannot subsist without the tariff or other assistance. It leads to claims for compensating assistance and even to subsidies for exports. The cost of the tariff becomes a cause of its extension. Part of the tariff is required as a protection against its own costs.
- (viii.) The tariff falls with the greatest weight on the export industries. The value of their land and fixed capital is reduced, and the expansion of their production is retarded. They are limited to the use of land which can carry the costs imposed.
- (ix.) The States which naturally depend more than others upon the export industries feel the burden, not only upon their individuals and industries, but upon the State finances. Taxable capacity in the export industries has been decreased and production has been retarded without equivalent benefit (in those States) from the incomes protected by the tariff. The tariff has therefore borne unequally on the different States.
- (x.) About £150m. of Australian production raises the price of its products to some extent under the shelter of the tariff. About half of this, £75m., raises prices less than 10 per cent., and could live without protection. The other half, £75m., could not, at present efficiency. Alternative production would have to be



found for it. Allowing for the inflated price of protected goods, we consider whether export production would have increased sufficiently with lower costs to provide the alternative production. The lower costs without the tariff are equivalent to a rise in price of 9 per cent. for exports. A survey of the possibilities concludes tentatively that they would depend on doubling the present export of wheat. It does not appear likely that wheat exports would have doubled present dimensions if prices had been 6d. per bushel higher. Consideration of the reactions of the world price strongly fortify this conclusion.

Generally owing to the quality of our uncultivated land and the effect of increased exports on the market, we are satisfied that the same average income *for the same population* could not have been obtained without protection.

- (xi.) The complete absence of protection is not the only economic alternative. It is probable that the substitution of export production for the more costly of the protected industries would have increased the net income per head.
- (xii.) The tariff has had the effect of pooling the national income to a greater extent than would have been practicable if assistance to industry were derived solely through the more obvious method of taxation. Employment has been subsidized at the expense of land values, enabling the standard of living to be maintained with a rapidly increasing population. The effect on saving has been obscured by the large borrowings from abroad, which have also assisted to maintain employment at the current wage standard.
- (xiii.) The diversion of production to the protected industries has increased the diversity of occupations and of opportunities, and introduced more stability into the national income than if it had been more dependent on the seasons and the vagaries of overseas markets.
- (xiv.) The tariff has incidentally increased the proportion of customs to total taxation beyond limits economically

desirable. The result is that taxation, as well as the costs of protected industries, is a greater burden upon industry than it need be. The large body of wage-earners whose wages are adjusted to prices escape the burden which falls on other small incomes. Such small incomes as do not share the pooling effect of tariff and other assistance suffer from the incidence of customs taxation as well as from the costs of protection.

- (xv.) From these various and contrary influences we conclude that the policy of protection has not had very great net effects upon the prosperity of the community as a whole. It has not brought all the benefits expected nor has it been disastrous. But the benefits and costs of the tariff do not march together. As the tariff grows, the costs overtake the benefits, because the benefits have natural limits while the costs have not. Australian experience, like that of other countries, demonstrates the natural tendency of protection to increase. The most disquieting effect of the tariff has been the stimulus it has given to demands for government assistance of all kinds, with the consequent demoralizing effect upon self-reliant efficiency throughout all forms of production.

*(c) Principles of Tariff Policy.*

7. On the second question, the principles which should be adopted in applying tariff policy, it is possible to reach a greater degree of certainty, and fortunately this question is of the more immediate practical importance. We have been influenced by our provisional conclusions on the first main question as to the effects upon national prosperity, but our recommendations on this separate problem may stand by themselves. They do not need to wait upon more definite conclusions upon effects.

8. We again give our conclusions here for convenience, as follows:—We consider that further and uneconomic increases in the tariff are probable, unless some action is taken to apply economic principles to the tariff. Our conclusions on effects indicate that the total burden of the tariff has probably reached the economic limits, and an increase in this burden might threaten the standard of living. It is important, therefore, that

no further increases in, or extensions of, the tariff should be made without the most rigorous scrutiny of the costs involved.

9. We suggest that the most costly examples of protected industries should be thoroughly examined to ascertain if their protection should not be reduced or cancelled altogether. We refrain from proposing a drastic weeding out of the worst cases, because cancellation must involve the loss of capital invested and specific employment. But there may be industries which are costing more to maintain than would be lost by the withdrawal of protection.

The savings so made will allow of the substitution of any new industry which offers favourable prospects of becoming established at a low cost for its protection. The total burden of protection should not be increased.

10. Such investigations should not be limited to the most costly examples. They are required as a check to keep the costs as low as is strictly necessary. We suggest that the Tariff Board should be equipped with an adequate organization to carry out this work, to examine and report from time to time upon the tariff as a whole, and upon the needs of individual industries. We recommend in Part IX. that an economist should be appointed either as a member of the Board or as a senior member of the staff upon which the Board should rely for its investigations.

11. The following summary gives the main principles which we suggest should be observed in the application of tariff policy. They are explained in Part IX. under their appropriate heads. To these we have added some observations on wages and their relation to the tariff, which also need reference to the text in Part IX.

(i.) DISCRIMINATION.

The following tests are suggested for discriminating between industries in order to judge their relative suitability for protection, whether the industries are already protected or are new applicants, in effect competing for a share in the amount of protection which the country can afford. The tests are roughly in order of importance:

- (a) The degree of protection required.
- (b) The capacity of the industry to reduce the need for protection through increasing efficiency.

- (c) The extent of the market available to the industry, and its opportunities for the economies of mass production.
- (d) The prospect of stability in the industry, and of its supplies of raw materials.
- (e) The demand by the industry for the products of other Australian industries.
- (f) The cost which may be added to the general cost of living.
- (g) The cost which may be added to the equipment and materials used by other industries.
- (h) The extent to which the disabilities of the industry are due to the Australian wage standard.
- (i) The labour requirements of the industry, direct and indirect, in proportion to the cost of protection: and the type of labour and skill required.

(ii.) BOUNTIES.

Bounties are more economical than protective duties, and are preferable on all grounds except financial expediency. They should be adopted as the method of protection when the industry is in an early and experimental stage. If and when the industry is established, a tariff duty could be substituted, and the amount necessary more accurately determined. We suggest the establishment of a Trust Fund for bounties, into which a fixed proportion of the customs revenue should be paid.

(iii.) TAXATION.

Tariff policy should seek a decrease rather than an increase in the proportion of customs and excise taxation to total taxation, and any increase in taxation should be confined to direct taxation. For purposes of revenue the tariff should be confined to a few luxuries and conventional necessities.

(iv.) LABOUR.

The competitive disabilities of protected industries should be measured by total costs and not by those due solely to labour, for wages are not the only important cause of that disability. High labour costs may be due to inadequate equipment rather than to wage rates. There is more justification for protecting a standard of living than for any other cause of disability, but the only standard that can be protected is that which the

resources of the country can provide. The protected wage standard should not be based on the inflated capacity of industries dependent on protection. If this is attempted, an extra burden is imposed on the export industries, which reduces earnings and employment in them and the average standard falls. The limits to the protection of labour are dealt with at the end of Part VII.

12. We repeat that the protected industries should be reviewed periodically in the light of these principles, and the cost of protecting each industry should be estimated from time to time. Every effort should be made to throw the responsibility for reducing this cost upon the management and labour employed in each industry. The full publication of relevant facts for each industry as a whole would promote confidence among employees and safeguard the interests of the community.

*(d) The Need for Information and Research.*

13. In the course of our enquiries we have been much impressed with the need for detailed information, both on the effects of tariff policy in the past and for the guidance of tariff policy in the future. We have been repeatedly checked by sheer lack of knowledge even of local facts. The statistics of the Commonwealth Bureau have been explored, and tables are supplied in the appendices attached to this report, but these statistics are necessarily of aggregates, and they mask essential differences between industries and commodities which are grouped together for taxation and other purposes. Rough attempts are made at quantitative statements where some indication of measurement is especially desirable, but these are very inadequate. Much additional information would be necessary before either the Committee, the public, or an authority such as the Tariff Board could arrive at well-founded conclusions on many of the points under consideration.

14. We are aware that it may be impossible to obtain all the information that would be desirable, and we do not expect that the problem which has baffled skilled investigators in other countries can be solved readily in Australia. The effects of tariff policy cannot be separated entirely from the complex influences which together determine the economic prosperity of a community. A protective policy re-acts differently on the same people at different times, and it re-acts differently upon

different communities with different areas, populations, resources, aptitudes and environments, and no simple doctrinaire theory will apply throughout. In the last resort judgment must be made upon a number of uncertain issues, some of which are not economic; but with patient research, the area of uncertainty can be reduced.

15. We are of the opinion that the investigations we recommend would make possible a fairly reliable estimate of the effects of tariff policy upon national prosperity, and provide a better approach to the application of that policy. It should at least be possible, by a system of "sampling," for competent investigators to determine approximate results—in representative cases—and by similar methods to forecast results where an extension of protection is demanded. The costs of such investigations would be negligible when compared with the magnitude of the economic issue involved, and the conclusions arrived at would be of substantial help in developing a systematic tariff policy appropriate to the circumstances of Australia.

*(e) A Note on Differences of Opinion.*

16. In concluding this Introduction we desire to offer a few observations on the Report as a basis for further discussions on the tariff, and we address ourselves to those who desire to reach an independent judgment, free from any prejudices or sectional interests. It is in the nature of things that conclusions or opinions on the tariff cannot be more exact than legal opinions or medical diagnoses, but we suggest that a useful distinction can be drawn between minor differences of detail and of emphasis, which may be neglected, and major differences fundamental to the whole position. If discussion is confined to the latter the issues will be clearer, and we invite critics to ask themselves whether or not their differences of opinion are material to the main issues.

17. Our chief difficulty has been to set limits to the subjects dealt with. The tariff influences every part of our economic life, and the more it is examined the more complex does this influence appear. Our chief problem has been that of selecting the most important influences and of giving each of them their due and proportionate weight. We have avoided discussion of what might have been the best policy for Australia in different circumstances, as, for example, with a smaller population, and

those parts of the Report dealing with the effects of past policy are of chief importance for the light they throw on the practical problems of to-day. We say that the maintenance of some degree of tariff protection is desirable in the peculiar circumstances of Australia, despite the fact that all experience demonstrates the failure to limit the tariff to any definite degree. We have kept in the forefront of our minds the special circumstances of Australia, which is in any case committed to some degree of protection; the practical problems, therefore, are whether limits should be set, and how we are to go about setting them.

18. We have deliberately omitted all qualifications, explanations and refinements of statements that could be omitted, in order to keep the main issues clear and to concentrate attention upon the practical problems. This will have been most evident in the summaries given in this Introduction, but even in the Appendices complete statements have not been possible. Many important aspects are implied rather than distinctly stated. We trust that this will be realized before misunderstandings are allowed to confuse discussion.

Differences of opinion on economic questions are to be expected, even among people wholly free from personal interests or commitments to a definite partisanship, and the tariff question is more than usually provocative of such differences. We hope not only that further information will reduce these differences, but that constructive criticism will concentrate itself upon the practical problems—the limits which should be set to protection, and the methods of determining them.

## PART II.

### THE EFFECTS OF TAXATION THROUGH CUSTOMS.

19. We now proceed to explore the main relevant facts concerning the effects of the tariff, dealing first with the tariff as a means for raising revenue, and secondly as a protective instrument.

#### *(a) Revenue Incidental to Protective Duties.*

The distinction implied in the separate treatment is of some importance. Customs taxation is levied on imported goods, sometimes for the sake of revenue, sometimes for the sake of protection, and it is not always clear which object is more effectively achieved. Until local production of any article is sufficient to meet the requirements of the home market, every tariff is to some extent a revenue tariff. Within one class of goods some articles may continue to be imported while other articles are excluded. A tax may therefore be a revenue tax on some articles and a protective tax on others in the same general class at the same time.

20. We may explain this best by an illustration. It is intended to afford protection to the Australian production of (say) woollen cloth, and to give sufficient protection to establish or safeguard its production in Australia. But Australian producers do not attempt to make every variety, colour and pattern of cloth. The duty may prevent quite effectively the importation of certain standard grades which are being or can be made in Australia, but it applies to many other grades also. It is impossible practically to discriminate between every grade and to confine the duty to the class of goods made or likely to be made in Australia. A continuation of imports is therefore not a failure of protection, unless they are of the grade which the duty is designed to protect. Similarly, a large customs revenue may be a natural by-product of this protective intention, resulting from a failure to discriminate between grades.

In some instances the tariff appears to have been used as a steam hammer to crack a nut. Such consequences have come from using duties instead of bounties to establish a new industry.



21. When the same grade of a commodity, *e.g.*, of steel, is both imported and produced at home, the taxation on the imports increases the cost to the consumer, but it passes into Government revenue, preventing other taxation, and is used to meet Government expenditure which may be presumed to be necessary. The burden of the tax is passed on. With the home-produced steel there is also a cost paid and passed on, but it does not enter into Government revenue. It is part of the price of the steel from the beginning, and a condition of home production. The whole of the commodity purchased within the customs area is usually increased in price as a result of customs taxation. How much it is increased is not here in question; it is with the policy of raising necessary revenue by taxation on imports that we are now concerned.

22. Customs taxation, beyond that intentionally imposed for revenue purposes, is a by-product of tariff protection. It imposes a heavier burden than is necessary for that protection, and its weight on industry is greater than would be the weight on an equivalent amount of direct taxation.

This effect of a protective tariff is greater in a country with a high standard of living and a relatively small home market for the absorption of a great *variety* of articles classed together for customs purposes. In Australia it is less possible to produce such variety than in the U.S.A., and therefore the incidental revenue effect of the tariff is greater. The extent to which a tariff is a taxing or a protective instrument depends less on the height of the duties than on the capacity of the home market. If that market is large, as in the U.S.A., producers can respond to most of its needs and offer a wide range of choice. If the market is smaller, as in Australia, producers can offer only a restricted choice and cater for only the larger needs. In general, the larger the market the smaller will be the proportion of imports, and therefore of customs taxation incidental to protection. No matter how much our duties might be increased in Australia, we should still require to import some articles now made in the U.S.A. (such as shoe-making machinery), or to do without them because their cost of production in Australia would be prohibitive.

23. An estimate made for the League of Nations Economic Conference in 1927 assessed the relative intensity of customs taxation on typical commodities in different countries. The

lists were headed by Spain (over 40%) and the U.S.A. (25% to 35%), with Australia in the fourth group (15% to 20%). The lists are given in Appendix B, with some comments on the significance of the figures, which should be read in the light of the remarks made in the preceding paragraph.

*(b) The Proportion of Indirect Taxation.*

24. It will be convenient to adopt the usual classification of taxation as Direct and Indirect. These terms indicate the relative incidence of the two main forms of taxation, namely:— (a) Income, Land and Inheritance taxation, the incidence of which falls directly upon the taxpayer, is paid directly by him, and is not readily passed on to others; and (b) Customs and Excise Duties, which are paid by merchants, but are passed on to the general consumer through increased prices. Direct taxation is, in practice, levied progressively on some estimate of capacity to pay, and it falls on the margin or surpluses of income and expenditure rather than on the whole. The indirect taxation of non-essentials, such as alcohol and narcotics, also falls (with some qualification) on surplus elements of income. On the other hand, indirect taxation on necessaries, and on goods used in production, falls on the beginnings of income; it is paid before production is completed, not afterwards on net receipts. It falls indiscriminately upon production which is profitable and production which is not, and therefore is a burden on the part of production least able to bear it.

25. In the Australian tariff this fact is recognized by the exemption of certain articles from taxation, and by the high proportion of customs and excise revenue collected through alcohol and narcotics. So far as the tariff is designed expressly to obtain revenue, the well-established British example is followed. But, as has been explained, the policy of tariff protection has imposed (incidentally and often unintentionally) additional customs taxation.

26. The proportion of Commonwealth and State tax revenue contributed by customs and excise was 50·4% in 1925-26. The proportion in the United Kingdom in the same year was 33·2% of central taxation. But a comparison which does not include local taxation is incomplete, and may be misleading as between Australia and the United Kingdom, because in the latter country a greater proportion of taxation is levied by local authorities.

The statistics for total taxation have therefore been investigated, and they are given in Appendix K. It is there shown that the proportion of custom and excise to total taxation in 1925-26 was 42·5% for Australia and 26·7% for the United Kingdom.

The difference is important. In both countries customs and excise taxation is levied on alcohol and narcotics and on other commodities which are not necessities of life. In Australia it is levied on other commodities to a much greater extent, and while some of this is on goods which are not necessities, there is proportionally more taxation on the materials of production than in the United Kingdom.

27. In pre-war years the Australian proportion of indirect taxation was indeed much greater, reaching as high a figure as 76·38% in 1908 (the statistics are given in Appendix K); but the total burden of taxation was then lighter. With the war, and the increase of direct taxation made necessary by its cost, the proportion of indirect taxation gradually declined, until between 1918 and 1920 it was around 38%. Thereafter it increased in consequence of increased duties and expanding imports.

28. An increase in the proportion of indirect taxation is uneconomic for the following reasons:—(a) By its effects upon costs it increases the real burden of taxation beyond the money contributed to revenue; (b) it falls with special severity upon small incomes; (c) it penalizes export industries which cannot pass it on further, and (d) by obscuring the incidence of taxation it enables government policy and the consequent expenditure to escape the full measure of criticism.

The increase in the burden on industry is not confined to the added costs of commodities and services, for industry is subject to greater disturbance through the shifting of incidence. Industry has to make fresh adjustments, and overhead costs are increased by the extra capital outlay involved.

*(c) The Combined Effects of Borrowing Abroad and of Taxation Through Customs.*

29. The large customs taxation in Australia has further burdensome effects. It falls not only upon income, but upon capital expenditure. The increased costs of labour used in building, on roads and railways, and other construction, and

the increased costs of machinery and other equipment, are all added together in an increased amount of capital required for the country's development, and for privately-owned factories, houses, and other capital goods. Interest must be paid on the whole, and the effect of the customs taxation is found in the increased amount of interest that must be paid—a great deal of it outside Australia.

30. It is true that direct taxation may increase the rate of interest, but our overseas indebtedness is so large that it controls the rate of interest on Australian indebtedness as a whole, so that the average rate of interest is not materially affected by direct taxation in Australia. Nor does Customs taxation affect the rate of interest, but by increasing the expenditure required it increases the amount of interest required. The capital expenditure in any year is loaded by the costs imposed through customs taxation, and there is a cumulative increase in the annual interest due to these costs.

In recent years our borrowings abroad have been heavy and our imports have been correspondingly increased. If these increased imports paid the average duty paid by all imports (a fair rough assumption), the revenue from this source would have been between £6m. and £8m. per annum on annual borrowings of £30m. to £40m. Whatever may have been the amount of revenue so created, it is worth while to examine the circumstances.

31. Borrowing abroad increases spendable income by transferring income from abroad. This must be spent on the purpose for which the loans are made, and it is spent partly for labour, partly for materials produced in Australia, and partly for imports. The imports which enter Australia indirectly as a consequence of the loan have no direct connection with it. But without the loan fewer goods could have been imported. The loan enables imports to be made without corresponding exports, just as in personal relations a man who borrows can spend without producing. The goods which are imported are taxed at the customs, and the loans increase the customs revenue.

32. If the loan were an isolated one, the "boom" associated with it would be seen, and also the "slump" following that boom, the fluctuations being larger or smaller according to the size of the loan in proportion to ordinary spending power. But in Australia the practice of overseas borrowing has been fairly

continuous, and the prosperity due to loan expenditure has been maintained.

33. The new expenditure from revenue is possible without any apparent increase in taxation. Without the borrowing it could only have been raised by a deliberate increase in the *rates* of taxation. The revenue is derived from the borrowing, and, in fact, part of the borrowing has found its way, through customs taxation, into current revenue. This is essentially borrowing for revenue purposes, but it is an inevitable consequence of the combined operation of customs taxation by the Commonwealth, and of borrowing, chiefly by the States.\*

\*Even without a tariff, borrowing adds to the income of a country, and therefore swells the Government revenue though to a lesser degree through the taxation of incomes.

### PART III.

#### THE EFFECTS OF PROTECTION.

34. The popularity of a tariff among Treasuries and Governments is due to the fact that it is a means of "painless extraction," the indirectness of the method acting as an anaesthetic. In Australia it has had the further advantage of association with another anaesthetic, if we may so designate the gospel of protection. Increases in customs taxation appear to have been welcomed. This is undoubtedly due to the popularity of the tariff as an instrument for protecting industries. We proceed to state the reasons for this popularity and to give a comprehensive outline of the chief economic facts.

*(a) The Aims of Protection.*

35. The aims of tariff protection may be divided into two kinds, economic and non-economic. In this report we are concerned mainly with economic considerations, which are roughly measurable, but the more general aims, because of their association with national aspirations, make the more popular appeal. These may be enumerated briefly as follows:—

- (i.) It is felt that a country is inferior in status if it does not have the industries of advanced countries, and that for Australia to be mainly dependent on primary industries would be to place its people in the position of "hewers of wood and drawers of water" for the people of more favoured countries.
- (ii.) A diversity of industry and employment is a social advantage, making for greater versatility and the development of various aptitudes in the population, and generally promoting a fuller and richer national life.
- (iii.) A country should be as independent and as self-contained as possible in order that it may be less vulnerable to the effects of any war which might disturb markets abroad.
- (iv.) Certain industries are especially desirable directly for armaments, or in case essential supplies are cut

off, or to promote the population of vulnerable areas, such as tropical Queensland.

36. These aims and aspirations, however reasonable and important they may be, are not relevant to our present purpose. No direct economic gain is suggested by any of them: rather is it presumed that these aims are only to be achieved at an economic cost, and what that cost may be will be considered in discussing the *economic* aims of the tariff. The non-economic aims may be proper ground for public policy, but it is desirable to know what they will cost.

37. The *economic* aims of tariff protection may be set out by summarizing the main arguments used in its favour. The fundamental arguments are these:—

- (i.) Protection promotes new industries and employment, and therefore *additional* industries and employment.
- (ii.) It follows, because of the added demand from new industries, that protection enlarges the home market for all industries, including the primary industries and all that are unprotected.
- (iii.) Local competition and the increasing scale of production reduce prices, even below the prices of free imports.
- (iv.) The tariff reduces imports, and therefore lessens the burden of payments overseas.

In addition, there are the following arguments, which are clearly subordinate to (i.) and (ii.) above:—

- (v.) The tariff protects wages and labour conditions from the competition of low-wage countries.
- (vi.) It ensures greater stability in production by promoting industries not at the mercy of the seasons.
- (vii.) It reduces dependence on the vagaries of foreign markets in normal times, especially for staple products such as wool and wheat.

A different line of defence (very important under Australian conditions) is taken by others who do not accept the main arguments set out above. It may be stated briefly as follows:—

- (viii.) Although the protected manufactures impose a cost, the natural industries would not have supported the same population at the same standard of living without a greater cost, on account of the pressure on inferior land and lower export prices.

(b) *Some Preliminary Criticisms.*

38. While these reasons are doubtless incomplete, they state the main objects of and arguments for tariff regulation briefly and sufficiently for the purpose of this report. They are not to be dismissed because some of them are frequently associated with fallacies such as that the purchase of home-produced goods "keeps the money in the country." The purchase of imports is indeed made with money, but merely as a medium of exchange. The medium is relatively unimportant, for just as the purchase of home-produced goods and services is made in fact with other goods and services, so is the purchase of imports made with exports. The purchase of home-produced goods to the exclusion of imports does, indeed, keep the money in the country, but it helps to keep exports in the country as well.

39. This simple statement refers to conditions over a long period, and like most simple statements on this subject is open to serious qualification. Australia borrows a great deal, and so stimulates the volume of imports. So long as that borrowing continues in excess of our interest obligations, the volume of imports must exceed the volume of exports, *i.e.*, we shall pay less than we receive. If and when we borrow less annually than our annual interest bill, we shall require to send out more than we receive. If we ceased borrowing altogether we should have to send out a large excess of exports. The time must come when repayments must be made, and then a still greater excess of exports will be required. It is impossible both to exclude imports and to maintain borrowing at the same time. It is also impossible to produce the goods in Australia which come in through borrowing, for without the borrowing there would not be the income to pay for them.

The statement that imports must balance exports applies to a state of trade which is not disturbed by borrowing or repaying. We may increase our exports as much as we please if we use them for repayments and are satisfied to do without the income they produce. See Appendix T.

40. This further statement is also pertinent to the argument that the tariff reduces imports and lessens the burden of payments overseas. The suggestions here are that we impoverish ourselves by importing (or buying) too much, and that the tariff can prevent this extravagance. We may perhaps buy too much and borrow too much, but these are things which the



tariff cannot control. The prospects of continued borrowing allow us to live ahead of our income and to continue an excess of imports without suffering financial stringency. The tariff cannot prevent us from spending what our exports and our borrowing together provide. It can only make purchases more expensive and give us less for the same money, transferring the balance into customs revenue, and by increasing the cost of our exports it increases the burden of payments overseas.

41. After this digression, we may return to general consideration of the "aims" set out in Section 37.

We shall not attempt to give categorical answers to each of the arguments cited in favour of protection. As will appear from the preceding paragraphs, it is very difficult to separate the effects of tariff policy from other influences, and our comments on the general aims will appear as the report proceeds. Our problem is not to consider whether specific objects have been wholly or partly achieved, but to discover whether the tariff has on the whole been of benefit to the community.

Nevertheless, we may usefully note here how necessary it is to go below superficial appearances if the whole truth is to be ascertained, and to examine every assumption that is made. We may use for illustration the second and third of the economic aims cited above.

42. An important popular argument is that protection increases the home market (ii.). It is true that protection increases the industrial population, and thereby enlarges particular local markets for farm and other products, some of which are not exportable. It may enable greater specialization in farming than if the population were more agricultural and more self-subsisting. It may, therefore, increase the volume of produce *sold*. But it cannot increase the volume *produced* unless Australian consumption is increased. The protected industries can increase production and employment in other industries only if their production, and the demand derived from it, is additional. The argument assumes this, and it therefore rests entirely upon the effects of protection upon production as a whole.

It is sometimes urged that local competition does or may reduce prices in consequence of protection (iii.), the assumptions being that competition is the chief influence on prices, and that it is ineffective in international trade. Perhaps this is only

urged seriously in exceptional cases. We may remark, however, that a more important influence on prices in many manufacturing industries is the scale of production, and that the limited size of the Australian market is generally unfavourable to both mass production and competition.

This argument is sometimes based on the fact that protected prices have fallen since the 1921 tariff. All that need be said on this point is that all prices have fallen, and that import prices have apparently fallen rather more, although no directly comparable records are available.

These preliminary criticisms show the need for a comprehensive survey of the effects of the tariff on the whole of industry, and through that on the national income. We shall commence with an examination of the object implied in the first aim of protection, the promotion of additional industries, upon which some of the other objects depend.

(c) *The Protected Industries.*

43. The descriptive analysis upon which we now enter takes us into the fundamentals of the problem, and it is essential that we must be perfectly clear about the causes which make industries dependent upon protection. It will be seen that the case for free trade is very strong if the people are considered only as consumers. The economic case for protection rests upon the interests of the people as producers, and the judicial enquirer has to reconcile these two interests, or at least to judge the effects upon each. This is our task, and we are aware that it requires the most careful analysis and statement. But we may be permitted to remark that our analysis also requires the most careful and patient reading.

44. There is what is called "a natural course of production," in which individuals produce such competitive commodities as each area can produce at "world prices." They purchase other goods in exchange, from individuals and places which can produce those goods to advantage. So far as population and capital are mobile, their distribution corresponds with the distribution of resources and comparative advantages. These are the principles of international trade, and they are explained more fully in Appendix T. We need not say more here than that under free conditions each area produces what it is best adapted for, costs generally are at their lowest, and goods at

their cheapest, and the people receive the greatest benefits as consumers. The conspicuous example of this freedom of trade over a wide area with a great variety of resources and advantages is the U.S.A. Australia itself furnishes a similar example of a wide area of free trade created by Federation.

45. The natural course of production under modern conditions is to specialize and exchange, to sell and to buy, to export and to import. The fundamental aim of protection is to reduce the imports and to cause goods to be produced at home which would not be produced under natural or free conditions. The means adopted is to tax competing imports so that their prices are increased to the consumers, and they will prefer to buy the home-produced goods instead. Tariff protection is, therefore, normally the protection of higher prices, and these higher prices are made necessary by the higher local costs of production. In Part IV. we shall discuss the *degrees* to which these prices and costs are increased, but at present the important fact is that, normally, protection is a protection of higher local prices from external competition.

46. It is true that there are exceptions to the rule. In the U.S.A., for example, there are industries which are protected at home and which export abroad. Presumably their costs cannot be higher than those of competing countries. Their prices may be lower at home, or the same at home as abroad, or even higher at home than abroad. In Australia the same applies in a much less degree. We give protection to agricultural implements, and we export some kinds or parts in competition with the world. It is impossible to generalize from these conditions, which are abnormal in Australia. We give protection to sugar and butter, and we sell these abroad at prices lower than at home under very peculiar circumstances, which we deal with later.

47. There is one condition under which protection is not a protection of higher local prices, and this condition is more probable in the U.S.A. than in Australia. This is when protection is against prices lower than world prices, or prices lower than those in the exporting country. This is known as protection against "Dumping," and we deal with this separately in Appendix R. It is very important to keep a sense of proportion about this matter, and we return to the more normal conditions of trade and production.

48. We may repeat that under normal conditions protected industries depend upon the tariff, because local producers cannot compete against world prices, even with the natural protection of freight and shipping charges. Given protection, goods are produced which cost more than they will realize in a free market. So long as the production is really dependent on the tariff these goods continue to cost more than free imports. The difference between the protected price and the price of free imports is due to higher local costs, and it is inevitable that these higher costs are borne by the consumers. The higher costs may be due to small scale production, to higher costs of raw materials, to higher wages, to inefficiency of management or of labour, or to some combination of these, and other causes. The fact remains that higher costs are incurred, and that protection is necessary on their account.

49. The greater the volume of goods produced under these conditions the higher may be the costs to the consumers. Moreover, while the excess payments which are made on imported goods go into public funds and relieve other taxation, the excess payments on home-produced goods are absorbed in the increased costs of production. They are payments made in addition to the taxation required by the Government, and are in effect bounties paid by the consumers. The more effective the protection the less the customs revenue, but unless the margins between import costs and home-produced costs are reduced, the greater will be the burden on consumers and on other production.

*(d) Effects on Other Industries.*

50. One of the chief difficulties in judging tariff policy is to know what this burden amounts to. If the bounties paid by the consumers to protected industries were paid as bounties by the taxpayers, the burden would be very clear. If they were exactly measurable, and were to be transferred (by some stroke of political audacity) from the people as consumers to the people as taxpayers, the burden of taxation would be recognized without any doubt as to its effects.

51. Again, in a growing community, with production marching more or less with the needs of a growing population, the effects would have to be very bad indeed to reduce production in any particular industry. They are only less bad if they prevent the natural *growth* of production in any industry. The

natural tendency in a new country for all industries to grow, unless very severely handicapped, obscures the effect of the tariff to the superficial view. We have asked the question: Can the tariff increase production and employment? One part of the answer is visible in the new factories and in the industries where the benefits of protection are concentrated. But this is only one part of the answer. If the creation of new employment was the net result, it would pay to prohibit all exchange and to return to primitive conditions. A fire or other disaster increases employment at the time, but it ultimately diminishes it by reducing the income available. On the other hand, the introduction of machinery may reduce employment for a time, but it increases income. The income is spent on other things, and the demand for these things creates employment. It is the ultimate effects which must be looked to.

52. The excess costs of protected home-produced goods, like the excess costs of taxed imports, are borne in the first place by the consumers of these goods. The excess costs of equipment or raw materials of other industries are borne in the first place by these industries. There is a general tendency to pass on these excess costs wherever possible. The excess costs of goods that are part of necessary household expenditure enter into the "cost of living," and are diffused over the whole of industry, indirectly through wages, and directly where no labour is employed. The excess costs stick here and there, but the usual process of "passing on" carries them on through the home market until they can be passed on no further.

53. It may be useful to show where the limits are, and to classify production according to capacity to pass on costs. This capacity varies with the degree of "shelter" from world competition, for when that competition is met, there the capacity to pass on ends. The classification is as follows:—

- (i.) Certain industries and occupations are naturally sheltered by the physical impossibilities of foreign competition. These are the building trades, land transport, personal services such as are rendered in commerce and the professions, and such material production as is so bulky or perishable that transport charges give complete natural protection.
- (ii.) Certain industries are protected by the tariff. The

prices of the products of these industries are sheltered from outside competition up to the limit of the protective duty.

- (iii.) Other industry is exposed to competition at world's prices. For Australia this is chiefly export industry, which can only receive world's prices *less* cost of transport. But there may be industries producing for home consumption which are not protected, and these will receive world's prices *plus* cost of transport. In both cases they are unable to increase prices because of increase in costs. Their only alleviation is some form of Government assistance, such as reduced railway charges. For Australia we may almost confine our attention to the export industries. The chief of them, wool production, is indeed in a fortunate position in that the costs of production are at the present offset by the fairly strong world demand, and current expenditure on wool production is relatively low. So far as the excess costs of protected goods fall on wool they are not a serious burden, and under present conditions they may even be passed on to the outside world.

The other export industries, chiefly wheat and mineral production, employ more labour and equipment in proportion to output. The excess costs are passed on to them both directly and indirectly, and they cannot be passed further.

The only real distinction between sheltered and protected industry is that in the one case the shelter is natural and in the other dependent on legislation. Protected industry is sheltered up to the limits of the tariff; but there is a limit also in the case of much naturally sheltered industry, though it may be a wide one. By sheltered industry is usually meant industry completely sheltered against all possible competition, but we shall use the term in the wider sense of industry which at the time under consideration has sufficient shelter to save it from competition of imports. The coal industry is an interesting example of changing classification. Once an export industry, the costs of production rose till it ceased to export and became a sheltered industry—sheltered by the high cost of transport in relation to the value of coal. Finally, costs have risen until

this shelter became insufficient, and it is now beginning to be exposed to the competition of imports.

54. The tendency of protection is to cause the area of Government assistance to be extended. We have had ample illustration of this tendency in Australia. Protection may begin with industries which are reasonably appropriate, and the excess costs of the goods produced by these industries may be well within the country's capacity to bear them. But unless a bounty is paid by Government they impose costs on other industries. The example of protection is cited by other industries, and it is easily followed. Moreover, certain of the other industries, which might have been able to carry on if it were not for the excess costs they bear, are compelled to seek protection. If, for example, the tariff were to begin with iron and steel, it would increase the cost of the raw materials of the engineering industries, and they might require protection also. As the tariff is extended other industries find themselves in difficulties; unprotected industries demand some protection and protected industries demand more protection, until at length the natural industries which sprang from the comparative advantage of the country are included, and apparently all are dependent on the tariff.

55. The tariff has had a similar effect in stimulating a demand for other forms of assistance, particularly from the primary industries. It is only fair to say that assistance to primary production has been a traditional policy in Australia in connection with the wider policy of development, and quite independently of the tariff. But demands are now made, specifically on account of the tariff, and these demands have become very pronounced in recent years. So far as they have been granted, they impose some further costs upon other production, chiefly through taxation.

56. The people of Australia must soon face the question of how far this can go. At present almost every unsheltered industry is demanding assistance to meet the costs of assisting other industries, and each alleges that its difficulties are due to these costs. Reliance upon Government aid is increased, and discontent also, through real or supposed differences in benefits received. Clearly we might reach the stage when the Government would be promoting each industry by taxing all the

others; and the end, in effect, would be a perverted, expensive and very unstable "Free Trade."

*(e) The Net Effects on the Volume and Distribution of Production.*

57. We shall deal with the incidence of the costs of protection more fully in Part V., but we have shown that these costs tend to be concentrated on the export industries. We have also mentioned the assistance given to primary production. We must now discuss the influence of this assistance in compensating for the cost of protection.

The assistance given to the primary industries has been given chiefly to agriculture. Land settlement and irrigation schemes have been promoted at some cost to the different Governments, financial aid has been afforded, and transport assistance has been provided in the form of roads and in special freight rates for fertilizers, forage and stock. The costs of these are not clearly recognizable. Lastly, admirable and successful endeavours have been made to improve production methods by research and experiment. These are the cheapest forms of assistance, and their costs are not obscured.

58. In addition to this assistance, and to the tariff protection effectively given to some products for the home market, certain marketing schemes have been promoted which impose high prices upon Australian consumers. Some protection has been given for fruit products in Great Britain through the operation of Preferential duties, and there is a strong demand for its extension. Some of the costs will be discussed in the next part of this report, and the economics of Preferential Trade are dealt with separately in Appendix S.

59. We may now compare the growth of agriculture with that of manufacturing production, both of which have been promoted by Government action, but in differing degrees and in different ways. We can do this best by comparing the growth of each with that of the pastoral industry, which is the chief basic and unsheltered industry. We exclude mining, because it has declined chiefly from causes peculiar to itself. The statistics of production go back to the year 1907, and we may take the average for the three years 1907-8-9 and compare this with the average for the three years 1923-24-25. In agriculture we include dairying. Both agricultural and manufacturing indus-



tries have grown more rapidly than the pastoral industry. Twenty years ago agriculture and dairying produced about 104% of the pastoral production, and recently they produced 118%. Twenty years ago the manufacturing industries produced about 70% of the pastoral production, and they recently produced 119%, a trifle more than the agricultural and dairying industries.

60. It does not follow that the more rapid growth of agricultural and manufacturing industries has been all due to the assistance given. The nominal value of protected commodities is inflated by the degree of protection given. Without assistance agriculture would have grown more rapidly than the pastoral industry; without protection manufacturing industry would have responded to the general growth, and in a larger degree because the growing size of the whole Australian home market would have permitted the establishment of some manufactures which require a certain scale of operations, and therefore a large enough market. This expansion of manufacturing would in turn provide an enlarged home market for agriculture. We might have expected in the period under consideration that the growth of the four main groups of industries would have taken place in the following order of increasing rapidity:—

- (i.) Mining would grow least, if at all, because of its wasting resources.
- (ii.) Pastoral production would grow slowly, because it was older and more advanced.
- (iii.) Agriculture would grow steadily, with some encroachment upon pastoral areas.
- (iv.) Manufactures would grow most rapidly.

61. It is worth noting that the greatest increases in the numbers of workers employed on farms and in factories since 1920-21 have taken place in the two youngest States, Queensland and Western Australia. Because these States are younger than the others, both their primary industries and the manufacturing industries natural to them have been increasing more rapidly than similar industries in the other States.

62. For Australia as a whole the natural tendency for agriculture and manufacturing to increase has been stimulated by the assistance and protection given, but although both have grown, manufacturing has grown much more than agriculture, until (with its inflated values) it now produces nearly one-third

of the whole of material production. It is clear that the assistance given to agriculture has not been as effective as the protection given to manufacturing. It appears that the difference between the rates of growth in agriculture and manufacturing has been due in part to the tariff, and that without the tariff manufacturing would have grown less and agriculture more.

63. We return to our statement that the excess costs of production imposed by the tariff tend to be concentrated on the export industries. Certain exports are carried on under subsidy, but this is both uneconomic and impracticable to any great extent, and in general the export industries are handicapped. The result is that our restriction of imports is met by a corresponding restriction of exports. The export industries are prevented from expanding as they otherwise would; the course of production is diverted; *different* industries are created rather than *additional* industries, and the net result is an increase of protected production, with a check to unprotected production. Whether the increase to the one is equal to the check to the other, or greater or less, is a difficult question, which will be the chief object of our inquiry in Parts IV., V. and VI.

(f) *The benefits of Protection.*

64. It is significant that the considered judgment of economists is in general adverse to tariff protection. In their department of knowledge the opinions of eminent authorities are not lightly to be set aside, and the economists have claims to be considered as scientists in their own field. Their judgment is a qualified one, and is not intended to apply rigidly to all circumstances, but it is generally held that protection has been on the whole detrimental to the material prosperity of nations adopting it.

The main practical objection to protection is one that applies with some force in Australia. It is that, once begun, tariff protection extends over other industries until any possible benefit is lost in the increased cost due to the protection of inefficient and naturally uneconomic industries, and that it is politically impracticable to stop it until its costs have caused obvious and considerable damage.

65. There are, however, some qualifications to the generally adverse judgment of the economists, and these are of peculiar importance in Australia. The chief benefits that may be derived

from a limited application of protection may be summarized as (i.) the establishment of infant industries, (ii.) the relief that may be afforded from the pressure of increasing population upon inferior soils, and (iii.) the advantages of stability and diversity of production. We discuss other influences later in this report, more particularly in Parts VI. and VII., where the effects of the tariff on the national income are considered. We are not here considering the net benefits of the tariff, but rather the success with which the economic aims have been achieved.

66. Economists have given a good deal of weight to the contention that a limited application of protection to the nascent industries of a new country may be justified on economic grounds. If a tariff is used as a means of initiating and developing such industries as may be expected, within a reasonable time, to stand without props, the results will be beneficial. Protection is justified on this ground only if it is restricted to promising industries and is regarded as a temporary expedient. This infant industry argument was recognised in the nineteenth century, when young industries in a new country were not handicapped as much as they are at present by the competition of large and powerful rivals abroad. Recent tendencies in industrial organisation have increased the competing power of large-scale production for a world market, and have increased the difficulties of initiating a new industry in a country with a comparatively small market. Protection, whether in the form of an import duty or a bounty, might give the industry the necessary shelter against such powerful competition until it is strong enough to stand on its own feet, but the degree of protection, the length of its continuance, and the cost to the community are likely to be greater in the 20th century than in the 19th. It is important to guard against over-estimating the benefits to be derived from the establishment of such industries, and it is on account of the difficulties of administering such protection that economists are critical of it. Experience of protection tells heavily against it, for in practice protection is not restricted to those industries which may be expected to outgrow the need for it, nor do even these industries admit that they ever reach the stage of independence.

67. In Part VI. we shall discuss the effects of the diversion of production upon the national income per head of population. At this stage we are chiefly concerned with the effects of

protection upon the character of production, and we have come to the conclusion that the tariff does impose costs upon certain industries, and through them upon the community. It is possible, however, that although no additional production may have been obtained, the diversion of production may have been beneficial. The tariff may have resulted either in a net cost or a net economic benefit, when all circumstances have been taken into account, and we shall discuss some of these circumstances. It will be sufficient here to remark that while the diversion of production from its natural course must have resulted in some cost, it is not certain that if the natural course of production had been continued, it would have maintained the present population without some reduction in income per head, due to pressure upon inferior or less accessible land, and to lower prices for a greater volume of exports.

68. The benefits to be derived from these effects of protection depend upon the spread of the tariff. Relief can come only if the tariff is applied to those industries which can be developed at the same or less cost than the extensions of primary production necessary to absorb an equivalent population. The diffusion of the costs under protection allows rather more assistance than would be practicable under free trade conditions, where the assistance to primary production would be derived mainly from taxation. It is doubtful whether such a large sum as we estimate for the costs of protection in the next Part could have been made available for primary production through taxation. The ease with which assistance can be provided under protection has its own dangers. But in a country like Australia, where it is desired to absorb a rapidly increasing population, something is to be gained by the development of secondary production, even with the costs inseparable from a tariff.

69. It is necessary to insist, however, that the benefit to be obtained in this way is limited, and confined to a stage in the growth of population. When the manufacturing industries have been extended until the cost of their further development is greater than the cost of an equivalent extension of primary production, the absorption of population at the old rate is likely to involve a reduction of the standard of living.

70. By increasing the scope of employment and the number of industries which can be developed within the country protection creates a greater diversity of employment. The benefits

to be derived are partly non-economic, and as such they are worth some degree of the inevitable costs associated with the tariff. But they are also economic, for without the prospect of employment for diverse human aptitudes, we should lose a good many of our ablest young men. The diversity of industry also reduces the risks of sudden dislocation, and enables adjustments to be made more easily to changing conditions. In Australia the tariff has been a beneficial influence in promoting greater stability in the national income.

71. Because of the large proportion of primary production in Australia, Australian income is subject to greater fluctuations than are experienced with its manufacturing production. Since the War (omitting the first year—1919-20—as abnormal) the fluctuations in the annual value of agricultural production have covered a range as great as one-third of the average for the period, and in pastoral production by one-half. No doubt these were largely due to post-war disturbances in values, but, in the same period, manufacturing production showed fairly steady progress. We should have suffered more from world disturbances had we depended more upon export industries. Before the War, the agricultural and pastoral production also showed progress, but with falls as well as rises. In the years 1908-1913, agricultural production (in million pounds) was 37, 41, 39, 38, 45, 46; and pastoral production 46, 51, 56, 52, 63; while manufacturing production was 33, 36, 42, 47, 53, 57. It is clear from these figures that a larger proportion of manufacturing industry for home production gives greater stability to the national income, and, in so far as the tariff increases the ratio of manufacturing production to total production, it encourages greater stability, and reduces the dependence of Australian industry upon the vagaries of foreign markets.

*(g) The Outstanding Problems.*

72. From the preliminary survey given in this Part it will be seen that the tariff problem is far from being a simple one. The tariff both confers benefits and imposes costs, and it does not yet appear whether on the whole it has been beneficial or otherwise. It may have failed in its major objectives and yet have been justified entirely or in part.

The supreme test of any such policy is the effect on income per head of population, and it is possible to carry investigation

further only by statistical estimation of the cost and incidence of protection, and by comparing the results obtained with the prospect of an income derived from alternative production without tariff protection. These will be the subjects of the next succeeding Parts, and they will be followed by a survey of the next most important problem, the effects on the distribution of income between individuals.

There remain the disturbing effects of the tariff upon the structure of industry, upon the industries more especially affected by it, upon the finances of the States, and through these upon the relative prosperity of different parts of the Commonwealth. It may be that these subsidiary effects are of greater magnitude than the effects upon Australia as a whole, but we are unable to deal with them exhaustively. Nor shall we attempt to deal with non-economic effects: on the one hand, with the objectives set out at the beginning of this Part, and on the other hand, with the moral effects of encouraging dependence on Government assistance. While these are of the greatest importance, and may even outweigh the economic effects, and it is our duty to mention them, they are not measurable and are outside the province of an economic survey.

## PART IV.

### THE EXCESS COSTS OF PROTECTED PRODUCTION.

73. We have now stated most of the relevant facts concerning the effects of the tariff, and in Part I. we laid some emphasis upon the need for measuring these facts as far as may be practicable. In this Part we shall attempt such rough measurements as are possible with the information at present available, in order to bring the facts down to some more definite statement, even if the definiteness can be only approximate and very provisional. The results we obtain will at least indicate the general trend, the lines upon which further investigation may proceed, and the difficulties that have to be faced. We shall attempt first an estimate of the crude cost of protection, *i.e.*, of the excess prices above the price of free imports which are charged for protected Australian products. This will be estimated first for protected manufactures and then for protected primary production. We shall add for comparison a note of other assistance given to production, chiefly to primary production. We shall next take out our estimate of the extent of protected production, noting that this by its nature must be a looser estimate, because of the large amount of production on the border-line between using to a small extent the protection offered and not using it at all. The more important estimate of production so dependent on protection that it could not survive the abolition of the tariff even with lower free trade costs must be postponed until the incidence of excess costs has been discussed in Part V.

#### (a) *The Excess Cost of Protected Manufactures.*

74. The amount paid in duty on imports of protected commodities is not to be reckoned crudely as a cost of protection, as it is required for Government expenditure, though the method of taxation is open to criticism (see Part II.). Even the excessive amount of taxation levied through the Customs on account of the protective tariff, which is discussed in that Part, is not in itself a cost; but, because it falls more severely on production costs than the alternative direct taxation, it imposes an addi-

tional burden on industry. The costs of protection here considered come under the following categories:

- (i.) The cost of home-produced goods in excess of the cost of free imports.
- (ii.) The amount of bounties paid from taxation, less the amount (if any) by which the price of bounty goods is less than that of free imports.
- (iii.) The amount of concessions given by public bodies in preferential purchases of Australian goods and in preferential freights, etc.

All these items of cost could be investigated and estimated with reasonable accuracy. The first, the excess price of home produced goods, is, however, much the most important, and we confine our discussion to this item. Detailed inquiry is urgently needed to make a reliable estimate of it, and such inquiry could be carried out by a competent investigator in the course of a year sufficiently to give valuable results. With the data at our disposal it is possible only to make a rough estimate for the total.

75. The costs of protection with which we are here concerned are the excess costs of home-produced goods protected by the tariff above what similar goods would cost if imports were free. There are serious difficulties in ascertaining the goods actually protected, and in estimating the total value of these goods, and the prices at which goods of the same type and quality could, and would, be imported if no duties were imposed. We have made no attempt at a detailed estimate for all protected goods, but have confined ourselves to the larger classes, and tried to avoid duplication. Details are given in Appendix N. Sugar and butter, though technically factory products, are not included in this estimate, but are dealt with under agricultural production. Sawmills, however, are included, though timber is essentially a primary product.

76. The extent to which protected home-produced goods are more costly than similar free imports is a very vexed question: it probably varies with each commodity. The prices of such goods cannot in general be greater than world prices plus shipping charges and duty, and in many cases they are less, but from general reasoning and information we cannot say how much less. We cannot here enter into a full explanation of the



many influences which determine the prices of protected goods, but we have made an estimate on the following basis:—

- (a) When it is clear from the official figures that imports contribute a substantial proportion of the quantity of any particular goods consumed, it might be expected that the price of home-made goods is fully up to that of imports plus duty, and the excess cost is the maximum possible for the particular rate of duty.
- (b) When the imports of the whole of any class of goods are relatively small, and the consumption is almost entirely of goods produced in Australia, it may be presumed that the price of home-made goods in this class is appreciably below that of similar imported goods after duty has been paid, and we put the excess cost at half the maximum possible.
- (c) There remains a small class, which, however, includes the important industries of engineering, railway workshops, and sawmilling. The output of these industries is large, but much of it is naturally sheltered, while other parts come into full competition with imports. We have put the excess cost in this class at one-third of the maximum possible.

77. We suggest, therefore, for a rough estimate, that the excess cost of home-produced goods for each of these classes may be taken to equal the following proportions of the duty on corresponding imports:—

Class (a) the full amount of the duty on corresponding imports.

Class (b) half the amount of the duty on corresponding imports.

Class (c) one-third of the amount of the duty on corresponding imports.

78. We give in Appendix N the data on which we base our provisional estimates, but before giving the resulting figures we desire to say that it is the total which is material to our present purposes. The figures cannot be taken as representing the excess cost for each industry, nor for each class. But errors in individual items may be expected to be both ways, and tend to cancel out, so that the total may give a fair rough measure of excess costs. The figures for Class (a) will certainly to some extent exaggerate the excess cost for that class, and the

figures for Classes (b) and (c) will probably under-estimate the excess costs for the industries in those classes. But for the whole of manufactures our estimate is probably as nearly accurate as we are likely to get without a detailed analysis and fuller information on each item.

Our conclusions are as follows:—

For Class (a) we get a possible added cost on home production of £14·8m., and we take the whole of this to be the actual excess cost.

For Class (b) we get a possible added cost of £15·3m., but we take only half of this, or £7·7m., to be the actual excess cost.

For Class (c) we get a maximum possible added cost of £13·1m., and we take only one-third, or £4·4m., to be the actual excess cost.

The three items added together make £26·9m.

79. This method of assessing the excess price of Australian products compared with free imports may appear very arbitrary, but it sums up in round numbers careful and prolonged consideration of the question. The placing of an industry in one of the three groups represent a definite conclusion on the order of protection used by that industry.

Moreover, we have varied the assumption in several ways without getting any very different total. We have also made similar computations for the year 1925-26 and obtained a total excess cost a little smaller than in 1926-27 (as might be expected), but only by a comparatively small figure.

80. There is one point in estimating the maximum excess price of Australian products which calls for special note. The duty on imports is calculated on the average duty actually paid on all imports. In many cases there is both a preferential tariff—chiefly for the United Kingdom—and also a general tariff, with rates perhaps 10% or 15% higher. It might be argued that the excess cost should be reckoned on general tariff rates exclusively. If goods bearing a general duty of 30% and a preferential duty of 20% are sold for £130 in Australia, it would appear that £100 would be the cost of the same imports without a tariff, and not the higher figure obtained by averaging the general and preferential duties actually paid. Consequently our estimate of excess cost based on average duty paid would be substantially under the true figure.

There are two objections to using the general tariff as sole guide to maximum excess prices in Australia. In the first place, for a good many of the items in question, practically all imports are under the preferential tariff. As preference is not often greater than 10%, it appears likely that the preferred country would have the trade in any case, even without preference, and that preference is merely nominal. In the parallel case of total imports to Australia being negligible, we have omitted many industries altogether, as not using the protection offered at all, and for the others based excess costs on only one-half of the protection offered by the tariff. In Australia we know in these cases that protection must be partly effective from the extreme reluctance of the industries concerned to do without it. Preference rates, however, are fixed by Australian authority without reference to the British manufacturer, and in many cases we have no evidence that the British manufacturer puts any value on it at all. On the whole, therefore, when imports are practically all preferential, it does not seem likely that any appreciable sum should be added to excess costs on account of a higher general tariff.

When, however, imports under the general tariff are substantial, there is a better case for taking the general tariff as a basis. In some cases, however, it is known that the goods imported under the general tariff are so different from the preferential goods under the same tariff item that they do not compete with them. And the same may be true of other items for which sufficient information is not available. It appears then that even where imports under the general tariff are substantial, an estimate of excess cost based on the general tariff only would be some exaggeration.

We have, however, taken out an estimate of the excess costs of Australian manufactures, based on the general tariff instead of average duty paid, in all cases where imports under the general tariff are substantial. The result is to increase our previous estimate by £1.3m., making it £28.2m. This is the upper limit of the error due to taking average duty paid instead of general tariff rates, and by our previous argument the true correction should be somewhat smaller. We may, therefore, put our estimate of excess costs of Australian manufactures in the neighbourhood of £28 million.

81. The costs here estimated are due in part to their own

general influence upon prices: each individual item on our list includes the cost of protection as a whole, and therefore the cost of each industry is greater than if it were the only one protected. We can make no deduction on this account, but we deal with it when we discuss the burden of protection in Part V. But where the commodity is almost entirely absorbed in the product of another industry, and both are protected, we have tried to avoid duplication by omitting the costs of protecting the industry supplying the materials. Their costs are included in those of the final product. For example, the costs of woollen piece goods due to protection are not given in addition to the costs of manufactured clothing because they are mostly included in clothing. Similarly the costs of protecting galvanized iron include the cost of protecting the raw material, and there will be further examples. But duplication has not been entirely avoided, though it is not substantial.

On the other hand, the whole of the commodities omitted on this account are not used as materials in recorded manufacturing, and there are smaller items which in the aggregate have substantial costs of protection. On the whole, the effect of the factors mentioned in this paragraph is to leave our estimate of excess costs at about £28m.

82. There remain several influences on the total, each of which is very difficult to estimate, and all we can do is to assemble them and judge their whole effect on the total.

There are the further excess costs mentioned in §74. Of these, bounties were £0.8m. in 1926-27, and they have since increased. There is some cost due to disturbance, and some cost due to tariff administration. Bounties are given, in effect, by public bodies through preferential purchases at prices above those protected by the tariff. These and other concessions create costs which are substantial in the aggregate, and between £1m. and £2m. may be allotted to the excess cost considered in this paragraph. We have added nothing for the difference between customs and direct taxation as a burden on costs of production.

On the other hand, we have made no deductions from the total on account of customs duties paid by foreign exporters, which reduce the extent to which local producers can increase prices. These prices can be increased only to the price at which competing imports are actually placed on the Australian market.

Instances of the foreign exporters' prices being cut to meet the competition of Australian products are common, and some of them are substantial. But our impression is that these cuts do not on the whole amount to very much in normal years. The same exporters may make a cut of 10% or more in some items, where competition is unusually keen, but less in other items, and in other branches of the import trade no cut at all is made.

We doubt if the whole cut averages as much as 5 per cent. on invoice values for those industries subject to it. These will be only those exposed to serious competition from imports, and will comprise Class (a) and one-third of Class (c) with a total output value of £80m. The cut of 5 per cent. on invoice values is equivalent to about 4.2 per cent. on Australian output value and 4.2 per cent. of £80m. is £3.3m. We therefore take £3.3m. as the maximum deduction to be made from our estimate of excess costs on account of the foreigner paying the duty. This deduction more than balances the additions to excess costs referred to earlier in the present section by about £2m., which may, therefore, be deducted from our previous total of £28m.

We conclude, therefore, that the excess costs of protected manufactures in 1926-27 were round about £26m.

83. We have noted above that the long and somewhat involved computations above set out (§§74 to 82 and Appendix N) have been repeated and amended, and the assumptions varied to cover the range of probability, without leading to any substantially different result for our estimate of total excess costs.

Further, we have more recently been able to make a check estimate on more realistic lines by comparing the actual prices of Australian goods with the prices at which similar imports could actually be landed. This method involves inquiry under expert guidance into the business of each industry. But it takes account automatically of nearly all the factors discussed in §§ 80, 81 and 82, which complicated our original estimate on *a priori* considerations. The only important exception is bounties (£0.8m. in 1926-27), which would not show in the check estimate. We do not suggest that our estimate on these lines was nearly complete, but it took in most of the bigger production items. The result was a very remarkable confirmation of our previous estimate for total excess costs. There were, as we expected, wide variations for individual industries. Where

we had assumed, *e.g.*, that a group of industries raised prices by 50% of the duty, it was found that some industries raised them only 20% or 30%, but others 70% to 80%. The errors cancelled out very completely, and when further allowance was made for bounties the two estimates differed by well under £1m. We do not lay stress on the great closeness of the agreement between the two figures, but only on the fact that the difference was less than 10%. From the total of our varied estimates we have gradually arrived at a firm conviction that the final estimate of £26m. for the cost of protected manufactures, which was first put forward very tentatively, does in truth very fairly measure the facts, and that it is unlikely that the error is greater than 10%.

We are unfortunately not able to give the details of the check estimate described in the last paragraph. The information was given confidentially on the understanding that the position in no particular industry should be disclosed. The figures given in Appendix N were arrived at independently, and do not purport to be correct for individual industries, but only to give a probable total, which the check estimate confirms.

We may add that in a few industries we have been able to make a satisfactory estimate of excess cost of Australian products without drawing on confidential information. But we do not think it fair to reflect particularly on any individual industries by quoting high excess costs, when it is only a small part of the field that we have been able to cover without help confidentially given.

*(b) The Costs of Protected Primary Products.*

84. The costs of protection are not limited to the costs imposed by protected manufactures, for certain primary products are protected also. Butter and sugar protection have not been considered in the figures given above, and there are other farm products, such as hops and tobacco, which might be included in a category similar to class (a) above. Others are naturally sheltered by the cost of freight. But the greater proportion of our primary products is of goods which are exported, and the home prices for such goods are normally determined by world prices. They can only be higher at all if the home market is controlled, and can only be substantially higher if and to the extent that home prices are protected against imports. We

shall cite three special cases where these conditions exist, and where excess costs are imposed on the community under very peculiar circumstances. These are sugar, butter and dried fruits.

85. With butter and dried fruits, the tariff is exceptionally high, and with sugar an embargo on imports has been in operation. This has afforded protection to local production, and it has permitted home prices to be fixed at rates which are high enough to provide bounties on exports. Under the arrangements for controlling the prices of these products, the Australian consumers are required to pay what is necessary to make the home-consumed production profitable, plus what is necessary to make the exported production profitable also. The limits to the amounts which the consumers can be made to pay are fixed by their demand for the products (which in the cases of sugar and butter is fairly stable), and by the height of the tariff.

86. The embargo on sugar imports allows of any price being fixed in Australia at which the consumers will continue to purchase without reducing demand, and that the Commonwealth Government will allow. The price fixed for Australia is £27\* per ton of raw sugar, and this price is fixed at a sufficiently high rate to cover a loss on exports. In 1925-26 only 56% of the crop was consumed in Australia, and paid for at £27 per ton. The remaining 44% was sold abroad at £11 6s. 0d. per ton. The average price received was therefore £19 10s. 0d. per ton. The Australian consumer paid £7 10s. 0d. more than this in order to make up the loss on exports, and the subsidy to these exports amounted to £2,175,000. In 1926-27 exports were less, and the cost was reduced to £750,000, but it doubled this figure for 1927-28. For 1928-29 the exportable surplus has again increased, with prospects of still lower prices for it, so that the cost may easily exceed £2,000,000.

The total cost of protecting the sugar industry, both at home and abroad, may be gathered by comparing Australian with New Zealand prices. These prices were given officially in *Hansard* for October 5th, 1927, p. 213, and the excess cost for 1927 amounted to £4,000,000. This is exclusive of the cost of protecting the sugar refineries, a cost which is common to Australia and New Zealand. At present raw sugar in Cuba is £9

\*Of this the producer gets £26, and the remaining £1 goes in costs of administration and rebates to certain manufacturers using sugar.

per ton, against £27 in Australia, and the excess cost is substantially greater.

87. The butter "stabilization" scheme depends on no Government assistance except a duty of 6d. per lb.; (the scheme threatened to break down with the old duty of 3d.). Since January, 1926, the butter industry has provided a bounty of 3d. per pound on all butter exported. The funds for this bounty are collected by a levy on all butter produced. The raising of the price of exports by 3d. automatically increases the price for home consumption by the same amount. Hitherto about £800,000 per annum has been paid in this way as a subsidy on butter exports, and the total cost of protecting the butter industry against New Zealand, both at home and abroad, appears to have been about 4d. per pound of butter consumed at home, or £3,000,000 per annum. Recently the bonus on exports has been increased to 4d., and a further increase to 4½d. has been decided on. This may be expected to increase the cost of protection to over £4m., but the lower figure of £3m. has been retained here.

88. The dried fruits industry is controlled by Boards acting under the authority of Federal and State legislation. These Boards limit the supplies placed on the Australian market, and heavy customs duties prevent imports. The price of sultanas consumed in Victoria was £57 per ton in 1927, and for the same sultanas £37 10s. 0d. per ton was received in Great Britain. As exports were about three times the Australian consumption, it follows that £42 per ton was received on the average by the growers. The Australian consumer pays £15 per ton (30%) above the price received by the producers for their whole output, in order to provide a subsidy of £4 10s. 0d. per ton on exports. This costs about £120,000 per annum. The total cost of protecting the industry, as measured by the excess prices paid by the Australian consumer above the price of free imports is not less than £250,000.

89. A number of other primary products are substantially protected, but the effectiveness of protection varies very greatly. The most important of these are oats, maize, onions, tobacco, hops, potatoes, fruit, meat, fish, bacon, and ham, cheese and milk, condensed or powder. On all these there is a substantial duty, which is in most cases effective for only part of the year for parts of Australia. For some of them the amount of



protection can be definitely estimated. For example, hops and tobacco each cost about £100,000 to protect. But for the more important items an estimate is difficult. The question is further discussed in Appendix N, and a very rough guess of £3m. is arrived at as the cost of protection of primary products, other than timber, sugar, butter, making a total of at least £10m., as the cost in 1926-27 of tariff protection of primary products outside of timber.

90. In addition to the tariff protection of primary products, there is a substantial amount of other assistance direct from the Government. Of this more than three-quarters comes from State Governments in many forms—low railway rates (manifest in the loss on railways), roads and jetties, irrigation schemes, bores, closer and soldier settlement, and many activities of Agricultural and Mining departments. An increasing amount, however, comes from the Commonwealth in connection with the Federal Road Grant, the River Murray scheme and the Development and Migration Commission. We have made a preliminary estimate of this assistance (see Appendix O), and arrive at a minimum annual figure for "other" assistance to primary production of £12m.

(c) *The Total Subsidies to Production.*

91. We may now put together the foregoing estimates—

<i>Cost of Tariff Protection</i>	£m.
Manufactures . . . . .	26
Sugar . . . . .	4
Butter . . . . .	3
Other Primary Products . . . . .	3

Total cost of tariff protection . . . . £36m.

Other assistance to primary production . . . £12m.

These may be grouped otherwise as follows:—

Subsidies to protected manufactures . . . . .	£26m.
Subsidies to primary production . . . . .	£22m.

Total subsidies to production . . . . . £48m.

The £12m. of other assistance to primary production is, however, very different in its effects from the cost of tariff protection, because it is derived chiefly from direct taxation, and the cost falls therefore more lightly on industry than tariff pro-

tection. Moreover, not all of it is effective. These aspects will receive fuller treatment in the discussion on the incidence of cost (Part V. and Appendix O.)

*(d) The Costs of Preference to United Kingdom Products.*

92. The costs of the tariff do not end with the costs of protecting goods made in Australia, for the tariff also protects goods made in the United Kingdom from the competition of producers in foreign countries. The Australian pays the same price for British goods as for American goods, but so much less of the price goes into the Treasury as customs duty and saves equivalent other taxation. This amount the country pays, just as it does the excess prices of protected products, with the difference that the benefits gained in Australia are gained by those of our industries which receive reciprocal protection in the United Kingdom. The subject is dealt with more fully in Appendix S.

It has been alleged that the benefit to the British manufacturers equals £8m., that being the amount of the duties which would have been paid if the goods had been imported from foreign countries. The benefit to the British manufacturer can only reach that figure if he obtains the foreign price *plus* an amount equal to the whole of the duty levied on competing foreign goods. There are no grounds for making such an assumption, for a good proportion of the British exports on which lower preferential duties are levied are not dependent upon preference, and would have continued if the competition with foreigners had remained equal. (See §80.)

An estimate of the value of the British preference may be made in this way. Where practically all the trade in any item of goods is preferential, the value of the preference is small, and may be neglected. Where, however, a substantial proportion is under the general tariff, the full value of the preference on the preferential trade may be counted a subsidy to the British exporter. The first step—counting no value when all the trade is preferential—will be to some extent an under-estimate. The second step—counting full value when “general” trade is substantial—will over-estimate the value of preference, because the preferential and general trade may refer to different classes of goods under the same tariff item, which do not compete with one another. Put together, an estimate on these lines should give a rough measure of the value of preference. We

have not attempted to make this estimate in detail, but a rough survey confined to those goods which compete with Australian manufactures (see Appendix N) suggests a figure of about £1m. No doubt there is substantial preference also on goods which do not compete with Australian products, and an estimate might be made on the lines indicated above, but we have not attempted to do so.

The whole amount—the £1m. on goods which compete with home products, together with the preference on non-competitive imports—is a cost to Australia which must be met by other taxation to the same amount, which will impose some cost on industry. But this is not a cost of protection but of preference, and therefore will not be considered further in this report.

*(e) The Extent of Protected Production.*

93. By protected production we mean production in those industries which under present circumstances, with costs raised by protection generally, do in fact raise the prices of their own products to some extent, however small, above the price of free imports, under the shelter of the tariff. This protected production may be divided into two parts:—

P. The part which, even with the lower costs obtaining without the tariff, could not live without protection in some form.

Q. The part which could live without the protective tariff, by reason of the lower costs prevailing without a tariff.

The division of protected production into these two parts cannot be considered until we have reached some conclusion as to the extent to which industrial costs are raised by the tariff. (Part V.) Meanwhile it may be remarked that the part P (which could not survive without the tariff) is the most important for our general discussion, and should by its nature be subject to a fairly precise estimate; while the part Q (which could subsist by itself if tariff costs generally were abolished), will be of necessity a much less definite quantity, because of the large amount of production for which it is difficult to say whether it uses protection to a very small extent or not at all. The total of protected production will therefore also have a somewhat ill-defined boundary at one end. However, an estimate of total protected production is implicit in our

previous estimate of "excess cost," and we proceed to separate it and set it out. An approximate value will be required for our discussion of incidence (Part V.), and we shall find later that some uncertainty as to the total of protected production will not much affect the result, so long as the part called P can be estimated with moderate accuracy.

94. In Appendix N are given the chief protected manufactures, with the value of the output and the value added to the raw materials by process of manufacture. To get the value of protected production, we require now one, now the other of these two values. Where the raw material is imported, or consists of goods which are exportable at world prices, then only the added value is required to give the value of protected production. Rubber goods and blankets are instances of such manufactures. Where, however, the raw material is home-produced and not exportable at world prices, as with cement, most furniture, and iron, then the whole value of the output gives the amount of protected production. In other words, the desired result is to be obtained by taking the whole output of protected production and subtracting from it the amount of raw material either imported or exportable.

95. The above calculation is to be made in respect to protected manufacturing production, and we have first to decide what production is protected.

Class (a) manufactures use\* the tariff to its full extent, so that all production in that class may be counted as protected.

Class (b) manufactures use on the average half the protection offered; so that again, in general, the full value of production must be counted. Some of this production will, however, be using the tariff only to a very small extent.

For Class (c) it was reckoned that only part of the output is competing with imports, and not all of that is using the full protection offered, so that for the whole of the class excess costs were only one-third of the maximum possible. It will be in harmony with this if we take half the value of production as using the tariff to some extent.

The detail of the calculation outlined in this and the preceding paragraph is given in Appendix P.

\*Protection is used for two purposes: (a) to allow of prices above those of free imports, in order to cover the costs of Australian production, and (b) to secure the home market by increasing the prices of imported goods above those of the Australian products. The former sense is intended in the above paragraph and throughout the Report, except where the other sense is expressly stated.

For sugar the whole output value of raw sugar, £10m., is taken. For butter it is roughly estimated that three-quarters of the total production, or £15m. in value, uses the tariff to some extent. For other primary products only a very rough guess can be made. We estimate roughly that higher prices on account of the tariff are paid for about £15m. of other primary production; but most of this, like a good deal of the butter, does not require protection, and the added price goes, not into costs of production, but into land values and profits.

96. We have therefore:—

*Value of Protected Production, 1926-27.*

(With Corresponding Gross Value of Output.)

	Value of Production.	Gross Value of Output.
	£m.	£m.
Manufactures . . . . .	110	140
Raw Sugar . . . . .	10	10
Butter . . . . .	15	15
Other Primary Products . . . . .	15	15
Total . . . . .	£150m.	£180m.

97. The reminder may be given that some of this production of £150m., here estimated as protected, uses protection only to a very small degree, and that a substantial part of it (to be estimated later in Part V.) may be expected to be able to subsist without its own protection, if all other protection was abolished.

98. It may be noted for later use that by comparing our estimate of excess costs with the above estimates of protected output, we may get the average excess price for different groups as follows:—

	Average Excess Price per cent. of Total Price.
For all protected goods . . . . .	20%
For all protected manufactured goods . . . . .	19%
For manufactured goods in Class (a), (using full protection) . . . . .	25%
For protected primary products . . . . .	25%

These figures are the percentage of actual prices due to protection, and *not* the percentage by which free trade prices have been raised by protection, which would, of course, be somewhat greater—25, 24, 33 and 33 respectively.

## PART V.

### THE INCIDENCE AND DISTRIBUTION OF EXCESS COSTS.

99. We have estimated at £36m. the excess cost of commodities produced in Australia compared with what the cost would have been without any protective tariff. We leave out of consideration the excess costs imputed to the preferential tariff because the principle of preference has no necessary connection with a policy of protection, which is the main subject of our inquiry. The excess cost of £36m. for Australian products is for commodities for which the value of production is £150m., corresponding to a gross value of output of £180m., and the inference is that on the average 20% of the price of these protected commodities is excess price. We want to find the effects of these excess prices on other industry.

Our object in this Part is to arrive at some conclusions on the burden of the tariff, and especially the cost imposed upon the export industries. We shall do what is possible to answer this question, which is the most important one we are faced with; it is also the most difficult.\* Our distribution of the costs of protection, like our estimates of the costs themselves, may be open to detailed criticism, and yet be useful as an indication of the general importance of the tariff and the magnitude of its effects. Our own experience shows that different methods of approach to this problem, and differences of detail in allocation of costs, do not make sufficient difference in the results to invalidate the general inferences that can be made from them.

#### *(a) The Basis of Comparison.*

100. It is desirable here to re-state clearly the conditions which we are comparing. The excess cost is in respect only to Australian produce consumed in Australia, the price of which is raised above the cost of corresponding free imports by the amount we have estimated at £36m. The price of imports in the protected classes is raised also and in the same proportion

\*Readers who cannot give the time for full consideration of the somewhat forbidding argument of this Part may be advised to omit §§114-119 and take §120 as giving the result of the omitted sections.

by the amount of customs duty paid, and that of certain Australian products also by the amount of excise duty paid. The amount by which prices were raised in this way by duties paid was over £43m. in 1926-27. The effect in raising general prices is somewhat similar to the effect of excess prices of protected Australian products which we are about to discuss. But we need not consider it. We may fairly assume that the policy of the country would remain substantially the same in respect to the amount of taxation to be raised from Customs and Excise, whatever its protective policy might be. We may assume, therefore, the same amount of customs and excise revenue without a protective tariff as at present. The distribution would be somewhat different, and in place of the revenue obtained incidentally from protective duties a similar amount would be raised by intentional revenue duties. The effect of this taxation in raising general prices would be much the same as the present customs and excise taxation. The effect on production costs would vary to some extent according to the degree to which the new revenue taxation fell on luxuries or goods in general use; but that is a question for separate consideration. (See Part II.) For our present purpose we may assume that the direct effect of Customs and Excise taxation on industry would be the same without Protection, or with a modification of Protection, as at present.

We are comparing, then, our present position with one in which:

- (a) The same amount of revenue is raised by customs and excise taxation, having the same effects on the costs of industry as at present.
- (b) None of this taxation is protective in its effect; that is to say, it does not discriminate in any way between imports and Australian produce.

We have avoided as far as possible such phrases as "the abolition of the tariff," because that involves consideration of capital sunk in protected production, and of the inevitable difficulties of enormous readjustments of occupation. What we have in mind is a hypothetical state of things, in which Australia had grown at the present day to its present population with the same standard of living *without a protective tariff*. When we have compared the prosperity of the country under the two conditions, real and hypothetical, we shall further have

to inquire whether the hypothetical state would have been in fact possible, in view of the postulates necessary for its existence which have been forced on us by our inquiry.

*(b) The Passing on of Excess Costs.*

101. In discussing incidence, we have first to consider how much of the excess costs are not borne by industry, then how much of the costs that are borne by industry are not successfully passed on, and finally, the burden on the export industries. All excess prices do not add to costs of production, for some are borne finally by the first consumers. The larger part, however, imposes unavoidable costs of production, which fall on all industries. The naturally sheltered industries are able to raise prices and to regain most of what they pay: the protected industries have sufficient protection to regain what they pay, and also their own particular excess costs; but the export industries alone are unable to increase prices. These are the general tendencies. But the increased prices necessary to recover the full costs imposed by the tariff are not always obtainable. We must estimate how much of the costs "stick" to consumers, and how much to producers other than in the export industries.

*(c) Costs Which Stick to Consumers.*

102. A substantial proportion of protected commodities are luxuries or semi-luxuries, which cannot in general be passed on by any kind of consumer. Such commodities are pleasure motor-cars and their tyres, confectionery, and the more expensive grades of clothing. We estimate roughly (in Appendix Q) that about £7m. of the costs of protection are due to such commodities. These costs are borne by what, in dealing with taxation, we have called the "surplus elements" of income, and the effect is similar to the effect of taxation on alcohol and tobacco. The high income per head and the standard of living in Australia allow of a good deal of luxury and semi-luxury expenditure, not only from the higher incomes, but also from wages where the wage-earners have no family responsibilities.

103. The remaining excess costs fall in the first place also upon consumption, and there are some incomes which cannot be increased merely because their expenditure is invaded by tariff costs. These are the fixed incomes derived from long-period investments, and we estimate these roughly at £40m., or about one-fifteenth of the national income. These bear not only



the direct excess costs of protected goods, but also their share of the excess costs passed on by sheltered industry. These incomes are therefore in the same position as the incomes from industry which has in the last resort to bear excess costs, and will be grouped with them in estimating the final burden of protection.

We are left, then, with £29m. of excess costs, which fall on industrial costs and fixed incomes.

*(d) Costs Which Stick in Naturally Sheltered Industries.*

104. The excess costs which enter into industrial costs are borne in the first place by consumers and passed on by them through increased money wages and profits. Goods directly affected by the tariff increase their prices at once. Under our methods of adjusting wages to prices, wages follow prices more quickly than they otherwise would. Wages are in general determined by a retail price index which, although confined to food, groceries, and housing, has been found to represent roughly the change in price of all goods and services entering into common consumption. Protected manufactures do not enter largely into the retail-price index, except in respect to the cost of housing. But sugar and butter, which are heavily protected (besides dried fruit, etc.), carry great weight in the index. The net result is that wages are to a considerable degree affected immediately by the change in prices due to the tariff as a whole.

In other cases, the passing-on may be very slow. With salaries, adjustment sometimes is delayed for years. Other prices, such as professional fees and tram-fares, do not change easily, but the adjustment when made may anticipate a future increase in prices.

105. Most of the £29m. falls on industrial costs, and in the naturally sheltered industries which do not meet foreign competition prices are increased to recover the extra payments necessary. But the capacity to increase prices differs greatly between these industries. It depends upon the conditions of supply and of demand for the goods produced. Where the demand is fairly rigid, and the supply is responsive to market conditions, the necessary increase in prices may be almost automatic. Differences in conditions of supply are probably the more important cause of differences in capacity to increase prices to cover the costs imposed.

With most farming production the conditions of supply are influenced by the seasons at least as much as by prices, and supply is not immediately sensitive to changes in costs. With farming production, therefore, the passing on of costs will be slow and partial and attended by distress. The first effects of increased costs will be apparently an unprofitable market price. This will at first be attributed to the vagaries of the season, especially for such products as fruit and potatoes which have a very variable yield. Only when it persists for two or three years will it be realised that the one effective remedy is a permanently decreased supply, and that the marginal producer must go out of business. He cannot in general divert his land to other crops, for the costs of all are equally affected. His only refuge is a protected or sheltered industry, if he can find a place in one. When cultivation is sufficiently restricted, prices will rise again to a profitable level. But the process may take years, and meanwhile land values will to some extent fall, and so carry part of the load.

With a growing population and consequent increasing demand, there may be no actual restriction of production, which may remain stationary until the increased demand has restored prices to a profitable level. Meanwhile land-values will bear some of the excess costs.

106. The same reasoning applies to other industries which, although normally sheltered from outside competition, are unable to adjust their prices completely. The State railways are in this position. Even the protected industries, when they are using the full amount of protection provided by the tariff, will bear additional costs imposed by an extending tariff, and pay them out of rents and profits.

Both here and in the primary industries the difficulty of passing on added costs is some spur to greater efficiency, and so far as this is achieved the industry will bear added costs and not pass them on by an increase in prices.

The adjustments necessary to pass on the costs of the tariff are never complete over the whole range of industry. It may be that on the average more than 90% of the costs are passed on by every industry except the export industries, but if 5% or 10% stick in other industries, the total will be substantial.

We have to deal with about £29m. of costs imposed in 1926-27, and some of these costs were due to recent extensions of the

tariff. In the course of time, no doubt, adjustments will be made throughout the sheltered industries generally, which will enable the amounts that stick to be reduced. But even with a stable tariff the excess costs tend to increase with the growth of home-produced goods, so that owing to the slowness of adjustments some part of the added costs will in effect stick.

On all these accounts we think that probably £3m. of the £29m. must be borne finally in the naturally sheltered industries, other than State activities. But we cannot put the figure on any measured basis. From a survey of all the factors we feel sure that the amount sticking cannot be much less, and that it is unlikely to be very much more. We shall not, however, deduct £3m. immediately from the excess costs affecting industry, but base our discussion on the full possible £29m. When we have reached our conclusions, we shall consider how they would be affected if an amount of excess costs of the order of £3m. stuck in sheltered industry. We shall at the same time consider the effect of the "cancelled" costs, discussed in the next section.

*(e) The Compensating Effect of Other Assistance.*

107. The burden on the primary industries is reduced to some extent by the assistance given through taxation. The full cost of transport is not passed on to them, either directly or through other industries which use the State railways. This assistance which we have reckoned roughly to cost a minimum of £12m. (see Appendix O) is intended to increase primary production. So far as it is successful in increasing production for the home market, it prevents prices from rising, and the assistance given absorbs some of the costs imposed on both the home and the export industries.

We have now to consider how much of this expenditure is effective in assisting industry, what industry receives the benefits, and who bears the burden of providing the assistance. As the discussion is somewhat involved and the question subsidiary to the main argument, we have relegated the discussion to Appendix O, and may suggest that it will be easier to follow after the main argument of this part is finished than at the present stage.

We will then simply state here the conclusions reached in Appendix O, on the basis of the figure of £12m. for other assistance to industry:—

- (a) Export industry will receive a net benefit of £2m., which will offset the same amount of the final burden falling on it.
- (b) Sheltered primary industry will receive a net benefit of £3m., which will cancel £3m. of the excess costs falling on sheltered industry, so that they will not be passed on to other industry through increased prices.

It is the latter amount, the £3m. going to sheltered industry, which immediately concerns us. But as our total of £12m. of other assistance is incomplete, and the resulting benefit to sheltered industry very roughly assessed, we may regard it as of a lower order of accuracy than the estimate of £29m. falling on industry and fixed incomes, though superior to our estimate of £3m. excess costs which stick in sheltered industry. We shall, therefore, not now deduct it from our estimate of excess costs falling on industry and fixed incomes, but treat it as we treated the £3m. of costs which stick in sheltered industry. (See §106, last para.). We shall therefore discuss the incidence of the whole £29m. of §103 as falling on industry and fixed incomes, and then consider how far £6m. of excess costs, "sticking" or "cancelled," in sheltered industry will affect our conclusions.

*(f) What Industries Bear Passed-on Costs?*

108. We may now summarize our analysis of the incidence of excess costs of protected production up to this point:—

Total excess costs . . . . .	£36m.
Less: Absorbed in luxury expenditure ..	£7m.

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Falling on industry and fixed incomes . . . . . £29m.

We have estimated further that of this £29m., £3m. sticks in sheltered industry and £3m. is cancelled by Government assistance to sheltered primary industry, in both cases preventing the increase in prices in sheltered industry which would otherwise have followed. We have then a net amount of £23m. falling on unsheltered industry and fixed incomes. But as the deduction of £6m. is more tentative and incomplete than our previous estimates, we think it better to discuss the incidence of the maximum burden of £29m. on unsheltered industry and fixed incomes, and then consider how our conclusions would be affected by a deduction of the order of £6m. from the total burden. In this way it will be much easier to see the effects of

any variation in the estimate of £6m., and to substitute for it any amended figure which further inquiry may indicate.

109. We have now to consider what industries bear the excess costs which are passed on. Our conclusion is that these excess costs fall not only on the export industries, as might appear at first glance, but also on the protected industries themselves. Some general discussion may be offered in support of this conclusion.

Suppose the country were naturally self-contained, without protection, with *neither imports nor exports*. Suppose, however, that some pest in Australian sugar cane, coupled with cheap production in some adjacent country, made it possible to import sugar at little over half the Australian cost, and to preserve the Australian industry a duty of 100% was put on, and the price maintained at double the price of free imports. The increased price would be passed on by other industries which are all sheltered; a certain amount of it would fall on fixed incomes, and surplus elements of income, and stick in the sheltered industries, without raising prices. But the greater part—in the case of a basic necessity like sugar, much the greater part—would in the end be passed back on the sugar industry itself by increased prices for every commodity and service, and the net assistance obtained by the sugar industry would be very small. In this case it is quite clear that all the excess costs of protected production which are passed on to industry fall on protected industry.

If in this example there were two protected industries instead of one, the passed-on excess costs would in general fall on them in proportion to the value of production in the two protected industries, provided that the products of these industries were common necessities. If (for Australia in 1926-27) we exclude the excess cost of protected luxuries (as we have done above, §102), all the passed-on excess costs are for goods which directly or indirectly are common necessities. And we may infer generally that the excess costs which finally fall on industry are distributed between different industries in proportion to their value of production or income.

110. It may be objected that although the excess costs fall on the protected industries themselves, they are all passed on in excess prices. This is true; but the amount passed on has

already been taken into account and included in our original total of £36m. for excess costs, which is estimated on the actual prices charged for protected goods after the passing-on process is substantially complete. The total of £36m. arrived at in this way of necessity includes both the excess price required by the specific disability of each industry, and the excess price required to meet the costs of protection generally, which fall directly on the protected industries themselves or are passed back to them through the sheltered industries. There is, therefore, no amount passed on by the protected industries *additional* to the original £36m. The part of this total which we have estimated to fall on industry will fall uniformly on the income or value of production in all the protected and export industries, and on all fixed incomes, and the share which falls to the protected industries is paid out of the £36m. of excess prices which they in actual fact obtain.

111. Before proceeding to distribute the final excess costs over the export and protected industries, we may justify the conclusion that excess costs are not borne entirely by the export industries by a restatement of the problem from a slightly different angle.

It is quite clear and generally recognized that the protection of one industry makes it more difficult for other protected industries to produce profitably. Additional protection for one industry may make further protection necessary for other industries. The protection of sugar and butter adds to the costs of protected manufactures, and also of the sugar and butter industries themselves. Similarly the protection of woollen goods and machinery adds to the costs of all protected industries. These additional costs of production on account of protection are covered by the excess prices charged for protected goods, and included in the total, which we have estimated at £36m. A proportionate share is equally included in the amount passed on to industry and fixed incomes, which we have estimated provisionally at £29m. The total excess costs of protected products are made up of two parts:—

- A. The amount required to meet the specific disability or comparative disadvantage in each industry.
- B. The amount required to meet the extra cost due to the excess prices of protected goods generally.

The first of these is the amount of excess costs which will fall

on the export industries and fixed incomes; the second is the amount which will not.

112. This can be seen clearly from the following consideration. Of the £29m. of excess costs passed on to industry and fixed incomes, let us suppose, purely for the sake of example, that £10m. is the part B due to the costs of protection to the protected industries themselves. Suppose, now, all prices were reduced to the price of free imports, what bounty would the export industries and fixed incomes have to pay to the protected industries to enable them to carry on as profitably as at present? As the protected industries would themselves have no excess costs to pay, the amount they would require would be only that required by these specific disabilities (A), namely, £19m. and not £29m. Therefore on this assumed case, if the export industries and fixed incomes paid the protected industries £19m., they could get the prices of free imports without damage to the protected industries. We may conclude that the amount B in the preceding paragraph, here assumed to be £10m., does not fall on the import industries but on the protected industries themselves, and that the total burden on the export industries and fixed incomes is amount A, here assumed to be £19m.

We require now to estimate these two amounts, A and B, here assumed for the sake of example to be £19m. and £10m. We shall do this on the principle reached at the end of §110 by dividing the £29m. between the export and protected industries and fixed incomes in proportion to the total available income of each group.

*(g) The Measurement of the Burden: Provisional Estimates.*

113. We require now the total income in the export industries, the protected industries, and in fixed incomes which are available to bear the excess costs, whether direct or passed on. Production dependent on the tariff in 1926-27 has been estimated (§96) at £150m. (This includes production which uses protection only to a very small extent, and account will be taken of this fact later (§118) before reaching a final conclusion as to the burden on industry.) For fixed incomes we have made a rough estimate of £40m. (§103). The value of production in the export industries remains to be estimated. By the export industries we mean those dependent on export prices for the whole of their product. Those industries which depend

on getting protected prices for home consumption, such as butter and sugar, are excluded. The following figures are averages for the last three years:—

*Value of Production of Export Industries.*

	£m.
Wool, Sheepskins . . . . .	7½
Export Meat, Tallow, Hides and other Skins ..	10
Export Wheat and Flour . . . . .	40
Minerals, less Coal and Iron; Ore Reduction ..	18
Fruit . . . . .	8

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£150m.

114. We may take the home-produced national income as being about £600m,\* made up of:—

- (i.) Income in the export industries which are dependent on world prices for all their product.
- (ii.) Income in the protected industries, including sugar, butter, dried fruit, etc.
- (iii.) Income in the sheltered industries (and services), which must make up the total.

We have therefore:—

Income in Export Industries . . . . .	£150m.
Income in Protected Industries . . . . .	£150m.
Income in Sheltered Industries . . . . .	£300m.

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Total National Income . . . . . £600m.

These gross totals do not, however, give the income available to bear the £29m. of excess costs which we are considering. The national income may be regarded as completely made up of export, protected, and sheltered income with a total of about £600m. Fixed incomes are derived from all three, and may be assumed reasonably to be provided proportionally by export, protected, and sheltered industry, so that a proportional deduction must be made from these incomes on account of fixed incomes. Further, a deduction must be made for the income spent on protected luxuries. We have deducted £7m. from

\*See J. T. Sutcliffe, *The National Dividend* (Chapter II.) and F. C. Benham, *The Prosperity of Australia* (Chapter II. and Appendix A). The methods and figures of both these investigations indicate for 1926-27 a home-produced national income of a little over £600m. Critical opinion in Australia accepts the findings of Mr. Sutcliffe and Dr. Benham as being reasonably accurate, with perhaps some small exaggeration, and £600m. may be confidently taken as fully accurate enough for our present purpose.



total excess costs, and we must deduct the income spent on these luxuries, about £28m., and also the amount spent on similar imported luxuries, about £27m., to get the amounts available to bear the remaining excess costs. (See Appendix Q.) Here again we may reasonably assume that the income spent on protected luxuries is derived uniformly from all kinds of industry. When we have made these adjustments we get the following figures:—

	£m.	
(a) Income spent on protected luxuries* . . . . .	55	
(b) Fixed income, less share of (a) . . . . .	36	
(c) Export industries, less share of (a) and (b) . . . . .	127	}
(d) Protected industries, less share of (a) and (b) . . . . .	127	
(e) Sheltered industries, less share of (a) and (b) . . . . .	255	bearing £29m. of excess costs

£600m.

The total income bearing these £29m. of excess costs is therefore £290m., and the average burden 10% of that income.

*(h) An Alternative Statement.*

115. The above result of a rise in costs of export and other unsheltered industry of 10 per cent. is provisional. We have to consider the effects on it of the excess costs sticking or cancelled in sheltered industry, which we estimate at £6m.; and of another reservation indicated in the above discussion—with reference to the quantity of protected production. Before doing so, it may be helpful to give another statement of our main provisional conclusion in terms of the effects on prices. The argument is essentially the same, and leads of necessity to the same numerical result. But it may be more convincing to some readers. We give then this re-statement in §§116 and 117, and then go on to discuss the necessary modifications referred to in this section.

116. We have a total of £29m. of excess costs of protected Australian products, which have to be borne by industry and fixed incomes. A certain amount, which we tentatively estimate at £6m., "sticks" or is cancelled by Government assistance to

\*Luxury goods, both imported and home-produced.

sheltered industry without raising the prices of sheltered goods. (§§106, 107.) We are leaving this £6m. out of account for the present, and trying to find out what burden the whole £29m. excess costs without any alleviation would impose on export industry.

117. The burden will take the form of an increase in prices, which, by the time the passing-on process is fairly complete and adjustments made, will be spread with fair uniformity over all goods and services in common use, and will be reflected in the level of wages. The cost of protected luxuries, which would not be so passed on and diffused in the general price level, has been deducted in reaching the £29m. of excess costs affecting industry.

Prices from the consumption standpoint may be classified thus:—

- Prices of imports.
- Prices of exportable goods consumed.
- Prices of sheltered goods and services.
- Prices of protected production.

The first two classes, imports and exportable goods, will not be affected in price by protection,\* except to an insignificant extent. The increase in prices of protected production, that is in general passed on when it falls on sheltered industry, is £29m. according to our estimate. The consequent increase in prices of sheltered goods and services we proceed to estimate.

We have the same analysis of home-produced national income as in §114:—

	£m.
(a) Income spent on protected luxuries† . . . .	55
(b) Fixed income, less share of (a) . . . . .	36
(c) Export industries, less share of (a) and (b)	127
(d) Protected industries, less share of (a) and (b)	127
(e) Sheltered industries, less share of (a) and (b)	255
	£600m.

\*The prices of protected imports are, of course, raised by Customs Duties, but our comparison is with a fiscal system which imposes the same total amount of duty on imports, though the distribution between classes of imports would be different, when duties were imposed solely for revenue purposes. Similarly, the same total of excise duties is assumed (see §100).

†The prices of exportable goods may be sensibly affected, but the possible alterations which may be important (see Part VI., §139) for a total of £150m. to £200m. of export production will be "insignificant" for the comparatively small amount of exportable goods consumed, £20m. to £30m.

‡The prices of luxury goods, both imported and home produced, are exaggerated in the present estimate.

The last four items bear, in the first place, £29m. of tariff costs, which at first impact will be distributed uniformly amongst them (subject to a minor qualification which will be discussed later, §118), as follows:—

*First Incidence of Excess Cost on Industry.*

	£m.
On (b) . . . . .	1·9
„ (c) . . . . .	6·8
„ (d) . . . . .	6·8
„ (e) . . . . .	13·5

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£29m.

The amount we are particularly concerned with is that which falls in the first place on (e), sheltered industry, namely, £13·5m. Because the industry is sheltered, it is able to increase prices and so recover the excess costs imposed on it. Clearly it will not be sufficient to increase prices (and so income) by £13·5m., because though some of the burden was thereby passed on to export and protected industry and fixed incomes, yet a substantial share would fall back on sheltered industry itself; and a further rise of prices would be necessary to pass it on. If sheltered income were two-thirds of the whole and other income *one-third*, then only *one-third* of any increase in sheltered prices would be effectively passed on; and to pass on effectively £1m. sheltered prices would have to be increased by three times as much, or £3m. In the present case, sheltered income is £255m., and the other incomes to which it can pass on excess costs make up £290m., together making £545m.; so that only 290/545 of any increase of prices in sheltered industry is effectively passed on. In order then to pass on £13·5m., the increase in prices (or income) in sheltered industry must be £13·5m.  $\times$  545/290, or £25·3m.

The total increase in general prices, excluding protected luxuries, is therefore made up of an increase in protected goods of £29m. and an increase in sheltered goods (and services) of £25m., making a total of £54m. increase in prices falling on a total income of £545m.

We may take the corresponding consumption, including the consumption of capital goods provided out of savings, as also £545m. approximately. In doing so we shall neglect the effect of oversea borrowing and the general international balance

of payments on our consumable income, but the error will not be appreciable for the degree of accuracy aimed at in this discussion.

We have therefore an increase in prices of £54m. spread over £545m. of consumption of goods nearly all in common use, though including some imported luxuries which are not protected. We have therefore an average rise in general prices due to excess prices of protected Australian products of 10 per cent., as we found above (§114).

*(j) Corrections and Amendments.*

118. We referred above to a qualification of the above reasoning which we must now discuss. The total rise of prices is comprised of two elements. The first element, the direct rise of protected goods (£29m.), depends for its accuracy only on the original estimate of the excess costs of protected production. The other element, the £25m. rise in prices in sheltered goods, depends also on the proportion of sheltered production to total production. Sheltered production is obtained by deducting from total production of goods and services both protected production and production in the export industries. Total production and production in the export industries can both be estimated sufficiently closely for our purpose, so that our estimate of sheltered production depends on that for protected production, in respect to which there is a difficulty which we shall now discuss.

It is possible that some of the industries at present dependent upon protection might, without the rise in prices due to a tariff, have operated without assistance and been in effect sheltered industries. One can conceive such an industry, unprotected but sheltered, gradually narrowing its margin of shelter as the costs of other protection grew until it also required protection. Up to that point such an industry would be a sheltered industry, and its inclusion as such instead of as a protected industry would increase the proportion of sheltered industry and so increase the second element of the rise in prices.

Protected production divides into two groups, P and Q (§93):

P. Production which at its present efficiency could not subsist without the tariff. This group should be subject to fairly close estimation. We have estimated

it somewhat roughly (§§127, 128) at £75m., or about half total protected production.

- Q. Production which, at its present efficiency, could subsist without protection if it were relieved from all tariff costs. This we estimate at £75m. also, but there must be some uncertainty about it because of the doubtful border line between industries using very little protection and those using none at all, though the tariff in both cases provides it.

If we take our provisional estimate of about 10 per cent. for the general rise in industrial costs due to the tariff, it is clear that the industries in group Q will be raising prices anything from 0 to 10 per cent. We may average them at 5 per cent. Without the tariff their costs and prices would be 10 per cent. lower, and 5 per cent. below the price of free imports; they would be sheltered industries, and as the tariff costs increased they would pass on excess costs in higher prices. The excess costs will all be taken into account in our estimate of £36m., but the passing of them on by these industries in their early form of sheltered industries will not have been taken account of in either statement of the incidence of cost. (§§114 and 117.) This passing on will continue until costs due to the tariff have risen to 5 per cent. Thereafter they become protected industries, and though they will continue to pass on excess costs (up to the limits of the tariff), this further passing-on is part of the excess costs of protected products, and has been taken account of in our estimate of £36m. We have stated this process as a gradual one in time; but it will equally describe the facts if protection came all at once. For the first five per cent. the industries of group Q will act as sheltered industries, and for the second five per cent. as protected industries.

The correction to be made is now clear, and it can most readily be made to our second estimate of incidence. (§117.) The industries of group Q are for purposes of incidence half sheltered industry and half protected industry. We must therefore increase our sheltered industry in our first analysis of income (§114) by £37.5m. and decrease our protected industry by the same amount. The correction is just one-quarter of the original estimate of protected industry, and one-eighth of sheltered industry.

If we make these corrections in the computation of §117,

we shall get £32m. instead of £25m. for the increase of sheltered prices due to the tariff. The total increase in prices will therefore be £29m. plus £32m., or £61m. spread over a consumption of £545m. The percentage of present general prices due to the tariff we therefore put (still provisionally) at 11·2 per cent., instead of 10 per cent.

(k) *The Final Estimate of the Burden.*

119. We have now to consider the effect of the amount of excess costs of protected products which "sticks" or is cancelled by Government assistance in sheltered industry, so that in neither case is it passed on further in increased prices. We have estimated this amount as £6m. (§§104-107), and this amount will still fall on sheltered industry though it will not be passed on. The effect can be most easily seen by reference to the table of first incidence of excess cost (§117), where the same amount, £13m., will still fall on sheltered industry, but £6m. will stick or be cancelled there and only £7m. instead of £13m. be passed on in increased prices to export and protected industry and fixed incomes.

We will therefore repeat the calculation of §117, taking into account these £6m. sticking or cancelled in sheltered industry, and also the correction of §118, which added £37·5m. to sheltered industry at the expense of protected industry for our present purpose. We have then for income, and first incidence of £36m. of excess costs:—

Description.	INCOME.	
	Amount.	First Incidence of Excess Costs.
	£m.	£m.
(a) Spent on protected luxuries* . . . .	55	7 (not affecting industry)
(b) Fixed, less share of (a) . . . . .	36·3	1·9
(c) Export Industry, less share of (a) and (b) . . . . .	127·2	6·8
(d) Protected Industry, less share of (a) and (b) . . . . .	95·4	5·1
(e) Sheltered Industry, less share of (a) and (b) . . . . .	286·1	15·2
	<hr/>	
	£600m. £36m.	

Following our argument of §117, Export Industry and Protected Industry (as here measured) cannot raise prices on

\*Luxury goods, both imported and home-produced.

account of the excess costs falling on them, any more than Fixed Incomes can. Sheltered Industry can do so, but as £6m. of the £15.2m. falling on it sticks or is cancelled, it recovers only £9.2m. by increase of prices. To pass on effectively £9.2m. it must raise sheltered prices by £9.2m.  $\times$  545/259, or £19.4m., where £259m. is the income on to which sheltered industry can finally pass excess costs—the sum of (b), (c) and (d)—and £545m. is the total national income, less income spent on protected luxuries.

The total rise in prices (excluding protected luxuries) is therefore the sum of £29m. and £19.4m., or £48.4m., which is 8.9 per cent. of a consumption of goods and services costing £545m.

120. The effect of allowing £6m. for excess costs sticking or cancelled in sheltered industry is therefore to reduce the burden of the tariff on export industry from 11.2 per cent. to 8.9 per cent. Our estimate of £6m. on these accounts is admittedly tentative and rough. But we are sure that it is a substantial amount. It is very unlikely that it is below £4m. or more than £9m. The first of these figures would give 9.6 per cent. and the second 7.7 per cent. for the final burden. Any possible error hardly affects our results, which must always be liable to an error of one in ten. We conclude, then, that some uncertainty in our estimates of excess cost sticking or cancelled in sheltered industry will not appreciably affect our result.

The same is even more true of our estimate of luxury expenditure. We find that the excess tariff costs of luxury expenditure are only £7m. in £55m., or about 12 per cent., compared with 9 per cent. for general excess costs. It will clearly, then, make very little difference to our result if the excess cost of luxury expenditure were, in fact, £5m. or £9m. instead of the £7m. we have estimated. Further, if luxury expenditure were disregarded altogether, the result would only be to increase our percentage of 9 to 9.3. That is to say, that the effect of protection on luxury prices is so little different from that on commodities in general use that it makes little difference whether we include luxuries in our general price-level or not. In either case about 9 per cent. of the price-level is due to protection.

These considerations give us some confidence in the substantial accuracy of our conclusions. Our main estimate of total excess costs, £36m., may be £4m. out either way; the subsidiary esti-

mates of luxury expenditure and costs sticking and cancelled in sheltered industry may have relatively much larger errors; the estimate of the national income and of its components may be very considerably different from the figures we have taken; and still our conclusion would hold that the proportion of the general price-level or of industrial costs due to protection is between 8 and 10 per cent. We may therefore take 9 per cent. as a practical working figure, sufficiently accurate for our purpose.

*(l) The Final Effect on the Price-level.*

121. Our conclusion is that 9 per cent. of the present price-level is due to protection. If our price-level is now 100, it would have been 91 without the protective tariff. The tariff has raised prices therefore from 91 to 100, or about 10 per cent., and so increased industrial costs by 10 per cent. This burden will be fully met by a ten per cent. increase in prices obtained for the products of an industry. We may then most readily imagine the economic position of an industry without the protective tariff by thinking of it as working at present costs with a ten per cent. increase in the prices obtained for its products.

The above conclusion as to prices refers to a general level of prices of goods and services, of which there is no fully satisfactory index in Australia (or, perhaps, anywhere). It need not be strictly true of the "cost-of-living" index, which takes in only food and housing. Wages depend on this index and therefore it does not follow that (nominal) wages are 10 per cent. higher than with free imports. But there ought not to be any great difference between the effect on wages and on general prices.

122. We do not think that any consideration of monetary theory can impair the above conclusions on the price-level. The Australian price-level depends predominantly on sheltered prices, so that it is only subject to external monetary influence within very wide limits. We have not lost sight of those limits, but we think it unnecessary to burden this report by a discussion of the subject.

*(m) The Burden on the Export Industries.*

123. We have found that Protection accounts for 9 per cent. of industrial costs. The protected and sheltered industries



receive compensation in increased prices. The export industries as we have defined them depend on world prices, and can get no increase. What is the burden on them?

The only compensation they receive is from "other" Government assistance, which we have reckoned (§107 and App. O) to give a net benefit of about £2m. to export industry. The gross burden is 9 per cent. of £150m., or £13·5m., which is reduced by Government assistance to £11·5m., or 7·7 per cent.

The export industries probably differ a good deal in the extent to which they benefit by Government assistance. Wool probably benefits little in proportion to its values. But we may infer that the net burden on export industry averages about 8 per cent., and would be met by a rise in prices of 9 per cent. This is probably very nearly true of wheat.

124. We shall proceed in the next Part to apply this result to the problem of finding in production a possible alternative to protected industry. It has, however, an immediate practical interest, which we shall only very briefly illustrate by an example. The marketing control of butter under the protection of the tariff has the effect of raising butter prices to the Australian consumer above that of free imports by from 20 to 30 per cent. It is commonly urged in defence that this raising of the Australian price is forced on the producer to meet the excess costs of production due to protection. Our calculations, however, show that these excess costs, including that of butter itself, would be fully covered by an increase in prices of 10 per cent. It follows, then, that the greater part of the excess price of butter in Australia is due not to the costs of other protection but to the specific disability—whether due to natural causes or human deficiencies—of the butter industry.

## PART VI.

### THE EFFECT ON THE NATIONAL INCOME.

125. We now come to the fundamental question. Could we have attained to the same real national income—could we have produced the same quantity of goods and services—without a protective tariff as we have at the present time with a tariff? Could we have produced the same income per head for the same population? Further, would it have been so well distributed? Even if we would have had the same average income per head, would it, in fact, have maintained the same population at the same standard of living as at present?

It is quite certain that without the tariff it would have been possible to have obtained a larger national income per head—but for a considerably smaller population. The maximum income per head for Australia would probably be obtained by reducing it to one large sheep-run with the necessary subsidiary and sheltered industries and a few rich mines—and a population of about 2 million people. This, however, is not a practical alternative, in view of the settled national policy in this respect. We take as fundamental to the whole inquiry the necessity of maintaining at least our present population at the present standard of living. We might bracket it with the White Australia policy as a condition which must be satisfied by any form of alternative production to take the place of protected production.

We have found that the protective tariff raises the price of protected products above that of free imports by £36m. If this burden were to be abolished, some part of the benefit would go to restore the standard of living among primary producers for export, particularly small farmers on their own account, if, as seems likely, that standard has been cut into by the pressure of competition with world's prices. But for the most part it would increase land values and profits in the industries at present burdened, and might be used largely in expenditure on imported luxuries without helping much in the support of population. Though this natural tendency could theoretically be overcome by taxation, very careful consideration would have to be given to the practical possibility of doing so. This may

be deferred until the bare possibility of maintaining the national income without the tariff has been discussed.

We do not hope to give a decisive answer to the questions at the beginning of this section. Information on a number of points, and particularly comparative information with other countries, is deficient, and some of it is not likely to be fully supplied in the near future, but the results of our previous analysis applied to such information as is available will enable us to make at least an intelligent forecast of the complete answer.

(a) *The Problem Stated.*

126. We have estimated protected production at £150m., part of which could subsist at the lower costs of production which would obtain without protection, and the other part would not. We have found that excess costs of the tariff account for 9 per cent. of industrial costs, and on this basis we can make an estimate of the protected production which could not subsist without protection. In any alternative to a protective policy, new production must be found to take the place of the production absolutely dependent on the tariff. The question before us is whether, without the tariff, and industrial costs so much lower, other production would have naturally expanded by the present time to give an additional value of production equal to the amount which could not subsist without protection.

127. We have estimated the value of protected production at £150m., meaning by protected production all production which raises its prices at all above those of free imports under the protection of the tariff. We may divide this production into two parts, our P. and Q. of §118:—

P. Production absolutely dependent on the tariff, which at its present efficiency could not subsist without protection.

Q. Production which could subsist without protection for itself, if relieved of the costs of other protection.

Now that we have found the excess costs of protection to be about 9 per cent. of industrial costs, it is possible to estimate the quantities indicated by P. and Q. When the protection used is less than 9 per cent., the industry would survive without the tariff. When the protection used is appreciably greater than 9 per cent., the industry (at its present efficiency) would not survive. When the protection used is just about 9 per cent.,

the industry would survive with diminished production on account of imports competing on equal terms.

(b) *Production Absolutely Dependent on Protection.*

128. On this basis it is possible to make an estimate of P. To do so accurately, however, would require a close inquiry into the conditions of every industry and of every branch of it—the same inquiry, in fact, which would be needed to give an exact measure of the excess costs of protected goods—but much more would be required here. In estimating excess costs it was necessary to compare the price of a given grade of Australian product with the price landed of corresponding imports, and the difficulties were in respect to comparable grades and their quantities. It was not necessary to inquire into the varying efficiency of individual firms, as it would be for our present purpose. An Australian product may sell at 25 per cent. above the cost of free imports, and this would represent the costs of the marginal firm. But other firms with greater advantages might be able to produce with prices 20 or 15, or even only 10, per cent. above free imports. So that even when Australian prices are very much above the prices of free imports, it does not follow that the industry would be killed without protection. Most production would certainly be lost, but it is possible that an appreciable amount would remain.

129. In these circumstances only a very tentative figure can be given. For the most important part, protected manufactures—the figure is based on a good deal of sample inquiry, much of which was confidential in respect to the particular industry, and we can only give the bare results. For primary products, information about varying costs is equally wanting, and our figures are based on rough practical judgment, guided by some expert advice.

PROTECTED INDUSTRY (P),	
Which could not Subsist without Protection	
	Value of Production.
Industry.	£m.
Manufacturing . . . . .	55
Sugar . . . . .	10
Butter . . . . .	6
Other Primary . . . . .	4
	<hr style="width: 20%; margin-left: auto; margin-right: 0;"/>
	£75x.

The figure for manufactured production is in harmony with *a priori* considerations. We should expect much the greater part of Class (a) manufactures to be lost without protection, and one-quarter of Class (c). This gives £56m. (Appendix P, para. 4), subject, however, to a deduction on account of factories of specially high efficiency being able to stand without protection. Some small part of Class (b) would also go, because they would be brought into effective competition with imports in certain grades of their products. When allowance is made for the very efficient factories, the result cannot be very different from our independent estimate of £55m.

We assume that the whole of sugar production would go if exposed to the competition of free imports. Nearly all butter is raised in price by "stabilization" under the shelter of the tariff, but most of it does not need protection. We put the amount which could not stand against free imports as rather less than one-third of total production, or roughly about the amount of our exports. We do not suggest that there would be no exports at all without protection; but they would be considerably less, and substantial imports would come from New Zealand to certain States at certain seasons, so that our net exports would be negligible. The amount of other primary production that could not stand without protection we put at about one-quarter of the amount which raised prices to some extent under the shelter of the tariff.

We feel sure that for the present time—or, rather, for 1926-27—this is a minimum estimate of the protected production which at its efficiency in 1926-27 could not have subsisted without protection. But it is possible that the true figure may be as much as £10m. greater.

(c) *The Amount of Alternative Production Required.*

130. We may continue our discussion then, on this basis, that of £150m. of protected production about half could at its present efficiency subsist without protection, but the other half—or probably rather more than half—could not. Without a tariff, then, an alternative must be found for at least £75m. of protected production.

131. The £75m. of present production that could not "survive," *i.e.*, subsist without protection, would consist mostly of

protected goods for home consumption, but it would include an appreciable sum for subsidized exports of sugar, butter, dried fruit, etc. The goods used for home consumption would have to be replaced by imports,\* as we have exhausted the possibilities of production of these goods at lower costs in estimating that £75m. of protected production would subsist without protection. These necessary imports would have to be paid for by increased exports; so that the whole deficiency of £75m. must be made up by an increase in exports.

But not to the full export value of £75m. This value is inflated by the excess costs of protected products. The total excess costs are £36m. for £150m. of protected production, or 24 per cent. of its value. Most of the protection is due to P., the production which could not "survive." We cannot estimate the exact proportions without the full inquiry into the "surviving" of industry which we described in §128. Most of the "surviving" protected industry, Q., would have excess costs not greater than 9 per cent., but a substantial amount would have higher excess costs. (See end of §128.) We may roughly estimate a little over 10 per cent. for the excess cost of Q., or about £8m., leaving the balance of £28m. (*i.e.*, 37 per cent.) as the excess cost of P. The net value of P. in terms of exports is therefore £75m. less £28m., or £47m. This, then, is the amount of new export production† which must be found to take the place of P., the protected production which could not subsist at its present efficiency without protection. The real national income, measured in goods and services, would then, without the tariff,

\*This simple assumption might not hold if under free-trade conditions there was a marked change in demand for different classes of goods on account of the change in relative prices. The present imports and exportable goods would be unchanged in price, sheltered goods would be about 7 per cent. lower (§119), and the imports which took the place of protected products would be 20 per cent. cheaper (§98). Without pretending to have fully explored this possibility, our impression is that the net result would be some increased demand for imports, but that no change of this kind could be large enough to be material to our estimate.

†It might be thought that there is a consideration which has been overlooked that would lessen the quantity of new exports required. It might be argued that without the £75m. of protected production, our imports would be diminished by the imported raw material used in these industries, and our exports increased by the exportable raw material so used; and this net decrease in imports should be subtracted from our estimate of £47m. for increased exports necessary in the alternative scheme.

This, however, is not so. We should still be importing and paying for the raw material, but it would be in the form of finished goods. The £75m. of protected production *excludes* the value of all raw material imported or exportable (§94). We should save £28m. on the *cost of production* of these goods by importing them, but we should pay the same for the raw material, and the value would be included unchanged in our imports. A similar consideration holds with raw material exportable. This raw material would certainly be added to our exports under alternative production, but we should then be importing the same quantity of the same raw material as part of the finished goods, and the increased imports would balance the increased exports. So that in both respects our balance of visible trade would be unaffected in respect to raw material by the alternative production.

be greater than, equal to, or less than it is at present, according as the new export industry would be greater than, equal to, or less than £47m.

It will be remembered that this figure of £47m. is not well determined, because of the uncertainty in the value of P. We think £47m. is a minimum figure and that more exact inquiry might increase it by anything up to £10m.

*(d) The Expansion of the Export Industries.*

132. We have now to consider the possibility of export industry having expanded by 1926-27 to the extent of at least another £47m. under the stimulus of 8 per cent. lower costs, or in other terms, with a 9 per cent increase in prices above those which have obtained up to 1926-27.\*

We may here repeat from §113 our summary of the export industries which stand on their own feet without a subsidy from Australian consumers. The figures are averages for the three years, 1924-25 to 1926-27, to minimise seasonal fluctuations.

*Value of Production in Export Industries.*

	£m.
Wool, sheepskins . . . . .	74
Export meat, tallow, hides, and other skins ..	10
Wheat and export flour . . . . .	40
Minerals, less coal and iron; ore reduction . . .	18
Fruit . . . . .	8
	<hr/>
	£150m.

133. Production of these commodities for export stops where it does because it does not pay to extend it at world prices. For any extension the costs of production must be greater than for the production which just pays at present—greater on account of poorer land (or mineral), defects of climate, greater cost of transport, or some other reason. A reduction in costs would effect some expansion, but how much? We concluded in §123 that for the export industries relief from excess tariff costs was equivalent to a rise in price of about 9 per cent. We want to know, then, what expansion in wool-growing would have resulted

\*See Section 123. We are assuming that the "other" assistance by Governments to primary industries (§90 and Appendix O) goes out with protective duties, so that all industries are required to stand on their own legs. In practice, some of this assistance would have been given even without the pressure of the protective burden, but the whole of it would only raise our percentages of 8 and 9 to 9 and 10 respectively (§121), and the difference would not significantly affect the argument.

from a rise in price of about 2d. per lb., how much more wheat would have been grown for an extra 5d. per bushel, and so on? When we have answered these questions we shall have further to inquire whether this increase of exports from Australia would have affected the world's price, and to what extent. It will be obvious that for wheat, and possibly for wool, that possibility would have to be seriously considered, and that the full rise of price indicated by relief from tariff costs would not be obtained for increased exports.

134. These questions, so far as Australia is concerned, could be answered, and are, in fact, in process of being answered slowly and often incidentally by the work of Agricultural Departments and Research Departments and Public Commissions of Inquiry. But the answers are at present very incomplete, and we can only guess at them. The careful co-ordination of information now available and a systematic filling of the most important gaps would be a very valuable work in agricultural economics.

135. We may now briefly survey the possibilities of expansion in the chief export industries, remembering that our question is, "How much would an industry have expanded by 1926-27 under the past conditions of efficiency and market, with the single difference of a decrease in costs of production by 8 per cent.?" (See also §136.)

Wool is easily our predominant export, and is in a relatively very favourable position in respect to prices. Relief from tariff costs might have reduced the expenses of the marginal wool-grower by 8 per cent., equivalent to a rise in price of 9 per cent., or about 2d. per lb. For the average grower the relief would be much less, because the costs of production of wool (apart from land values) are less than half the value of the output, so that 8 per cent. reduction in costs would be equivalent to less than 1d. per lb. on the price of wool. But it is not clear that an increase of even 2d. per lb. on present prices would have greatly increased production. Wool production has been limited by drought rather than by costs of production. No doubt it would have been capable of considerable extension by increased capital expenditure on water supply, conservation of fodder, and means for transport of stock in dry seasons. An additional 2d. per lb. would go some way in financing such expenditure, but it is probable that any expansion in this direction, whether



on the new land or in increased carrying capacity on old land, would have been offset to a considerable extent by the encroachment of wheat on the land now carrying sheep. It must be remembered, too, that our favourable position as to wool prices for increased output is in respect to fine wool, and not to the coarser grades which might be associated in some degree with increased agricultural activity.

We think, on the whole, that wool (and sheepskins) would not have contributed very much to fill the place of protected production.

Hides and tallow are considerable items of export, but they are for the most part by-products of home consumption, and home consumption would not have been increased. Increase would come only from increased exports of meat. But the export of meat is not in a condition that suggests expansion. Exports in 1926-27 were less than £4m., and exports generally tend to decrease rather than increase. It does not seem likely that an increase of 9 per cent. in price would have led to any great expansion of the industry.

We think that perhaps £5m. would cover the increase in pastoral exports, remembering that the loss of the best pastoral land to wheat would cut down the net increase of wool very considerably.

For fruit there would have been little prospect of expansion. Dried fruits, even with the 8 per cent. reduction in costs, would be far from being able to compete at world prices. For fresh fruit exports, most of the costs come from oversea transport and charges, and 8 per cent. off local costs would only save about 4d. per case. The market for fresh fruit is severely limited in any case, and a good crop from the present acreage gluts the market and results in an unprofitable price.

Mineral production would undoubtedly have responded to a decrease in costs. We should certainly have a larger mineral production for export with prices 9 per cent. greater than they have been, though the great fluctuations which take place in metal prices rather obscure the picture. At the most, an increase of 50 per cent., or £9m., on export mining and ore reduction might be looked for.

We have found so far a prospect of only £14m. increase in exports through lower costs. We might add, perhaps, £3m. for new exports of less important commodities which might have

come into existence with lower costs. To make up our (at least) £47m. of increased exports we want another £30m.; and only wheat to look to for it.

136. Before going on to discuss the possibilities of wheat a cautionary note may be useful.

We are not considering the possible future expansion with lower costs of these industries. Some expansion would be likely, in general, with present costs, and that expansion would be irrelevant to our argument. We are considering, rather, what expansion would have taken place up to the present time—strictly, up to 1926-27—if these industries had been working with so much lower costs, or so much increased prices for their products. We must base our judgment on methods of production and their efficiency, as developed up to 1926-27, not on future improvements of technique and future possible efficiency. The possible gain through increased use of fertilizers or more thorough cultivation is not to the point. We are concerned only with the use of fertilizers and cultivation as practised in 1926-27.

On the other hand, we must take the market conditions as they were up to 1926-27, and not the prospects at the present time. We must not base the possibilities of wheat on the present price of about 4s. 6d. and a prospect of low prices continuing for some time, but on the prices ruling up to 1926-27. We want to know how much more wheat would have been grown up to that time with lower costs. Some of that possible new production would have been destroyed by the present low price, but so also will some of our present production, unless wheat costs are relieved in some way—whether by increased efficiency or some form of subsidy.

*(e) The Prospects of Wheat for Alternative Production.*

137. We come, then, to wheat as the most hopeful form of production to take the place of protected industries. It is the most hopeful, because we have definite knowledge of new lands to a considerable area, particularly in Western Australia, which appear to be likely to produce wheat nearly as cheaply as much of the land at present in cultivation. No doubt there would be in general higher costs for transport, both in interest and maintenance, and other costs which would be partly or wholly borne by State Government, so that the total costs of the

new wheat growing are partly obscured. Still it seems certain that considerable areas are available at costs not much greater than present costs in adjacent areas. Their costs cannot be less, or these lands would (in general) be now growing wheat in place of some present wheat lands.

138. We are left, then, with only wheat to supply the remaining £30m. of alternative production. Deducting cost of seed and imported material, but including transport to market, the average value of wheat production per acre is about £3 at the average price for the three years 1924-25 to 1926-27, of over 6s. per bushel. The net production averages about 10 bushels per acre, so that we should need 10m. acres of average fertility in crop every year, or about 20m. acres of new wheat lands, allowing for rotation or fallowing. The increase in exports would be 100m. bushels, or over 12m. quarters. The decrease in costs would be equivalent to an increase in price of 6d. per bushel at present costs for land on the margin of cultivation. For land producing more cheaply, the costs would be less, and the 8 per cent. decrease in them equivalent to a smaller rise in price.

Wheat is no doubt capable of great expansion on new lands with sufficient rise in price. With prices 6d. per bushel above those obtaining in the past, a considerable expansion would have taken place. Some expansion in production on old lands might also take place at these prices. There are not, however, data available for a judgment whether the enormous addition of 10m. acres, doubling our present 10m. acres, would have been possible. Without definite evidence it would obviously be a very rash assumption.

The extension of wheat growing must be (in general) to inferior land. But how much inferior? Suppose under certain conditions an average of 10 bushels per acre will just pay. Land which will not average this is not cultivated. With costs 8 per cent. less under the same conditions, land averaging a little over 9 bushels per acre would just pay and would come into cultivation. We want to know how much of the uncultivated land under these particular conditions would go between 9 and 10 bushels, and how much between 8 and 9, and so on. We have not enough of such information for a definite answer.

There, however, is the crux, in our opinion, of the *first* problem of alternative production. Would Australia have

doubled its wheat area by 1926-27 if wheat prices had been for some years 6d. per bushel higher? We have no claim to an authoritative judgment on this point, but we think it very unlikely.

(f) *The Effect on World Prices.*

139. We have next to consider the effect of these increased exports of wheat on the market.

Most countries grow most of the wheat they consume, and the international market is not very large. It is fully supplied by present production. There is little elasticity of demand for wheat beyond a point which has been nearly reached in Europe. Some extension of demand is taking place in Eastern Asia, and this might have been quickened by lower prices. On the other hand, the standing possibility of the revival of Russian exports is always a warning of the risk of increased wheat production. The effects of over-supply have been strikingly illustrated by the recent course of wheat prices. Without any unusual increase in area, a combination of good crops in exporting countries has resulted in a glut, and prices are a post-war low record. Chicago quotations are only just over the dollar, and even at that low level there is no sign of the surplus being got rid of.

The international demand for wheat is about 100m. quarters, and this disastrous fall of price is due to a surplus above normal stocks of from 10m. to 20m. quarters. Now the necessary increase in Australian wheat exports to make up alternative production is 12m. quarters. It is obvious that such an increase in world's exports would have had similar disastrous effects on prices. Prices could only have been brought back to a paying level by the decrease of an equivalent amount of production in exporting countries. We have not information enough to allot the shares even speculatively. They will depend on the marginal conditions in each exporting country. Australia would certainly have had its share, and judging by the condition of much wheat farming in Eastern Australia, a large share. At any rate, the net increase of Australian exports would have fallen considerably below the quantity required, and as the additional Australian competition would probably result in some lowering of the world's price, there would have been a further deficiency on *all* our wheat exports on this account. It follows that new production of wheat very considerably greater in value than

£30m., perhaps £40m. to £50m., must have been possible with prices 6d. above what they actually were, in order to be sure that a net addition of £30m. would have survived the reactions of the market. So that the great improbability of the necessary alternative production being found in wheat is very seriously increased.

(g) *The Distribution of Alternative Income.*

140. So far we have been discussing the possibility of the requisite *amount* of alternative income being obtained from other production. We have further to inquire whether this alternative income would be so distributed as to maintain the same standard of living for the same population as at present. The question cannot be discussed satisfactorily, except in relation to a definite scheme of alternative production, and we have not been able to find one that has any probability of being effective. We will therefore only very briefly touch on the difficulties which would attend any increase of export production in place of protected production, unless the new export production was far greater in value than the minimum (£47m.) which we have found to be necessary.

The question here raised comes more properly in Part VII., on the distribution of income, but it is convenient to touch on it here, at the cost of some repetition, in order to carry the present argument to its conclusion.

141. The first point to consider is whether an alteration from manufacturing to primary production makes in itself any difference to population. The total figures for primary production show that considerably fewer workers are required in proportion to value of production than for manufacturing industry; or, conversely, that the value of production per worker (including, of course, working owners) is greater for primary industry. But this is because of the great variations of land for productive purposes, particularly for wool, which bulks very large in primary production, so that total figures are far from showing the position at the margin of production. It is, indeed, a matter of common knowledge that the marginal worker in agriculture gets a smaller return than the marginal worker in manufacturing, because wage regulation is more effective in maintaining the standard of living in manufacturing industry. Now the £47m. of alternative primary production, which we are consider-

ing, only comes into being because the costs of production are less than 8 per cent. below the present margin of production, so that it will all be near the new margin of alternative production. We may therefore reckon that the alternative production for every £1m. of value will require much the same number of workers, with the same number of dependents, as the manufacturing production that it replaces.

142. We have, then, £47m. of primary export production requiring and maintaining a population of 470,000 (at the average production per head of £100 for Australia) in place of £75m. of protected production requiring and maintaining a population of 750,000. So there are 280,000 of population to account for. We should have by hypothesis the same real national income, so that we should have goods and services produced sufficient for the consumption of the 280,000 who would not be absorbed by the alternative primary production.

But the £28m. of income now in the hands of this 280,000 of protected industrial population would be mostly in the form of rents and profits additional to those now accruing to the landlord and the capitalist. The population which now supplies the goods and services, chiefly necessities, to the 280,000 of industrial population must in the alternative scheme have their activities diverted to supplying luxury goods, chiefly to the land holder. The luxury goods might, of course, reflect the finest taste or judgment in pictures, music, buildings, literature, education, and works promoting general welfare (or even economic enquiry); or they might not. In any case we should have 280,000 less population, though the same national income, and therefore a higher national income per head.\*

The effect of the alternative population would therefore be a smaller population unless the possible alternative production was very considerably in excess of the £47m. required; and we have found no sufficient grounds for believing that even the minimum of £47m. would be possible.

143. It may be argued that we might take by taxation some of the £28m. that would be spent on "luxuries," and use it to

\*Some refinements may be added to the above rough statement of the alternative position. At the alternative price-level £90 would be the measure of the same real national income per head, and £47m. of export production would account for 520,000 of population, so that the loss would only be 230,000. The loss would be further lessened because the new £47m. of export production would in practice provide less than the average income per head, and so account for a greater population, because of the large proportion of this population working on marginal land; but this would be at the expense of the standard of living. In any case, there would be substantially less population than at present.

support the missing population at the present standard. But that is in effect what is being done by the protective tariff. The land values are being very effectively though indirectly taxed to pay £75m. to people for making goods which could be bought for £47m., which could, we are assuming, be earned by a smaller number in export industry. The difficulty is that there is no practicable way of taxing land values to the extent required without putting up costs for the marginal producer, and driving him out of production over a large field. The tariff does this in the interest chiefly of manufacturing industry, but partly of dairying and sugar production. There seems no reason in favour of applying the same policy solely in the interest of agricultural and pastoral production—and there are obvious reasons against such a reversed application of protection. But without some such policy of directly or indirectly calling on the profits and rents in the naturally prosperous industries (particularly wool) to subsidize those at a natural disadvantage, it seems certain that we could not maintain the present population at the present standard of living.

144. It is on this ultimate effect of the tariff, *i.e.*, the taxation of rural land values for the benefit of other industries, that the improvement in the national welfare, because of the tariff, finally rests. But while this interpretation applies, in our judgment, to Australia, we have not considered the position in other countries. In Australia, a new country, of vast extent, with a small population, very large areas of land were acquired under conditions which led to a considerable and fairly continuous increase in value. Obviously, in some other countries, *e.g.*, in Great Britain, these conditions have not obtained to anything like the same proportionate extent. Moreover, although we regard this taxation of the increment in land values as having been, on the whole, beneficial, it does not follow that the burden has been equitably distributed. It is easy to understand and sympathize with the grievance of the rural land holder who sees city land values stimulated by the very instrument which retards the growth in value of his own property. But the remedy is not so easy. It is clearly equitable that city values should share the burden; but a tax on land used for sheltered industry is liable to be passed on, and in the end add to the burden on the export industries. The difficulty is probably not insuperable, but the question

is somewhat beside our subject and we do not pursue it further. But Governments in Australia are badly needing more revenue, and the present state of rural and secondary industries suggests that it must be found without imposing fresh burdens on productive industry. In these circumstances, the question of taxation of urban land values seems worth exploration.

*(h) Summary: Tariff Protection and Population.*

145. It appears then that even if it would have been possible for export industry with an 8 per cent. decrease in costs to have increased in value by £47m. by 1926-27—which, we think, will be admitted to be very improbable—even then we should not have been able to maintain the same population at the same standard of living, and could not have done so without applying the same fundamental policy of protection to enlarge the borders of some industry beyond its natural limit. And if such a policy is to be adopted at all, it should clearly be in favour of some production for home consumption, and not for our staple export industries, where increased production might bring about serious reactions in world's prices with disastrous results to the export value.

146. Whatever may be the errors in our estimates, we feel sure that they cannot invalidate this general conclusion which we have reached, and now desire to emphasize.

We have to recognise in the tariff as a whole, in spite of its undoubted extravagances, a potent instrument in maintaining at a given standard of living a larger population than would have been otherwise possible. It seems certain that without the tariff we could not have offered the same field for immigration, and would not have been able to maintain our growth of population. It does not, however, follow that even with the tariff the present rate of growth can be maintained at the present standard of living.

*(j) The Limits to Tariff Protection: the Need for a Policy.*

147. The above conclusion refers to the tariff as a whole, compared with no protective tariff at all. But the costs of the tariff in relation to the income produced and the population maintained varies from item to item. Some protection is relatively more costly than other. Instances of extravagant



costs stand out. Careful inquiry would be able to put each item of protected production in its place for cost in relation to benefits. It is certain that the cost of some items is excessive. There is little doubt that such an inquiry would show that an appreciable amount of protected production has been achieved at too great a cost and that a somewhat larger national income would have been attained without it.

Further, the resources available for protecting industry come very largely from wool, and wool is not capable of rapid expansion, and the other export industries are in no better case. The resources are limited, but the cost of present protection grows and new protection is continually being asked for. This is putting an increased strain on our national income, which now includes one very precarious element derived from loans. A margin of safety is urgently needed, and can come only from greater economy or increased efficiency of production. One form of economy that is within the power of a Government is a pruning of excessive tariff costs, present and prospective. Methodical inquiry must determine action, and will, at the same time, indicate the limits to possible economies in this way.

148. There is in operation, in respect to the protection for home-consumption, a fairly well recognised and accepted policy, which is, on the whole, reasonable, though it may be open to serious criticism in details of principle and methods of application. For the protection of production for export there is no policy even tentatively accepted and there is very urgent need for one. The costs of protection for home consumption are naturally limited by the amount of home-consumption. The costs of protection for export are limited only by the world's consumption.

At present nearly half our sugar production is exported. We pay £27 per ton for raw sugar consumed at home in order that other countries may buy it for £10 or £12. There is no limit imposed on sugar cultivation. If sugar production was doubled, in order to make it reasonably profitable, we should have to pay over £40 for each ton consumed here in order that other countries might buy 2½ tons at £10 or £12 per ton. As production increases, there is always an equally good case for putting up the amount of protection—the agreed price, bit by bit.

The same thing is happening in butter and dried fruit. There is a demand, steadily growing stronger, from the Eastern wheat

farmers, for similar protection for export. The same demand is being made for a number of other exports, particularly of fruit and fruit products.

There has been no general principle in the giving of such protection, or in imposing limits on it. Sugar protection was a by-product of "White Australia," dried fruit protection of ill-advised soldier settlement for which Governments were partly responsible. Butter has obtained its protection for exports because factory production made it possible for the industry to control prices and obtain a subsidy from consumers under the shelter of the tariff. But it is clearly unreasonable that butter should be able to get a subsidy for exports, because it is easy to control and direct the output; but that fresh fruit should be debarred from the same advantage because of the multitude of small producers, and the perishable nature of the goods.

Principles are urgently needed both for the licensing or granting of such protection and for its limitation. We do not attempt here to suggest principles, because this is a matter in which the agricultural scientist and the practical expert should co-operate with the economist to recommend a policy. But we wish to stress the necessity for such a policy and our belief that some limitation of production must be imposed if the subsidizing of exports is to continue.

149. We have dealt with this matter here rather than in Part XI. ("The Information Required"), because the greatest danger of a large increase in tariff costs appears at present to be in the subsidizing of exports. We say again that the resources out of which the subsidizing of industry can be paid are limited. They lie in the great natural advantages of certain industries, including gold and other metals in the past, but now almost confined to wool and some wheat. These great natural advantages are now all exploited, unless a new mineral field of great richness should be discovered—and our available resources for subsidizing industry are at their maximum. These resources are now stretched as far as they will go in maintaining the standard of living for a growing population. Any great additional strain, such as would be imposed by subsidizing wheat exports, must result in a fall in the standard or a check to population, which might easily go beyond the cessation of immigration and lead to emigration and a decline in the birth rate. It

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is only, in fact, by continued improvement in efficiency of production that our limited surplus resources can continue to subsidize uneconomic industry on even the present scale.

*(k) Summary of Conclusions.*

150. Our conclusions on this part may be briefly summarized:—

- (i) Though full data are not available, it appears very unlikely that under Free Trade conditions any form of alternative production could have been found to take the place of protected industry which would give the same national income as at present.
- (ii.) Even if it could be found, it could not practically be made to maintain the same population, except by the re-introduction in some form of the methods of tariff protection.
- (iii.) These conclusions apply to the tariff as a whole. It is probable that for the more costly of the protected industries, alternative production could have been found with some advantage to the national income.
- (iv.) Our surplus resources available to subsidize industry are limited and will not stand any greater strain than imposed by the present tariff.
- (v.) There is urgent need of a policy in respect to the subsidizing of export production and the limits to be imposed on such production.

## PART VII.

### THE EFFECT ON THE DISTRIBUTION OF INCOME.

151. We now pass on to a more systematic consideration of the effects of the tariff on the welfare of the community, as determined by the distribution of income. There are other aspects of welfare, which are discussed with the general effects of protection in Part III. But here we are concerned more with the effects upon the lower incomes, upon wages and similar earnings. The major considerations are its effects between different classes of workers, its effects as between ownership and labour, and the alternative distribution of income without the tariff. The importance of this subject requires a statement on the *possibilities* of the tariff as a means of protecting wages and the maximum equality of distribution, and this has been added.

#### (a) *The Distribution of Earnings.*

152. The distribution of income between classes and persons is influenced by the excess amount of customs taxation and the cost of protected goods. Both the customs taxation on imported goods and the excess costs of protected goods are paid by the consumers of those goods, and they are passed on by these consumers through their products, according to their power of "passing on." So far as these costs "stick" they influence the distribution of income. We are concerned with the effect not of customs duties, but of the excess costs of Australian production (§100).

We have shown that about 10 per cent. is added by the tariff to the necessary costs of livelihood, and that a rather higher percentage is added to the costs of other goods and services, which are purchased with surplus elements in wages and other incomes. The latter burden is not passed on to any appreciable extent, and it may be neglected at this point. We have here to consider the effect of the 10 per cent. added to the cost of living where that cannot be passed on.

This cost falls on all incomes without discrimination as to their size, or their capacity to bear the burdens of taxation and

protection. The purchasing power of different incomes determines to some extent what share is paid, but when the costs are of necessities they cannot be avoided even by the smallest income. Large families with small incomes suffer most and the effect is regressive: this is the opposite of progressive, which is the approved principle for direct taxation and for the economic distribution of national burdens. So far as the tariff imposes these burdens regressively, it increases the inequality of distribution and therefore reduces welfare.

153. But the majority of small incomes are those of wage-earners who are protected against increases in the prices of common commodities, and so do not bear the 10 per cent. added to the cost of living. So far as "margins for skill," unregulated wages and other earnings have not increased in proportion, they have borne the cost of the tariff. But for most wages the costs are passed on to employers, and through them to consumers, more or less completely as we have described. Earnings in the unsheltered export industries are unable to increase in proportion.

154. This condition obtains to some extent in all countries: for example, in Great Britain the naturally sheltered industries are able to pay higher wages than the export industries. In Australia trade unionism is strong and its strength is reinforced by legislation. Our wage-fixing tribunals, by their frequent wage-adjustments, pass on the money "cost of living" almost automatically, and wage-earners coming under their influence are protected from the burdens, both of excess customs duties and protected goods, so far as they fall on necessities. But the Australian wage-fixing tribunals are of minor importance in this connection. The tariff is of major importance, for it increases the area of shelter and reduces the amount of employment which shares the burdens.

This employment is chiefly that of independent farmers and of unorganized wage-earners in the primary industries. It is significant that it is the agricultural industries in which trade unionism is rare, where wages are generally not regulated, and independent workers are most common. In these industries the burden falls chiefly on land ownership, but it is shared to some extent by earnings.

(b) *The Disturbing Influence of Land Ownership.*

155. It must not be supposed, however, that the earnings of farm workers are unprotected. We have shown that the assistance given to agriculture is on a similar scale to that given to manufacturing industries, and this assistance undoubtedly protects the incomes from farms. It is indeed so intended. We are unable to determine how far this protection is effective in protecting earnings as compared with protection afforded by the tariff, for we have no means of determining either. But we are inclined to think that the protection and assistance to agriculture protects land values rather more than the earnings of labour, because of the weaker bargaining power of labour on the land.

156. This leads us to another consideration: if assistance increases land values, a burden depresses them. We may say, therefore, that the cost of tariff protection, falling ultimately on the export primary industries, falls chiefly on the owners of land, *as such*. The cost of assistance to agriculture is met chiefly from progressive taxation, including progressive land taxation, and it does not fall on the industrial wage-earners, where costs are all passed on.

The net result of all this protection and assistance is a considerable pooling of income. The profits of all industries are taxed to pay the costs of assistance through taxation, and land values are burdened by the tariff on manufactures, protected by the tariff on farm produce, protected by Government assistance and taxed to provide the money for it. It would be difficult to follow the fortunes of any individual land-owner through this maze.

157. We are more concerned with the relative earnings of workers *as such*, whether they are independent workers who own land or equities in land, employers of farm labour, or wage-earners: and we are concerned with the comparative effects of the tariff on the standard of living in the sheltered and the unsheltered industries. Earnings in the unsheltered industries are indirectly protected to some extent by the standard of living in the industries directly protected. The "drift to the towns" is evidence of this, for however much it may be deplored, it prevents wages from falling in the country. Nevertheless, there is a natural "lag" in all such movements: there are attractions in the towns and attractions in the country which appeal to

different temperaments. There are individuals in both whose locations and occupations are more or less fixed by aptitude, training and investment: and it would not be surprising if the standard of living were found to be higher in the naturally sheltered and tariff protected industries.

158. We have no data upon which to compare the earnings of the two classes. The last available figures show the average weekly wage for adult males to be 99s. 7d. for all industrial groups, and 94s. 9d. for pastoral and agricultural wage-earners. But this refers only to organized wage-earners, who are in a minority in the agricultural and dairying industries, so that the farming wage is greatly exaggerated by these figures. In any case the conditions are very different. The farm worker works longer hours but spends less time and money on going to and from work, his housing and other expenses are lower, and he has therefore some economic advantages. Further, the smaller and the poorer farms do not and cannot employ hired labour, and there are no statistics of the earnings of these independent farmers who, by their complete or partial ownership, are more closely tied to the land than the wage-earners.

159. We believe that the burden of the tariff falls most heavily on the independent farmers, whose incomes fall when, *after* the farmer has paid for this land or contracted for its purchase, the value of his produce falls from any cause, or any of his costs increase; and particularly when the tariff is increased without countervailing assistance being given.

The incomes of land-owners rise when these influences operate in the opposite direction. One such influence has been the rise in prices during and after the war, which gave a higher value to land purchased before that rise.

160. There is *prima facie* evidence of lower earnings in the unsheltered industries in the following facts:—

- (a) The much slower increase of farm workers as compared with factory workers.
- (b) The very frequent complaints of farmer employers that they cannot pay current wages.
- (c) The experience of soldier settlements and of other settlements promoted by State enterprise.

Not least among the causes must be placed the rise of the tariff in recent years. A stable tariff bears less heavily upon those who bear its costs, because land values become adjusted

to it just as to a land tax, and improvements in methods may restore its value. If a definite charge is levied on land, either directly or indirectly, the full value of the land is discounted by the amount of that charge: the vendor loses and the purchaser is no worse off. But new charges or additional costs imposed upon it afterwards are borne by the owner for the time being, and indeed by him permanently. The depressing influence is felt most acutely while the payments for the land are still being made, or when the land is heavily mortgaged. The worker-owners do not separate the two things, income from work and income from property, either in their accounts or in their minds, and when they have paid rent or interest, they may receive less than wages for their labour.\*

(c) *Conclusions on the Present Distribution of Earnings and Welfare.*

161. We have shown reasons for supposing that the effects of the tariff upon the distribution of income are adverse to the agricultural worker, and especially to the recently established farmer who is purchasing his land.

The general effect of the tariff is to maintain or to increase the incomes of those engaged in the protected industries, and to reduce the incomes of those in the unsheltered export industries, and in other industries unable wholly to pass on increasing costs.

We have not (except incidentally in §144) dealt with the economics of concentrating population in the cities with its increase of urban land values, which is one effect of the tariff, nor upon certain questions of relatively minor economic importance.

We may remark, however, in concluding our observations upon this subject, that the wage-earners in Australia are in a similar position to preference shareholders in a Joint Stock Company. Their adjusted wages give them a certain income, provided there is employment for them. They do not share the employment equally, and as with shareholders, some have greater claims than others because they make greater contributions. Other members of the community on a similar preference basis are the Government bond holders, civil servants and others with fixed incomes. These are better off in that their

\*Australia is not unique in this respect. Figures are quoted by responsible economists for the U.S.A. indicating that in the last two years the earnings of working farmers have not averaged more than £150 per annum. (See R. K. Tugwell, *Political Science Quarterly*, XLIII., p. 483.)



terms usually cover a period of years, but their money income is fixed and not so adjusted to prices.

The rest of the community are more or less in the position of ordinary shareholders, who share very unequally what is left, according to market conditions and what they have to sell. As a whole they get what is left after the preferences are paid. The export industries are the "deferred ordinary" shareholders, who either bear the brunt of any misfortune or reap the surplus of any prosperity arising from their basic industries. An extreme example of both may be found in Australia at present, in the fruit grower on marginal land and the wool grower on the best land which has long been in the same ownership.

(d) *The Distribution of Income Without the Tariff.*

162. We now go on to compare the distribution of income under the tariff with that which might have occurred without the tariff. In doing so we cannot fairly make comparison with some perfect system of distribution which might be imagined, and we must make some estimate of what alternative conditions could be expected in Australia.

The possibilities of complete absence of regulation by Government may be dismissed. This policy, which is known as *laissez faire*, has never been popular in Australia, and although its simplicity is attractive, it is no longer approved as a policy leading either to greater production or welfare. We have referred to the tendency of tariff protection to spread itself over too wide a field, and the same is true of any Government regulation. Once begun it sets in train what might become an endless series of secondary efforts to achieve justice and avoid anomalies; but this tendency has to be faced. It is the willingness to face and the resolution to deal with this tendency which most of all requires statesmanship. In Australia, where practically all shades of thought are committed to some form of Government activity in the economic sphere, whether it be wage regulation or assistance to immigration, criticism of the policy of *laissez faire* is unnecessary. It will be sufficient to say rather summarily that the policy of *laissez faire* in any country allows the natural inequalities of capacity, and the acquired or inherent inequalities of property, to operate to the fullest extent to the diminution of welfare. In the peculiar circumstances of Australia, this result would be accentuated.

163. There are alternatives between the extremes of present regulation and no regulation at all, but there is no agreement as to any one course. It might be understood as the absence of tariff protection, with "development" assistance continuing as at present. The practical policy of free trade stops short of complete freedom, and is satisfied with "free imports."\* We take it that the practical alternative to the existing system is free trade in imports, together with some degree of assistance towards the development of the marginal resources of the country, such as could be provided through tax revenue and loan expenditure.

It is not clear that this *form* of assistance would be superior in all circumstances to tariff protection, or that the production needing it is more "natural" than the production resulting from a tariff, but there is much to be said for the bounty method of promoting industries.

164. We shall now consider the effects of developing the natural industries of the country to take the place of protected primary and secondary production. As shown in Part VI., agriculture is the most promising alternative. It may be assumed that without the cost of protection the present quantity of primary production at least could have been achieved with no cost for its assistance by the taxpayers. There would have been more wheat and less of the protected primary products, and the taxation now expended on agricultural development could have been used to expand it further on land now uncultivated. The effects of this assistance would have been to modify the natural inequalities of income, by subsidizing the production from the land less fortunately situated for rainfall and transport.

165. A similar pooling effect has been brought about by the tariff, but on a much larger scale. The effect has been carried far, because it has not been obvious. It is doubtful whether a pooling effect of such magnitude could have been achieved through taxation. It would depend entirely upon whether the taxation was sufficiently heavy and whether it was derived chiefly from land values and the higher incomes. It is too much to expect that the austerity of British principles would have operated in Australia, and that the costs of production would have been free from taxation to such a high degree.

166. With this smaller degree of assistance and the actual

\*This convenient term is not to be taken as excluding a strictly revenue tariff. See §100.

growth of population, settlement would have extended to the poorer lands, the lower income from which would have set the standard for wages generally. It is unlikely that the bargaining power of labour would have equalled the bargaining power of land ownership. Without the present concentration of wage-earners in the cities, trade unionism would have been weaker. The resistance to pooling would have been stronger, and given the same income per head its distribution would have been more unequal than at present.

Against this benefit from the tariff to the lower grade of incomes must be placed the burden on surplus elements in expenditure from the same incomes. Against the reduction in country land values and land incomes must be placed the increases in the city land values and land incomes. The net effect cannot be great. But we conclude that the tariff, in a somewhat wasteful fashion, does maintain the real incomes of basic wage-earners with families rather above the level of the same population under free trade conditions.

*(e) The Limits to the Protection of Labour.*

167. The Australian tariff derives much of its popularity from the idea that it protects the standard of living. It is also held to be responsible for the high costs of labour, and for what are called "artificial" wages. We believe that both these influences are exaggerated in popular controversy. And as we have given support to the idea that the tariff does protect labour, it is the more necessary for us to explain and emphasise the limits to what is possible.

We have given reasons for thinking that Australian conditions are rather unusual, that with our present population the income per head may not have been greater without the tariff, and that the tariff has had a larger pooling effect than would have been practicable through taxation. This last is the only possible benefit that can be received by labour, and we must examine its limitations.

168. The standard of living, represented by the standard of real wages, is determined in the first place by the income per head of the whole population, and in the second place by the extent to which that income can be pooled or shared equally without reducing the income produced.

The total income is, of course, determined by the total popu-

lation engaged in production, and what it is able to get from the resources available. The income per head is determined by the number of people in relation to these resources. There are always some natural resources which cannot sustain life, and some rather better ones, which, however, cannot give a living up to the standard of the country in question. At any given population and level of efficiency in production, the income per head is determined by the quality of the natural resources that have to be used. This is the chief cause of the different standards of living in different countries. Australia has rich natural resources over only a small part of its large area, and its high level of income per head is due to the fact that only the richer resources are used.

169. The standard of wages is high, therefore, primarily because the income per head is high. But it can be, and is, made a little higher than naturally it would be, by pressure of various kinds upon other incomes. There is room for such pressure, whether it is exercised by the wage-earners themselves or through legislation and taxation. There are maximum and minimum payments which can be made for labour, neither of which can be established with certainty, and between which there is room for variation. Free competition is liable to reduce wages to the minimum, and regulation can compel the maximum payments, provided the by-products of regulation have not absorbed too much of the income available.

170. We may remark that it is this scope for variation in what part of the whole income can be paid to labour that is the source of difficulty in determining what wages and other conditions should be, and how far the general pressure, including taxation and tariff costs, can be exerted. Differences are natural enough, and the parties to the necessary contracts lack suitable methods of negotiation. In the absence of such methods the natural economic adjustments are made amidst conflict and confusion. There is no definite and precise value for labour; there are only upper and lower limits to the conditions that can be obtained. Similarly, there are no definite and precise proportions of income which are necessary to maintain enterprise and saving; there are only upper and lower limits. This makes for uncertainty, and as both the total pressure and the total income are constantly fluctuating, the uncertainty is increased. These bewildering uncertainties, however, do not make the limits any less real.

171. It is to the interests of the community as a whole that the standard of living should be as high as possible, and therefore that pressure should be exerted to the full. It is, in fact, exerted in many ways, the tariff being one of them. The natural inequalities of income are modified just as the natural inequalities of rainfall are modified by irrigation. But the income (like the rainfall) cannot be pooled and redistributed *before* it has come into existence. If too much is attempted the income fails to appear, for production is discouraged.

This discouragement does not, as a rule, actually reduce existing production in a growing population. It merely checks its necessary growth. Unless saving and enterprise increase in proportion to population, unemployment is increased, and readjustments are inevitable. The real income per head falls through the disturbance, although prices may rise. The wage-earners who remain in employment may indeed receive the same real wages as before, but the average wage is less when earnings are spread over both employed and unemployed. The whole of the process may be on such a small scale as to be imperceptible separately from the naturally changing conditions of production and income. This again does not make it any the less real.

Unfortunately, the consequences of such attempts at pooling income cannot be pre-judged with any certainty. Wages and other charges which employers have to pay are always too high for some possible production. There are always resources which are just unpayable, whatever may be the cost for labour, and whether the fullest pressure is exercised or not. The only test is whether there is, or is not, any abnormal unemployment.

172. It does not appear that the wage standard and the other pressure for welfare has so far exceeded the capacity of the country's resources, although the large amount of borrowing from abroad has materially added to the demand for labour, and, unless the loan expenditure gives increased production to cover interest and sinking fund, the standard may prove to be too high. This is to say that the large amount of regulation imposed on behalf of labour has been effective only up to the limits of possibility. But what has been gained in one direction has not been available in another. So far as the tariff has protected employment it has done so by increasing the demand for labour at a cost, and the income transferred for this purpose has not been available for other purposes.

## PART VIII.

### THE NECESSITY FOR ECONOMIC PRINCIPLES.

173. The next three Parts of our Report will be devoted to a bare outline of the economic principles involved and their applications to tariff policy. We appreciate the fact that Australia is committed to such a policy, and we have found that on the whole the policy has been advantageous. But we have found strong reasons for regarding the present extent and possible future growth of protection with the gravest concern. The natural tendency of any tariff system is to extend itself beyond economic limits, and there is no natural check such as limits other forms of assistance the costs of which must be raised by taxation. We are aware that criticism of the tariff is growing, and that there is a considerable amount of uneasiness about its future; and we may usefully describe the circumstances which have promoted the growth of the tariff in recent years. Unless the economic limits can be recognised and rigorously applied, we may expect the tariff to extend further, and to become a cause of serious embarrassment, both economically and politically.

#### *(a) The Condition of Public Opinion.*

174. We have given ample evidence that the tariff is an important influence in Australian national life, but that this influence is neither of the kind nor degree commonly supposed. Its influence is chiefly that of promoting a different industrial structure, and, to a much lesser extent, a different distribution of income from that which would have existed without it. The degree of its influence, even in promoting new industries, is frequently exaggerated. Some new industries are natural in a country with a growing population, and many old and new industries are naturally sheltered. Popular controversy invariably exaggerates the importance of any topic discussed, and this exaggeration is inflamed by the heat of political argument. The activities and influence of Governments, although great in Australia, are not a large part of the activities and influences which make for or against Australian prosperity and welfare.

But the tariff is an influence which is all-pervading, very difficult to control, almost impossible to reverse, and (we find) not easy to understand.

175. A protective policy is especially dangerous, because it appeals to the *good* side of human nature in general, when that human nature is able to judge only by superficialities. All the patriotic and humanitarian impulses are stirred by the general aims of the tariff. Unfortunately the bad side of human nature has always made use of the good side for its own purposes, and a tariff policy appeals also to the destructive side of patriotism, to jealousies and instinctive prejudices against foreigners, and the aggrandisement of self through the nation.

Unfortunately, also, the patriotic associations of protection offer the strongest temptations to sectional interest. And the aggregate and cumulative costs of adding protection to protection are not thought of in connection with any specific industry; or if they are, it would seem grossly unfair to withhold the usual assistance through no fault of that industry or of its dependent people. A very strong case may be made out for the protection of any one industry, and the costs it imposes may seem negligible.

The warnings of the economists are apposite to these dangers and difficulties.

176. We think the tariff may be likened to a powerful drug, with excellent tonic properties, but with reactions on the body politic which make it dangerous in the hands of the unskilled and the uninformed. Although a section of public opinion would not admit it, there can be no doubt that limits exist somewhere to the amount of "tonic" which can be applied with advantage. The problems are to convince opinion of that fact, to get some idea of where the limits may be, and to enforce them with resolution.

We can find no evidence that even the existence of such limits is suspected by the majority of citizens in Australia, or that there is any real resistance in that majority to the subtle complex of interests and patriotic emotion which creates willingness to accept further increases and extensions of the tariff. There is at present no influence to counteract the indiscriminate and indefinite extension of the tariff since the articulate primary producers have adopted a policy of working for the same thing. We feel, therefore, that the ill-effects we have described may

be intensified unless something is done to inform public opinion on the facts, and to give it that independent evidence which is necessary to sound judgment. We note, however, that the Tariff Board, which in the past has given easy countenance to increases in protection, has for some time expressed grave doubts on the continuance of that policy. We do not consider the grounds given altogether adequate, but we welcome the change of attitude.

(b) *The Effects of the War.*

177. The present position would not have reached such an acute stage had it not been for the war and its effects. These were partly psychological and partly economic, and the effects have been common to all countries. Indeed, they became so acute that a special Economic Conference was called by the League of Nations in 1927 to discuss them. The War naturally inflamed national passions in all countries, even in those not actually engaged in the war. It therefore created a willingness to adopt suggestions for new or increased tariff protection. In Australia this willingness was very marked, and it has not abated. The tariff costs of war and of "glory" after the Napoleonic Wars have been immortalized in a passage by Sydney Smith, and in England they ultimately led to a revolution in tariff policy which was appropriate to English conditions. The last great war was similarly the cause of a serious increase in tariffs.

178. The war temporarily destroyed a great deal of international trade, and many goods had therefore to be made locally at higher costs. In Australia the shipping shortage intensified this condition, and industries sprang up under a "natural" protection, sometimes amounting to an embargo. Some of these industries would never have been established under any conditions short of an embargo, and perhaps not even then, were it not that the inflated state of our money and the rise in prices upset all values. Some were "back-yard" industries, or extensions of existing industries to cover special goods in small demand.

Nevertheless the industries were established, capital was invested and labour was employed, and it seemed bad policy to allow any of it to be lost. It is difficult for people to follow the idea that any production can cost the community more than



it is worth, although the idea is familiar enough within a particular business. Even business men do not apply business principles to community life.

179. On top of this condition came the "slump" in Europe, which presently (and inevitably) came in Australia also, partly by infection and partly as a reaction from our own war "boom." Before the slump European producers were readjusting themselves to peace conditions and were seeking to recover their lost markets. But when the slump came, their home markets shrank; prices fell, some costs fell also, and it was a natural policy in any case to "dump" goods abroad, and to dump them into overseas markets almost at any price.

Australia was one of the most important of these markets. In some export countries the currencies were depreciating, giving a temporary advantage to the exporters in those countries. From all causes, the new or artificially established industries in Australia were in a serious plight, and almost a panic was created.

180. The specific rates of duty in the Australian tariff had remained without much alteration during the rise in prices, and in consequence the effective *ad valorem* rates of many tariff duties fell during the war. There was a case for readjustment and for some increase in specific rates to bring them up to the effective pre-war level. But the only evidence of the protection then necessary was the difference between local costs and the costs of goods imported under quite unprecedented "dumping" conditions. The recommendations of the Interstate Commission, which counselled a close scrutiny of all claims, were then considered obsolete.

In the circumstances moderation was hardly to be expected in the tariff-makers of those days. It was natural enough also that the American notion of an adjustable tariff should be adopted, that the fact of *temporary* advantage in export countries having depreciating currencies should be considered a permanent advantage while that depreciation lasted, and that a new system should have been created which allows of increases being made by administrative action and without the express consideration of Parliament. A note on the history of the Federal Tariff and the principles now in operation is given in Appendix A.

We have therefore a condition of affairs for which no one is to blame, and another instance to prove the old ironical

philosophy that what causes trouble is less the blameworthy action of men than their good intentions wrongly applied.

The circumstances have changed, but the mentality persists, and the costs are still growing.

(c) *The Experience of Recent Tariff Changes and the Tariff Board.*

181. As part of the changes introduced in 1921, a Tariff Board was created, with very wide powers. In establishing the Board the Commonwealth followed the example of the U.S.A. By law, the Minister in charge of Customs is required to have received the advice of the Board before taking action to change existing conditions. The Board provided was not an expert but a representative body, with an administrative officer as Chairman, representatives of manufacturers and of importers, and, since 1923, a representative of primary producers also. The duties laid upon the Board have not all been carried out, and in particular certain duties to safeguard the interests of consumers.

182. We do not think that it would be useful in this Report to discuss the work of the Board in detail. The criticisms which we feel bound to offer refer rather to the inadequacy of the provision made to carry out the duties imposed upon the Board. Our evidence shows that it has been impossible for the Board to achieve the avowed object of introducing "scientific" character into the tariff.

The first cause of this failure has been in the legislative and administrative methods established since the war. The object of an "elastic" tariff, made adjustable to suit changing conditions, is itself admirable, but this object requires a highly-skilled and well-informed administration to achieve success. Even were this available, the admirable qualities of an easily adjustable tariff would largely be destroyed by the instability created. We have stated the advantages of stability in income in a community, but stability of business conditions is no less desirable. It is questionable whether a "scientific" tariff can be so "elastic" as the Australian tariff attempts to be. We meet here a dilemma well known to political science, in the problem of reconciling order and progress. We have at present no suggestion for avoiding this dilemma, but we must point out the fact of its disturbing presence.

183. So far as we have read and studied the reports of the Tariff Board, we have come to the conclusion that its members have had insufficient time to investigate any one problem thoroughly, and insufficient equipment to enable it to get independent evidence. We prefer to say nothing about the views of the members on economic effects and reactions, and we summarise the handicaps we refer to as follows:—

- (i.) The pressure upon the Board has prevented it from making use of the statistical information which is available in Australia, or to obtain reliable information upon conditions operating abroad, including the movements of world prices.
- (ii.) The Board has been unable to carry out the duty of undertaking a general survey, and therefore of judging the suitability of different industries for assistance under Australian conditions.
- (iii.) The lack of independent information has led to an undue reliance upon the evidence offered by the parties interested.
- (iv.) There appears to have been some confusion between costs and wage rates, and (except in the case of the U.S.A.) an assumption that differences in wages were a sufficient guide to differences in costs.

184. The Board has now recognised that there are limits to tariff protection, and it has protested against increases in the tariff being made the basis of applications for increases in wages, but this implies that differences in wages are the chief causes of differences in costs. We regard this assumption as especially to be avoided, in view of its effect upon the outlook of both employers and employed.

In general, our reasons for expecting that the experiences of recent years may be continued lie in the facts that there has been no improvement in the methods employed by the Board, that the "elasticity" has been approved as a merit by the Board itself, and that the trend of its recommendations has been to extend the tariff further. But Appendix C on the Tariff Board should be read in this connection, as giving a more considered and rather more hopeful view of the prospects.

*(d) Variation in Costliness of Production.*

185. We have stated in Part IV. (end of §83) our reasons for not quoting particular industries as examples of costly pro-

tection. But it is quite certain on general grounds that if the average excess price is 20 per cent. it will be nearly double as much for some industries. If the full duty is added to the price, as very frequently will be the case, the costliness will vary up to over 40 per cent., according to the rate of duty. Without making any inference respecting particular industries, a study of Class (a) manufactures will show the general position. This class contains the industries which we judge on the whole to raise prices by the full amount of duty, and our check estimate (§83) has satisfied us that there is not much exaggeration in this for the class as a whole, though there may be for some industries in it. In this class the average excess cost measured by duty is 25 per cent., but it goes over 40 per cent. for some industries. Further within an industry there will be considerable variation for different goods and different grades of goods, so that the highest excess cost will be quite double the average.

The same thing holds for the benefits bestowed by protection, so far as they are measured by the employment given or the salaries and wages paid. For the class as a whole the excess costs are about the same as salaries and wages paid. But for some industries excess costs are more than double of salaries and wages.

186. It is clear then that we have a great range in the costliness of protection. For some goods, excess costs may be up to 40 per cent. of the output, and as much as double of the wages and salaries paid for producing them. If all protection had been as costly as these extremes, the total excess costs would have been double what we have estimated, or £70m., causing a rise in the costs of industry of 20 per cent. instead of 10 per cent., and the industrial population employed would have been no greater than at present. There is little doubt that the policy of protection would have broken down under these conditions. Under present circumstances these very high costs add to the burden of protection without equivalent benefit. If they were pruned it would put our standard of living on a firmer basis, or, alternatively, free some resources for other protection, which would give much greater benefits in proportion to cost. It is important to remember that every bad case which is given protection will eventually prevent protection being given to some really promising industry.

(e) *The Permanence of Established Protection.*

187. One further reason remains for the application of economic principles in establishing protected industries, and this is their relative permanence, once established. It is difficult to reverse a policy of assistance. An industry may be established for which the original tariff protection, although high, may prove to be inadequate. In order to maintain it and to safeguard the capital employed, it becomes necessary to increase the tariff still further, and the community is committed to an indefinite increase in tariff costs. This is an ever-present danger under existing conditions, and gives emphasis to the necessity for economic principles. But even if an industry is able to carry on with the protection originally granted, it is difficult to reduce the degree of protection given. It is true that no policy can be absolutely permanent, and that the continuance of assistance cannot be guaranteed to any industry. But the very stability which we have stated to be one economic principle prevents the easy reversal of a tariff policy. It might be worth while to cancel the most costly results of protection, and even to compensate the interests vested in them. But clearly this is not possible on a large scale.

188. The same caution necessary in creating or extending protection is necessary in abolishing or curtailing it, for the costs of action cannot be evaded. The effect of extending protection is to increase costs, to disturb each industry through which they pass, and ultimately to concentrate the bulk of the costs in a manner we have described. The effects of reducing protection to any industry, with the subsequent reduction in prices, are to decrease costs and to require adjustments in each industry in a similar fashion, but without the same assurance that the benefits will pass on to the people who now bear the costs. Costs are passed on by those who can under direct pressure of individual need; benefits only by the pressure of competition of fellows in the same trade; so the passing on of benefits is slower and more doubtful.

Industry as a whole, which adapts itself to tariff conditions, is disturbed by any alteration, and the gain from any reductions does not reach the consumers immediately. A reduction in protective duties which destroyed or curtailed a dependent industry would destroy capital value and cause some unemployment in that industry, pending the absorption of labour

into other industries. Drastic reductions are, therefore, out of the question, and any reductions, like any increase, should be carried out only after careful investigation and a reasonably full knowledge of the probable consequences.

189. This final reason allows of no escape from the necessity for a thorough application of economic principles. We therefore proceed further to a statement of those principles, and we recommend that enquiries should be instituted along lines which will be suggested in Part X. We believe that the prosecution of such enquiries, considered in the light of the preceding section, would be a stimulus to efficiency of the same nature as the stimulus of new competition.

## PART IX.

### THE APPLICATION OF ECONOMIC PRINCIPLES.

190. We shall now attempt to outline the main economic principles which in our opinion should be applied to tariff policy, with a view to practical possibilities rather than counsels of perfection. We shall deal with the tariff first as a means of taxation, and then as a means of assisting industries. A statement on bounties follows, and a note on "effective protection." Our chief concern is to suggest principles which shall assist to distinguish between industries seeking protection, bearing in mind the fact that there are limits to the total protection which the country can afford. The principles suggested for discriminating between industries should provide a guide for practical tariff policy.

#### *(a) The Tariff as a Means of Taxation.*

191. The economic object to be aimed at in taxation is to transfer such income as is required from the taxpayers with as little sacrifice as possible to individuals, and with as little cost as possible to production. The British model is a good one to follow, and this system is based upon direct taxation upon incomes with supplementary taxation upon expenditure. Care is taken to avoid the burdening of necessary costs in production, and taxation is concentrated upon what may be called "surplus elements" in the income and expenditure. The aim is to confine customs and other taxation on expenditure to commodities that can if necessary be avoided. If this is impracticable, then taxation is extended only to those "conventional" necessities which come next in the order of commodities which can be done without. These are the economic principles to which the British system is the nearest approximation.

192. In Australia these principles are recognized to some extent, but their practical application is interfered with by the incidental effect of the protective tariff (described in Part II.). They are recognized by the omission to tax such groups of imports as animal substances, oils, fats, waxes and rubber, and by allowing certain items of machinery, textiles, chemicals,

drugs, fertilizers and vegetable substances to be free from duty. The principle is admitted, but the operation is defeated through the taxation imposed on other large classes of goods used in production. To some extent this is an inevitable consequence of a protective system, and therefore one of its costs, but we suggest that the taxation on necessaries need not be so large as at present. Greater discrimination between grades of goods, and more regard to the question of costs, are necessary preliminaries to greater economy in our tax system.

193. We suggest as an aim towards which policy should be directed, the separation of the two functions of the tariff, revenue and protective. We regard the present union of interest between the Treasury and the protected industries as bad. The interests of the Treasury should not be linked with those of the industries receiving assistance; rather should it be opposed to them, as when the assistance is given from tax revenues. In the latter case the Governments have to find the money from taxation, or at least the interest on it, and this responsibility acts as a salutary check in the interests of the community as a whole. But where assistance is given in the form of a duty it not only costs the Government nothing, but it adds to its revenues. The interests of the Government itself are apt to tempt its members and supporters to acquiesce in some dubious extensions of protection because of the revenues gained incidentally. And the natural concentration by advocates on the avowed purpose of the protective duty diverts attention from its effect on taxation.

194. At present it is impossible to distinguish between customs revenue incidental to protection and revenue duties with no protective intention. No distinction based on any arbitrary *ad valorem* percentage figures can do this, and the information waits upon an analysis of the commodities taxed, and the grades which are actually protected. When this information is available, the tax effects will be much clearer, and it may be possible to reduce or to abolish certain unintended and oppressive commodity taxes entirely. We suggest as a further objective that all revenue derived from protection should be allocated to the protective purposes intended, and that it should be used for Bounties and not for ordinary Government expenditure.

195. We do not suggest that the strictly revenue duties should be reduced. It is desirable that the present proportion



of customs to total taxation should be reduced, but revenue duties may even be extended with advantage, parallel with an equivalent increase in direct taxation, if equivalent reductions are made in the taxation imposed on industrial necessities, including the necessities of livelihood. Taxation on expenditure is now heaviest on alcoholic liquors and tobacco, which stand out as obvious targets, and now provide about 40 per cent. of Australian customs and excise revenue. The ease with which these targets can be reached has perhaps led to a greater concentration on these items than a broad view of luxury expenditure would justify.

Other luxuries, semi-luxuries and merely "conventional necessities" are legitimate subjects of taxation, and in the group could be included cocoa, coffee, confectionery, silks, gloves, cinema films, motor cars or bodies, and similar commodities, with an excise on local production where a protective effect is not intended.

196. We realise the practical difficulties of these proposals and the impossibility of any heroic measures to introduce them suddenly. But if their soundness is established as an objective it is always possible to work towards them, or at least to avoid a policy leading in the opposite direction. For example, it is immediately possible to establish the principle that Bounties are the most economical method of giving protection, and we suggest that a Trust Fund should be established as a matter of policy. At least some of the revenue derived from protection could be diverted to this Fund. We suggest that, pending an investigation into the facts, such revenue as is derived from excise and equivalent customs duties on alcohol and tobacco might be treated wholly as ordinary revenue, and from the remainder a fixed proportion could be paid into a Trust Fund for Bounties.

*(b) Bounties: Their Advantages and Practicability.*

197. From every point of view, except that of political expediency, bounties are to be preferred to customs duties as a means of protection, and we may summarize their advantages as follows:—

- (i.) The assistance given to a tariff-protected industry is, in fact, a bounty, but it is paid by consumers, and much of its cost falls ultimately on the export industries.

- (ii.) Bounties paid from tax revenues are paid by the general taxpayer, who can be taxed in proportion to his income and capacity, with much less hampering effect on production.
- (iii.) Bounties do not raise prices except through the general influence of taxation.
- (iv.) Bounties require payments only on the goods produced locally, while duties require payments on all the goods consumed, through the customs duties collected on the imports which continue.
- (v.) With bounties it is easy to discriminate between the grades of goods which can be produced at home and those which cannot, and to leave the latter free from taxation.
- (vi.) The cost of bounties is definitely known and felt; it is not obscured as with duties, and there is a natural and healthy resistance to and criticism of the assistance given.
- (vii.) There is less probability of wasteful assistance to industries of minor importance.

198. The reason which prevents the adoption of bounty systems of protection is obvious enough. Since bounties require payments, while duties create receipts, the interests of the Treasury are all against bounties. Bounties are also less popular with the protected interests, partly because their costs are more obvious, but also because they are less secure. And the more effective the protection becomes, and the larger the volume of production, the larger is the amount required for bounties. It may be equally so with duties, but the larger amount is not realised.

199. We may point out that basic commodities which enter into other production to a large extent are especially appropriate for bounties, and that if the suggestion we have made in §196 were to be adopted, the incidental customs revenue derived from protective duties, and allocated for bounties, could best be spent on commodities conspicuously important as the materials for other industries. The higher prices for these materials could then be reduced: iron and steel suggest themselves as appropriate goods for this form of assistance.

200. We suggest, notwithstanding the fact that a general adoption of the bounty system is quite impracticable, that it

should be possible in many cases to begin with bounties while home production is small. When the industry has grown and justified a continuance of protection, the practical necessities of the Treasury may make it advisable to substitute a protective duty. In the early stages of any industry, before it can develop its production, a duty increases the cost to the community without compensating benefit, except in respect of the revenue derived. When for Treasury reasons the duty must be used, it can be fixed on the actual necessities of an established business, and being ascertained from experience, its determination will be free from the somewhat illusive considerations of "nascent industries." There is always a temptation to hopeful aspirants for protection to understate the amount of protection that ultimately becomes necessary.

(c) *A Summary of Principles for Discriminating Between Industries.*

201. Supposing that some degree of protection has been approved, we now come to the principles which should determine the *distribution* of protection, whether through bounties or customs duties. In Australia this is the essence of the problem, and it may be stated thus:—

There is so much benefit to be gained and so much cost to be borne: which industries will give the greatest benefit in proportion to cost? The principles are the same whether they are applied to existing industries or to new applicants for protection, but the practical application to existing industries is limited.

202. The first principle is a general one. Industries cannot exist without protection, because they are at a comparative disadvantage with other industries, both those of a different kind at home and those of the same kind abroad. Australia has a comparative disadvantage, for instance, in producing silk, but a comparative advantage in producing wool. The U.S.A. experiences a comparative disadvantage in producing wool, but a comparative advantage in cotton. In the production of tools and mechanical goods the U.S.A. has a similar advantage, perhaps in part owing to superior technical skill, but also owing to the mass production made possible by its large home market.

The degree of comparative disadvantage is measured by the degree of the protection required. But it is possible that an

industry that cannot establish itself unaided may show reasonably good prospects of overcoming a disadvantage that is temporary or slight.

203. *Preference should therefore be given to industries with the least comparative disadvantage, either present or prospective.* The degree of comparative disadvantage may be tested by a consideration of the relative costs and benefits arising from each industry. Exact estimates are not obtainable, but answers to the following questions will give material for judgment.

What is—

- (i.) The degree of protection required?
- (ii.) The capacity of the industry to reduce the need for protection through increasing efficiency?
- (iii.) The extent of the market available to the industry, and its opportunities for the economies of mass production?
- (iv.) The prospect of stability in the industry, and of its supplies of raw materials?
- (v.) The demand by the industry for the products of other Australian industries?
- (vi.) The cost which may be added to the equipment and materials used by other industries?
- (vii.) The cost which may be added to the general cost of living?
- (viii.) The extent to which protection is required because of the Australian wage standard?
- (ix.) The labour requirements of the industry, direct and indirect, in proportion to the cost of protection, and the type of labour and skill required?

Some of these questions require explanation, particularly (ii.), (iii.), (vi.), (vii.), and (viii.), and we proceed to these explanations.

(d) *The Protection of Efficiency.* (Question ii.)

204. We shall take question (ii.) first and deal with it briefly.

The degree of protection should generally be limited to the amount necessary to protect efficient production. But there are grave difficulties in determining what the degree of protection should be. There are different *possibilities* of efficiency

between different units, due to size and location, and there are differences in the success with which these possibilities are achieved. Protection may be required from the inherent disadvantages of the industry, or from failure to attain efficiency. The question is whether it should be based on the cost of the most efficient, the least efficient, the average efficiency, or on some other measure. To base it on the lowest costs may be to penalize unusual efficiency in management, while to base it on the highest costs would be to encourage the worst laxity. No definite comprehensive principle can be laid down, but all of these matters should be taken into consideration.

On receiving an application for protection for any commodity the Tariff Board might enquire from all producers of that commodity whether they support the application, and make it a condition that all who do support it should supply complete information as to their costs.

(e) *Mass Production, Concentration, Competition and Publicity.* (Question iii.)

205. It is possible that general efficiency in an industry may be increased with increasing experience, and with an increase in the volume of production in that industry. The latter depends upon certain influences which affect the prospects most profoundly. The maximum demand is determined by home consumption, plus exports, if any. The proportion of this demand that can be supplied by home production depends upon the efficiency of that production. And in turn this efficiency in many cases depends largely upon the degree of concentration in manufacturing. Two things are therefore important: the total market available, and the degree of concentration or mass production in the particular industry.

206. The demand for its products determines to a large extent whether an industry will be established. For the world at large there are some industries and some processes which can only be established profitably if the whole world, or most of the world, is the market. Before the war Australian Mints sent their sweepings and even their furnace ashes to Germany for the extraction of minute particles of gold. Similarly, for any one country there are some industries which can only be established, with any hope of the product being purchased at all, if the population is large enough to demand a sufficient

quantity. A sufficient demand enables a profitable price to be obtained in competition with world production. There are other industries which can only be *profitable* if the purchasers pay a higher price than is necessary for production elsewhere. This is true over a large field of protected products.

207. As the home or export market increases, the possibilities of mass-production increases, and also the range of industries and products which can be established and produced. This is equally true whether we have protection or not. It follows, therefore, that protection which would be absurd for one State, and which would have been too costly in Australia before Federation, may be legitimate now, for the whole Australian market. On the other hand, protection which is economical for the U.S.A. might not be economical for Australia.

The extent of the market limits the *possibility* of the economies which mass-production can secure. At some point no further economies are possible, merely because of size or volume of production. This is a point of maximum economy, and in Australia the distance from that point is a matter of great importance in considering whether an industry should be protected. A great distance from it, and a small prospective market, may be the sole reason for higher local prices. It then becomes a question of determining whether the particular industry is worth while, supposing every possibility is achieved.

The application of science not only to the processes, but to the administration and organization of industry, is involving changes of the first magnitude, comparable only with those derived from the Industrial Revolution itself. These changes, centering round the idea of mass production, have in certain industries made extraordinary reductions in unit costs. It is often stated that the Australian market cannot support mass production. This is true for some, but not for most industries which have been established in Australia.

Unless a parallel increase of efficiency in local production is maintained, the excess costs of production will be increased. Protection which might not have involved a great cost 20 years ago may, because of technical developments overseas, become increasingly burdensome. The increasing scale of industry abroad makes all the more important our conclusion that protection should in general be applied to those industries where the economies of large scale production can be expected, and

that it should be cancelled in those industries which have these possibilities but do not keep reasonable pace with world developments.

208. We have further to consider how far this possibility of mass production is attained, or is in prospect of attainment, in the industry being examined. Within the Australian market it may only be attainable by the concentration of all production in one manufacturing unit. Economy may be defeated by competition between different units, because while competition stimulates efficiency up to the maximum possible, within the size of the competing industries, the diffusion of production among these units prevents other economies. We are referring to those commodities the costs of which vary greatly with the volume of production, and therefore with the equipment that can profitably be used. In Australia the iron and steel and the metallurgical industries could not produce at their present costs if their production were spread over a larger number of units.

209. We are explaining here a relatively new phenomenon, virtually unknown to the classical economists who influence popular opinion to-day. They laid down the principle that competition is necessary to efficiency. Conditions have now changed with the growth of invention and machinery, and with the modern use of power, and theory must change with them if it is to be correct theory, accurately describing practice and experience. The problem of safeguarding efficiency now requires a different solution in industries capable of great economies through concentration. Such a solution was suggested by the British Committee on Trusts in 1919.

Industries without effective competition require careful watching and perhaps some regulation. The British Committee on Trusts suggested that careful watching was sufficient, and that some publicity was required on the costs, prices and general operations of business combinations. The case for such publicity is greatly strengthened if combinations or concentrations are protected. This is one of the considerations which, for reasons of time and space, we cannot further discuss in our report. But we recommend that it should be given serious attention. Reference may be made to the stimulating report of an English Committee, published as *The Facts of Industry* (Macmillan).

210. We may point out two natural tendencies which lead in the direction of future development. Business is itself concentrating its management and unifying its control, and the regulation imposed by Governments is a small thing compared with the regulation imposed by business men upon themselves and the public. The problem of reconciling their interests with those of the community has yet to be solved, but the solution lies in the growth of accountancy and its association with economics. We believe that the accountants of the future will also be competent economists, who will examine the meaning of the figures they handle and report accordingly. Such expert knowledge will be available to the community as well as to the businesses themselves.

The time has gone by when business units with great economic power can be considered as "private" enterprises, with exclusive rights to their own information. Experience has shown that it is virtually impossible to regulate "monopolies" by legislative enactments directed at mere forms, or by legal interpretations of what is "in the public interest." The best safeguard of the public interest is publicity, and with protected industries subsidized by the public the case for publicity is overwhelming.

211. Our conclusions on this question are that protection should be granted only when an industry can approach reasonably near to the costs of production elsewhere, so far as those costs depend on volume of production; and that this depends on the extent of the market available, the degree of concentration, and the application of some safeguard against the abuse of control by the industry itself. The safeguard we recommend is the automatic and simple safeguard of public knowledge and public criticism.

Provided that these necessary safeguards are in operation, we think that the protection given should be sufficient, not merely to place local production on an equality with imports, but to exclude those which could equally well be made in Australia. A duty just high enough to allow equal competition with imports, and which therefore allows a large importation to continue, defeats the possibilities of mass production just as much as a lack of concentration defeats it among local producers. The best economic conditions for a protected industry are established when it obtains the maximum market for an



organised output, and protection is likely to be most economically applied when it is limited to such industries. The height of a duty is not a measure of the cost to the community; the inevitable cost is the difference between the prices at which the goods could be imported and the necessary costs of producing the whole of the Australian consumption in Australia.

The greatest care needs to be exercised in applying this principle, which is a very tempting one to hopeful promoters of protection. Before it is applied the fullest information is necessary on the grades of goods that can be locally produced, and their proportion to the whole consumption of the goods on which duties are to be levied. If a large proportion of total consumption is of grades which have to be imported, the principle should not be used to justify a high duty over the whole field. A duty which can be made effective over only part of the goods consumed must increase the taxation on the grades still to be imported. It is important to be sure that the increased costs of necessary imports is not greater than the benefit of more effective protection against the imports which are not necessary. As grades shade into one another and compete with one another, this will not be easy to apply, and the principle needs to be applied in conjunction with the others we discuss, particularly with that dealt with in the next section.

(f) *Costs Imposed on Other Industries.* (Questions vi. and vii. of §203.)

212. The excess costs of protected industries, other than those producing luxuries or semi-luxuries, are passed on and added to the costs of other industries, including the cost of living. It is relatively unimportant in most cases whether the protected goods are used directly by other industries as equipment or raw material, or enter indirectly into industrial costs through their influence upon the cost of living, wages and the cost of labour. When a great range of goods is protected, as in Australia, there is no great difference between one industry and another in the effects of the added costs on them. The measure of these added costs can in general be sufficiently ascertained by considering the degree of protection required, but consideration should be given to the use of the goods produced, which in some cases will impose an extra burden on another industry.

*(g) Australian Wages and Their Labour Costs.**(Question viii.)*

213. It is undoubtedly a fact that Australian wage standards impose disabilities upon manufacturers and other producers in competition with free imports from countries with lower wages. It is commonly alleged that this is the sole or the chief cause of disability, and in some cases it is doubtless a fact. However, the basis of the reasoning requires close examination, for protection is also sought against the high wage industries of the U.S.A. Protection may be sought and granted for reasons quite independent of wages or other labour conditions, and these should be known. They should not be covered up by the associations of labour interests, humanitarian impulses, grievances against wage-fixing tribunals and the like. Indeed, a disquieting feature of recent experience has been the unity of employers and trade unions in support of applications for increases in the tariff. If they cannot agree on anything else, they can agree in attributing the necessity for protection to the standard of living.

214. An examination of the statistics given for protected industries in Appendix N. does not give support to this idea. It is there shown that the cost of protecting manufacturing industries almost equals the whole of the wages and salaries paid in those industries. If the excess cost over free imports were all due to wages and salaries paid in Australia, then the labour used in competing countries must have received nothing at all. Even if the wages paid in Australia were double those paid elsewhere, half of the cost of protecting the specified industries must have been due to other causes. In some of the items in the Table cited, the excess cost of home-produced goods must be much greater (and in others much less) than the wages paid. It appears from these considerations that not more than half of the costs of protection in Australia can possibly be due to the standard of living, except when the effective competition is with very cheap coloured labour.

215. We have dealt with what is probably the most serious cause of high costs in most Australian manufacturing industries which cannot compete with free imports, namely, their inability to secure the economies of mass-production. In practice, the protection given covers a combination of costs. It is desirable to distinguish between the two main causes: extra

labour costs and other disabilities. There is more to be said for protecting an industry because it employs labour at good wages than for any other reason.

We suggest, therefore, that when the probable excess cost of an industry has been ascertained, and also the difference between wage rates in Australia and the chief competing country, the two should be compared. If other conditions were approximately equal as between two alternative industries, preference should be given to the one whose excess costs were occasioned more by wages.

216. We should, perhaps, explain that we do not expect this particular test to have as great an influence as the preceding ones. It is essentially subordinate to the test of total cost from all causes, which we have placed first in our list of questions to be considered. If conditions other than labour are equal, and there are no serious disabilities on account of small-scale production or inefficiency, the relative importance of wages in total costs will have determined the relative excess costs between two industries. The more machinery and power used, the less may be the excess costs, and the more able the industry to stand on its own feet against competing imports. We do not suggest that the amount of wages paid should itself be a guide in discriminating between industries; that would be to discourage the use of machinery and of efficiency in reducing labour costs. For this and other reasons, we have rejected the test of comparative labour cost as a guide to total cost.

217. We are aware of a certain danger in suggesting that wages should be singled out for preferential protection, and we must emphasize the subordinate position of this question. We have dealt with the advantages of and the limits to this objective in Part VII. (on the Distribution of Income), and we must now point out the fact that what we have said concerning the protection of efficiency applies to labour as much as management. There are among workers the same grades of excellence, average efficiency, and marginal efficiency. And with labour as with management, it is not economic to give full protection to the least efficient, for if low efficiency is encouraged it sets a low standard throughout all industry.

It is desirable to safeguard the standard of efficiency even more than the standard of living, for the latter follows upon the former.

218. We take the opportunity, therefore, to express our hearty agreement with the opinion of the Tariff Board that the industrial unions "should be induced to realise the critical position," but we see no way in which this can be done without some knowledge of the actual total costs in the industries concerned, based on clear statements giving all the reasons which cause their inability to compete with free imports. We believe that the publication of the facts would assist in this direction, and that neither the unions nor the wage-earners themselves are so fundamentally unreasonable as to resist all efforts to reduce the disabilities of industries requiring protection. We believe that it would be possible, with adequate information as a basis for negotiation, to link the interests of the wage-earners with those of the community, and incidentally to set an example for negotiations between employers and employed in all industries.

*(h) The Tariff and Wage Regulation.*

219. There is one aspect of this question of the greatest importance, but only incidental to our subject, upon which, however, we should offer some comment. We have justified the protection of industries whose chief disability is the costs imposed by the Australian wage standard, and we must point out the difficulty raised in determining that standard. The justification would disappear if the protected wages were themselves to be based on the subsidized capacity of the protected industries.

The determination of a wage standard for Australia was made over twenty years ago in the famous "Harvester Judgment" of Mr. Justice Higgins. The standard then set has been the predominant influence in all judgment and agreements, and indirectly on all labour earnings throughout Australia. There was a two-fold basis for this pioneer judgment: the actual wages then being paid in local occupations, and the adequacy of those wages to meet the roughly estimated cost of living for a family of about five. Obviously the actual wages paid provided the most exact evidence, and these wages were paid in or near Melbourne in certain naturally sheltered industries.

220. The fact that this judgment has stayed for such a long time is not only an unexampled tribute to the sagacity of the judgment itself as an interpretation of the economic wage-paying capacity at the time, but also evidence that this capacity

(in real wages) has not changed substantially since. We are not here concerned with the defects of its applications. But we should point out the fact that it was based on the wages paid in sheltered industries. The adjustments of wages to prices have protected the basic wage-earners from the costs of the tariff, and have kept the standard itself closely related to the favourable wage-paying capacities of protected industries. This development is not without danger; at some time it will be necessary to review the principles of the Australian wage standard, and all we desire to say here is that the circumstances of the unsheltered industries should not be ignored.

But in this connection we must observe that the unsheltered industries also have different degrees of efficiency, and in addition, different qualities of land. We reject any suggestion that wages should be reduced to the amount payable on marginal farms, and we do not suggest reduction at all. But when the wage standard is in effect determined by the sheltered industries there is a possibility of it being pushed too high, and this danger will remain with us unless the wage standard is directly related to the economic capacities of the export industries.

(j) *Conclusions on Economic Principles.*

221. For convenience, we have given a summary of our conclusions in Part I. In Part XI. we shall deal with the information required to carry our recommendations into effect.

We wish to make it quite clear that the "tests" we suggest are not intended to defeat the idea of protection now or in the future. There will be general and non-economic reasons for protecting some industries, all of which need to be taken into consideration in determining policy.

222. In concluding this Part we desire to say that when all details are digested and applied, everything comes back to the general point of view. We suggest that every other means of promoting new industries should be exhausted before recourse is made to the tariff, and that the cost of tariff assistance to any industry should never be obscured. The costs at least should be known to those responsible for judgment, and if the choice is then made all may be well. We consider that protection should be looked upon as an expense, and that the Tariff Board should regard itself as an authority charged with the grave responsibility of recommending the expenditure of

a substantial proportion of the national income on the establishment and maintenance of industries specified by itself.

223. The ability of an industry to contribute to the national income without cost to other industries should always be upheld as the economic objective, and while temporary incapacity to do that must be accepted as inevitable in some circumstances, the prospect of permanent and substantial cost should be regarded with disfavour. We consider that this point of view is all-important, and that the point of view and the application of the principles we suggest would be promoted by the appointment of an economist either to the Tariff Board, or as a senior officer in the staff appointed to collate, examine, and report upon the evidence required by the Board.

224. We express no opinion upon immediate policy, nor upon the merits of application for tariff increases now pending or actually before the Board. But we think that the Board might well concentrate most of its energies upon a close examination of the circumstances of industries already protected, in the light of this report and of the information which we suggest should be obtained.

## PART X.

### A METHOD OF PROCEDURE.

225. We do not suggest that the tariff can be made "scientific" in the full sense of that term, nor do we suggest that tariff decisions should be delayed while protracted investigations are being made into all the details of actual and possible facts. A reasonable sense of proportion is called for in determining what can be achieved in practice with benefit to the community. We are also aware that the necessary information cannot all be obtained. It would be difficult to obtain the purely Australian data and much more difficult to obtain what must be sought abroad. All that can be expected are approximations on such subjects as the relative costs of production and the proportions of labour used. The information available to us on these subjects in other countries is increasing, but it needs the greatest care in use, and the data are not likely to be exact enough to justify absolute reliance upon them for the application of any formula. But scientific *method* need not wait upon precise accuracy of data.

#### (a) *The Degree of Protection Required.*

226. With these qualifications in mind, we suggest a method of approach to the test questions suggested in Part IX. (§203), beginning with the first question on "the degree of protection required." To answer this question, we must take into account:

- (i.) Whether protection is warranted economically for any particular article.
- (ii.) How much is necessary to ensure that its production is maintained.
- (iii.) Whether it is economically practicable to secure the major part of the production to Australia.
- (iv.) The degree of protection necessary for this purpose, and
- (v.) Whether in the particular case the method of customs duty is unusually burdensome.

227. It will be informative also to distinguish the chief causes which make the production of a commodity dependent

upon the tariff, and especially the causes outside the control of the particular industry, as far as this can be done. The results will not give an exact measure, but they will furnish an approximate idea of the material circumstances, which should assist not only the Tariff Board's recommendations but that final judgment on the merits of the case as a whole which goes beyond the range of purely economic considerations.

The chief causes which make protection necessary to an industry may be distinguished as:—

- (a) Disabilities due to Australian wage-rates.
- (b) Disabilities due to other excess costs imposed on the producers.
- (c) Disabilities due to the industry itself.

228. The main object, however, is to obtain the total amount of protection required from all causes. This may be obtained from a comparison of prices, with due regard to all possible disturbing influences—differences of grade in imports and home products, inclusion of abnormal profits in either case, special inefficiency of Australian production, temporary market fluctuations, dumping possibilities, and other factors discussed in Part IX. and elsewhere in this Report. When the total protection required is ascertained, the component disabilities, called (a), (b), and (c) above, may be estimated in terms of the amount of duty required to overcome each of them. The first two, (a) and (b), will be estimated directly; the remainder got by subtracting these from the total protection required will give (c), the disabilities due to the industry itself.

229. In estimating (a)—the disability due to Australian wage-rates—reference may be made to the discussion of principles in Sections 213 to 218. Stress must be laid on labour-costs and not on crude wage-rates. The first criterion to be applied is the absolute labour-cost of producing the same article at home and abroad. If the labour-cost is less in Australia, there can be no disability on account of wage-rates, however much higher they may be in Australia. If the labour-cost of a given article is higher in Australia, and the foreign wages (say) 25 per cent. lower, then 25 per cent. of the Australian labour-cost of the given article measures the amount of disability for the article on account of wage-rates.

\*Cost of production in Australia, £1. Labour-cost in Australia, 6s. Labour-cost in competing country, 4s. Wages in competing country, 25 per cent. lower. Australian excess cost due to wages is 25 per cent. of 6s., or 1s. 6d. Disability due to wage-rates is 1s. 6d. in £1, or 7½ per cent.



The disabilities called (b) include special costs imposed by the tariff on raw material used, freight and other charges on raw material, and the excess costs of the tariff as a whole—all in comparison with the same costs in the competing country.

*(b) The Comparative Eligibility of the Industry.*

230. The next step will be to compare this cost of the particular protected production with the average cost of protected production as a whole. This will give the answer to the first of the test questions we propose in Part IX., for discriminating between industries. The remainder of those questions may then be taken in their order.

This procedure will have informed the tariff authority of the relative position of an industry or product among those which enjoy or are applicants for protection, and will have given it a good deal of information to enable it to apply the discriminating principles.

231. Before any decision is arrived at to protect a particular commodity by a customs duty, the incidental tax effects of the duty need careful consideration. It may be possible to produce in Australia only a small proportion of the class of goods which become subject to taxation, with the result that Australian consumers are taxed without corresponding benefit to production.

This consideration becomes of still greater importance if the duty is increased to give "effective protection" (referred to below), and particularly if the class of goods contains necessities which enter into the costs of production. The range is therefore limited, but although different grades compete with each other it may be possible to devise customs categories which will allow of discrimination.

These possibilities should be explored and an estimate should be given of the tax effects, as well as the protective effects, of the duty in imposing excess costs on other industries.

*(c) The Method of Protection.*

232. Should the decision be adverse on account of the last consideration mentioned, there would still remain the possibility of protection through a Bounty. The limited capacity of bounty protection suggests that the bounty method should be reserved as much as possible for commodities otherwise eligible for protection, but whose costs if increased would fall most unequally on different consumers and industries.

233. The Tariff Board might well include in its Reports on each commodity a review of the circumstances referred to in the last two sections, and the prospects of it being able to secure the market if granted a margin of protection over its excess costs (§§234, 235, below).

(d) *Protection to Secure the Market.*

234. The procedure so far has been concerned only with the discovery of the amount of protection necessary to cover the excess costs of Australian production, and the economy of its application. It does not follow that this is the appropriate amount of protection. There are two reasons for granting a greater amount. The first is the legitimate object of making protection as effective as possible and of securing the Australian market, or a major part of that market. The second is the fact that the larger the market available to Australian producers, the lower may be their excess costs. This applies to most kinds of manufactures: and if only sufficient protection is given to place the manufacturers on an equality with importers, the trade will be divided between them, and the possibilities of lower costs through mass production will be defeated. "Effective" protection may therefore be necessary to secure the lowest possible costs. We have shown that concentration may also be necessary in Australia to secure this result.

235. An estimate is required therefore of the margin of protection needed to secure the major part of the market to Australian producers. Such margins appear to exist at present for many of the protected manufactures (see Appendix N, Class (b)). And it may have come about in some cases through increased efficiency. But systematic appraisal is required. The protective margin over the amount necessary to cover excess costs should not be greater than is necessary; otherwise there will be a temptation to use the margin to increase prices.

236. The amount necessary to establish or maintain an industry in its existing or immediately prospective circumstances should be greater than is necessary later when full efficiency is obtained and the most economic organisation is secured. An estimate of the reduced protection necessary when these objects are attained could only be tentative, but it is wanted to answer the question of prospective cost, which is one of the discriminating principles.

237. It is desirable to ensure that an industry, protected because of its prospects, does not neglect its opportunities of reducing costs, or having reduced them does not take undue advantage of the protection given. There are two alternative methods: one is to legislate outright for a gradually reduced protection on some estimate of what the industry ought to accomplish, and the other is to require the industry to show cause why the protection should not be reduced, after it has had sufficient opportunity to make economies. The latter seems to be the fairest method.

238. There are, however, no means of measuring the amount of protection which will secure the market. As costs are constantly changing, both at home and abroad, the amount of excess cost in Australia is constantly changing, and the foreign producer may be willing to dump his goods at prices below his export costs, either permanently or in special circumstances. (See Appendix R.) No tariff can be changed as rapidly as trade conditions change, and it is trade conditions as much as the tariff which determine the margin of effective protection.

239. The best that can be done, therefore, is to take the greatest care in estimating the actual excess costs, and to add a sufficient margin to secure the major part of the market in normal circumstances. The conditions warranting this special protection are that the commodity should not be subject to violent fluctuations in import values, that the Australian product covers the demand for that article, and that necessary goods are not unduly taxed as an incidental consequence of a higher duty.

*(e) Protection Against Sporadic Dumping.*

240. The special problem of dumping is dealt with in Appendix R, but the method of dealing with it requires some attention here. The treatment of permanent and regular dumping is sufficiently covered in the preceding sections, but the problem of sporadic dumping due to dislocations abroad is perhaps the most difficult aspect of tariff policy, and only a few general considerations can be discussed here.

241. It is neither possible nor desirable to adjust protection to every temporary change in the world's market conditions, nor is it desirable to deprive Australian consumers of the advantage of a wave of cheapness, or the producers concerned of

any stimulus to efficiency, so long as it merely stimulates and does not destroy. Consumers who may benefit include other industries. If the dumping is of such materials as iron and steel, the industries using these materials need to obtain them at the same relative prices as industries in other countries; otherwise they are less able to hold the Australian market against imports. Such instances are clearly occasions for using Bounties.

242. But in many cases where sporadic dumping threatens an Australian industry, bounties are more appropriate than duties. The disturbance is temporary and the protection against it should be temporary also, and it should not disturb the general protective system. The Trust Fund we suggest (§196) should have a reserve available for these occasions, and its use would allow the local producers to sell at the dumping prices with no permanent cost to the taxpayers, while consumers would be able to increase their consumption of the cheaper goods with an advantage to industry which would be some compensation for the cost of the Bounty.

243. We suggest that a producer threatened with dumping should apply to the Tariff Board for a declaration that there is a disturbed condition of international trade in his commodity which indicates unusual cheapness in imports. It should not be difficult to produce and to check evidence on this point. The declaration having been made, the Board might estimate the maximum amount of Bounty required to enable the Australian producers to sell at the prospective import prices (but not below them), and make a recommendation accordingly.

The Minister could be empowered to act on such a recommendation. The Bounty would then be payable on the Australian goods sold up to the normal output of the industry, the amount paid being the difference between normal prices and the dumping prices, but only for so long as those prices continued in the foreign country. The Tariff Board should hear all such applications as a matter of special urgency and should report at monthly intervals on the situation and the prospect of its continuance, for the guidance of the Minister.

Such a system would itself discourage dumping, for the knowledge that Australian prices would conform to import prices would influence importers.

244. We suggest that the time has now arrived when the

abnormal provisions against exchange dumping can be discontinued. They were established to meet the post-war situation, which, happily, has now been superseded by more normal conditions in the exporting countries. If the protection afforded under this heading is necessary, it will be necessary for reasons other than changes in the value of currencies, and the duties can be consolidated and placed on a more satisfactory basis.

*(f) The Protection of Consumers and of Efficiency.*

245. The problems of safeguarding the interests of consumers and of efficiency have been discussed in Part IX., and they raise very difficult questions. There is danger that both "effective protection" (giving a margin over excess cost) and dumping bounties may be abused. The dangers are that the margin of protection will not be used to secure a market, but to increase prices, either to gain greater profits or (what is worse) to shelter inefficiency. The advantage of increased output may not be substantial enough as an alternative.

Although it is in the interests of the local producers to keep their prices below those of imports, there is nothing to ensure that those prices will be at their lowest or that efficiency will reach the average standard in Australia. And the removal of the stimulus of competition, not only from imports but (as we have suggested may be necessary) from local production also, presents a problem of almost baffling difficulty.

246. Some check on the freedom of the protected industries is obviously essential. This is especially so if dumping or other abnormal conditions have established a high duty to exclude imports, and the local producers receive much more protection than is necessary to exclude them in normal circumstances. The protected industries, no less than other industries, require protection against excess prices in any product from any cause.

247. We have to face the problem of finding a substitute for competition as a stimulus to efficiency, and nothing is to be gained by minimising the practical difficulties. We are proposing to remove the fear of loss through competition, which unfortunately is a much more powerful incentive than the hope of profit through better management. And we propose to reduce the hope of profit by reducing the protection given when greater efficiency shall have been established. How then shall the efficiency be secured?

248. There is a conflict here between the incentive to efficiency and the interests of consumers. Efficiency requires that the profits of good management shall go to the management; the interests of consumers require that the economies made possible by mass production shall be passed on to them. Can these two sources of profit be distinguished? Usually they are not distinguished, and the economies of mass production (made possible by the volume of demand) are indeed difficult to separate from the economies of management which make the possibility of mass production economies effective. Nevertheless, where competition exists between two or more firms with equal opportunities of mass production, the consumers gain the benefit made possible by the volume of their demands, and lower prices are obtained. The firms themselves gain different rates of profit on the same competitive prices received, the chief causes of which are differences in management. Where competition does not exist some such distinction must be attempted.

249. In the interests of efficiency it is imperative that the Australian producers must have both freedom of action and the profits due to their own management. There is no reason why a well-managed protected industry should not enjoy unusually good profits and yet supply consumers at reasonable prices. Some criterion is needed to determine reasonable prices.

We see no escape from an enquiry into the conditions of each industry, to establish whether it is operating with an efficiency equal to the average of the protected industries. This enquiry should not be a public one, and its results could not be exact, but we believe that experienced men could get sufficiently accurate impressions for practical purposes without any knowledge of the special technique of the industry. The information would establish whether the prices obtained were greater or less than necessary to the industry as a typical unit of Australian production. It would also establish whether the profits gained were low because of inefficiency, normal because of normal efficiency, or high because of specially good management, in which case they should be allowed to continue.

*(g) The Functions of the Tariff Board.*

250. Some such enquiries seem to be an inevitable corollary of a protective system. Each industry should be required to

show cause from time to time for the protection it enjoys, and should establish beyond question the fact that it is not receiving a greater subsidy than it needs. The Tariff Board would need to develop its own technique for examining and reporting upon the industries without disclosing the financial affairs of individual firms.

251. The Tariff Board Act contemplates this necessity and provides that such investigations should be made, but it does not require the Board to conduct them on its own initiative or as part of its regular routine. Such enquiries can only be required of the Board if initiated by the Minister (Section 15), and apparently a complaint is necessary (Sub-Section (1) h), which complaint can refer only to a manufacturer. Sub-Section (2) empowers the Minister to refer to the Board general questions on the effects of the tariff. This power seems to be wide enough to enable the Minister to make a general reference to the Board, requiring it to conduct the investigation recommended as part of its regular practice. Sub-Section (3) empowers the Board to recommend such action as it thinks desirable after considering carefully "the conditions obtaining in the industry as a whole." Section 17 allows the Board to act on its own initiative, but a reference by the Minister would greatly strengthen the Board, and removal of the limitation implied in Section 15 (1) h would strengthen it still further.

252. It would be an advantage if this clause were removed from Section 15 and incorporated separately as a general direction from Parliament itself, to read somewhat as follows:

"The Board shall report at intervals of not more than five years on all commodities on which customs taxation is levied or bounties are paid, and in particular as to whether the producers are:

- (i.) Charging unnecessarily high prices for their 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 their goods."

These sub-clauses are at present in the Act.

253. We believe that the investigations we propose are much less ambitious and would be very much less costly than those carried out by the U.S.A. Tariff Commission, while at the same

time they would give the practical results required. And we take this opportunity to call attention to a very interesting appreciation of Australian policy in which the following appears:\*

"The most distinctive feature of the Australian organisation for tariff-making is the integral, and almost indispensable, place that the Tariff Board occupies as investigator and advisor, both to Parliament and to the Minister, on the whole gamut of tariff problems, from a matter of the specific rate on a given commodity to questions of general tariff and industrial policy of the country."

254. In another place the writer remarks:

"The growing tendency to subject the claims of applicants for tariff changes to the examination by a specially constituted body of tariff experts finds perhaps its greatest development in the Australian system," and he commends the methods of deferred duties, of exemption from duty (without requiring special action by the Legislature) where particular articles are needed for productive purposes and are not obtainable within the country, and also of bounties. He concludes with an appreciation of the encouragement given to the Board:

"To undertake basic studies into the current conditions and problems of the industrial development of the country as affected by the working of the tariff and customs law."

*(h) The Final Authority of Parliament.*

255. We desire to emphasise the fact that the above procedure leaves to the Tariff Board, the Minister, the Cabinet and to Parliament itself a number of considerations which are outside the range of economic analysis. It is desirable that the Tariff Board should state its economic conclusions separately

\**Tariff Problems of the United States*; Annals of the American Academy of Political and Social Science, January, 1929: article by Henry Chalmers, Ph.D., Chief, Division of Foreign Tariffs, United States Department of Commerce, on "Tariff-Making in Great Britain and the Dominions." This article contains an account of the methods of investigation by the Board of Trade in Great Britain, the Tariff Advisory Board of Canada (established in 1926), and 14 pages giving an excellent account of the Australian practice.

An article, by Professor R. C. Mills, of Sydney, on the Tariff Board of Australia, to which frequent reference is made in the above-mentioned volume, may be found in *The Economic Record* (the Journal of the Economic Society of Australia and New Zealand), Vol. III., No. 4, May, 1927.

The following notes on the Canadian method are of interest:—The Minister may refer an application to the Board. Public hearings are held and private investigations are carried out by experts attached to the Board, but no reports are published. "The present Chairman of the Board is recognised in Canada as a prominent economist," and the other members are a manufacturer "regarded as a high-tariff advocate, and a prominent Western farmer known as a low-tariff man. . . . There are associated with the Board from time to time members of prominent services of the Government, such as the Departments of Finance, National Revenue, Trade and Commerce, Agriculture and Labour."



from its general recommendations, and that these conclusions should be published, unless publication is clearly against the public interest temporarily or permanently. The wider and sometimes overwhelming considerations of national policy may then be dealt with by Parliament, and discussed by the community generally in an atmosphere which has been clarified. The procedure we have suggested and the information it is designed to procure is for no other purpose than to equip the Parliament of the Commonwealth and the Government of the day with the necessary basis of knowledge. The responsibility of Parliament cannot be reduced in any sense whatever.

256. There is only one matter affecting Parliament itself upon which we wish to offer any suggestion. This is the systematic consideration of the Tariff. In Great Britain, where tariff items have been of minor importance, they are considered annually as part of the Budget, and in Canada also, where conditions are more analogous to those in Australia, and revenue considerations are subordinate to protection, the same practice obtains. The advantages are the same as those of an annual Budget, for, to quote the American authority we have cited: "Between annual tariff changes or periodical revisions, producers and traders can plan and proceed with confidence." We believe that an annual tariff Bill, with no further provision except in cases of special urgency or for quite minor matters, would be welcomed in Australia, and that the Tariff Board could adjust its work to meet this condition. The Bill could be brought before Parliament before or at about the same time as the Budget, and its taxation effects could be considered in closer relation thereto.

(i) *Concluding Remarks.*

257. We have now nearly completed our general survey of the conditions requisite to a protective system. They are not simple, but we fear that simplicity is incompatible with any sound regulation of trade or promotion of production. Our object has been to suggest conditions which, while meeting the needs of the case, are as simple as possible. It is impossible to avoid all anomalies or to secure a degree of equity not present in nature; all that can be attempted is a system which does not create greater anomalies, and which in the end makes for better conditions. To press investigation too far would be

to defeat its own economy and to delay judgement, while to carry it to refinements beyond the degree warranted by the data would be absurd. We have tried to suggest a happy mean and a useful procedure.

258. We may remark, however, that the enquiries we suggest and the searchlights which they would throw on the protected industries are wholesome in themselves. Nothing is wanted so much as co-operation between business and public interests. This co-operation must have its basis in understanding, and it waits upon the development of the technique which shall supply the means to understanding. Our proposals are in harmony with the requirements of greater information on all social problems, and we believe that the political sense of the people may be trusted not to invade the necessary privacy of business concerns.

## PART XI.

### THE INFORMATION REQUIRED.

#### (a) *Economic Geography.*

259. We have no doubt that with the growth of economic knowledge tariff policy can be improved. We have stated repeatedly in this Report that sufficient information is not available upon which to frame a complete judgment on the effects of the tariff or on the applications of a suitable policy, and in this Part we shall summarize the information that we consider most desirable. We have been unable to answer the first question (on the effects of the tariff) to our own satisfaction, although we have attempted estimates of the extent of protection, its costs, and the distribution of those costs. We are unable to come to a definite conclusion on the comparative results that might have been obtained without it. One reason for this failure is that no measure of economic resources is available. Careful studies are required, for instance, of the possible extension of wheat growing under varying conditions of costs and markets. This and other aspects of the economic geography of Australia could and should be more fully investigated.

#### (b) *The Most Economic Assistance to Production.*

260. The information necessary for the ascertaining of the effects of the tariff falls largely under two main headings:— (i.) The costs of protected production, and (ii.) the costs of possible alternative production. We have already indicated the lines of the inquiries necessary for providing this information. An investigation should be made also into the costs of assistance other than by the tariff, such as that given to agriculture; the costs of preferential and non-paying freights, preferential purchasing by public bodies, and similar subsidies to various forms of production. We have suggested that means other than tariff assistance should be explored to discover their relative costs, and the possibilities generally of more economic methods.

#### (c) *Public Finance.*

261. From the point of view of public finance and the economic distribution of necessary burdens between classes of

people, and between the present and the future, there is need for inquiry into the following:—The effects of customs taxation on the cost of borrowing and on indebtedness abroad; the effects of public and private borrowing from abroad on imports, revenue and financial stability; and, for the better distribution of customs taxation, the commodities and services which might be substituted as more economic mediums of taxation.

(d) *Tariff Protection.*

262. We suggest that the following are the most important facts which should be ascertained:—

(i.) *The Quantity and Value in Detail of Australian Manufactures, and of Their Raw Material.*

This is a basic need. We want a complete return of all kinds and grades of goods made in Australia, with their quantities and values so classified that they can be compared with corresponding goods imported. Similar information is required for raw material used. A good deal of such information is available, but it covers less than half the ground, and is difficult to use because of the differences between the classifications used for imports and manufacture.

The need for this is obvious in any discussion of the effects of protection. One particular question it would answer is that of the types and grades of goods subject to duty which are not at present produced in Australia. We do not mean to imply that goods not made in Australia should be wholly free from taxation, even for protective purposes, for higher grades compete with lower grades. But it is not always desirable to tax the finest fabrics, the most durable materials, the exceptional workmanship, and every commodity that can be classed with the Australian produce which it is desired to protect. A careful analysis would reveal many instances of heavy taxation without the least protective effect.

(ii.) *The Excess Cost of Each Protected Industry.*

We have discussed the difficulties of this problem. To carry out a complete investigation would take too long, and technique changes too rapidly, so that the data would become obsolete. But it is quite practicable to take representative commodities in representative industries, such as the textile, cement, iron and steel, and sugar industries, and to compare costs and prices at

home and abroad. A thorough investigation into the excess cost of any one commodity would be of value. Both here and in other comparisons care would be necessary to ensure that precisely the same commodities and qualities were being compared.

(iii.) *Variations in the Australian Costs of Producing the Same Protected Commodities.*

The reasons for variations in Australian costs should also be investigated, and the enquiries could be extended to the comparison of efficiency in protected and unprotected industries.

(iv.) *The Reasons for Higher Costs in Australia for Each Protected Commodity.*

Again this could be done by the method of "sampling" representative industries, and it could be commenced with the commodities suggested under (ii.) above. An examination would bring out such facts as whether small-scale production was responsible. Where possible, the efficiency of similar industries could usefully be compared at home and abroad, and the difference in the proportions of labour, equipment and power used.

(v.) *The Efficiency of International Competition for Each Commodity.*

The object of this enquiry would be to ascertain whether this competition was free or under any effective control, whether "dumping" of any kind was characteristic for any commodity and whether protection was required for economic reasons other than higher costs of production.

(vi.) *The Efficiency of Workmanship and the Comparative Cost of Labour.*

The aim is to compare similar work done under precisely the same conditions in different countries, and then to compare the output or effort per unit of payment made. We doubt whether this aim could be fully realized, but more knowledge might be obtained than is at present available. The subject seems appropriate for reference to the International Labour Office for advice, and even for action.

(e) *The Practicability of Providing the Information.*

263. We believe that such investigations would do more than anything else to stimulate the efficiency of our industries,

whether protected, naturally sheltered, or totally unsheltered. We believe also that such enquiries are the pre-requisites to any system of protection which might be called economic. We believe also that it is not impossible to enlist the interests of labour, whether as individual workmen or as organized bodies, provided the facts are made known.

We are well aware that discretion would have to be exercised in selecting facts suitable for publication, as is at present the case with facts compiled by our statistical officers. It is not beyond the wit of man to devise methods which shall give the necessary information and yet avoid the disclosure of information endangering the competitive position of individual firms. The information given should be fair to the parties concerned, reasonably simple and plain to the average man, and really informative on the essential questions. The greatest obstacle is the natural slowness of business men to appreciate the public importance of the information he is able to contribute. It is, however, an encouraging sign that in general the more efficient, well-organized and progressive a business is the more willing and able it is to give full and accurate information, whether for regular statistical returns or on matters of special economic inquiry.

264. We do not wish to give the impression that the analyses we suggest can be carried out merely by increasing the staff of some Department, or by some magic of economic research. Our own task has been difficult, and this report has been delayed, not only by the substance of its argument, but equally by the tentative investigations we have made. These economic questions have not the same difficulties as the questions of the physical sciences, but they have difficulties of their own. The relevant facts, qualifications, and bearings upon other facts are elusive, and the statistical work is full of traps. Even with the greatest degree of intellectual honesty, it is still possible to err, and, as we have found, most errors are errors of omission. The thinker and investigator on these subjects must not only be aware of general economic principles: he must be alert to recognise them in unexpected places, and willing to adjust or even to scrap his conclusions without hesitation.

We conclude, therefore, that for the enquiries we recommend competent investigators are needed. Economic knowledge and statistical skill are, of course, essential. Very delicate judg-

ment is equally essential, and for this the investigators need the rather rare temperament which can set aside personal predilections in the very human questions at issue. They need special skill in the detailed analysis and assembling of data, and in avoiding such errors as the comparisons of unlike things without recognizing the unlikenesses.

Such paragons are unobtainable, but we believe that Australia has men and women of sufficient training and quality to attempt the objective with reasonable prospects of success. We are very conscious that complete answers to our questions cannot be expected. Even partial answers which can be of great utility require considerable time.

*(f) An Economic Research Service.*

265. In conclusion, we desire to say that in our opinion a competent research service should be instituted to undertake some of this work, and to promote and co-ordinate investigations by others. Such a service should of necessity be independent of political policy, and be as free from any interference as the judiciary. It may indeed be desirable that it should be more free, because its duties would impinge more closely upon popular controversies, and an endowment for a reasonably long term of years is desirable. We believe that such a body could render very great service both to Governments and to the public, and by providing more accurate facts and widening the area of exact knowledge, it would enable better judgments to be formed on the many intricate and important economic problems that are facing the Commonwealth.

## PART XII.

### THE MAIN CONCLUSIONS.

266. We have inverted the order of our work by placing our conclusions at the beginning of the Report, for the convenience of readers who desire to know them summarily and quickly. The detailed results are to be judged by their effects on our three main conclusions, which are given in §3, as follows:—

- (i.) The evidence available does not support the contention that Australia could have maintained its present population at a higher standard of living under free trade.
- (ii.) Some applications and extensions of protection have been wasteful, and cost more than the benefits gained.
- (iii.) The evidence available does not justify more precise statements on these two questions—the benefits of protection as a whole, and the extent of its excesses.

#### *(a) Wherein the Advantage of Protection Lies.*

267. The first of these conclusions was reached at the end of Part VI. after an analysis of the costs and incidence of the tariff, and of the prospects of the alternative production open to our existing population. The advantage of protection is in the maintenance of a larger population than could have been expected at the same standard of living without the protective tariff. It is not an advantage to every part of the population, nor has it produced the maximum of income per head. But given the basic Australian objective of seeking the largest white population at the highest standard of living, we consider that the protective tariff has been an effective means of securing it. The practical conclusion is that, having established this population, it would be disastrous to abandon the policy which has made it possible.

#### *(b) The Limits of Knowledge.*

268. The last of the three conclusions is not less important. A line must be drawn somewhere, between knowledge and conjecture, and every provisional conclusion is more or less valid



according to the amount of conjecture on which it is based and the reasonableness behind the conjecture. This truism is apt to be overlooked. We have drawn attention throughout the report to the inadequacy of the knowledge available, and we know that this particular conclusion is better based than most. The two general statements based on a general survey of the whole of our evidence are better founded than some of the detailed and individual items.

We feel no doubt about the general thesis that the natural resources of the country impose a limit to the extent to which protection can be usefully applied to promote production, and that the practical problem is to make these resources go as far as possible in this direction, aiming always at the greatest results from the least expenditure. But we are not able to define the limit beyond which more protection will defeat its own end, or to assess the costs and benefits of protecting each individual industry, or even to lay down a criterion of the maximum cost permissible in relation to the benefits obtained.

(c) *Uneconomic Extensions of the Tariff.*

269. The evidence for the second conclusion, that some applications and extensions of the tariff have been uneconomic, has appeared incidentally in many places in this Report, and the argument may conveniently be summarized here.

270. We have seen (§185) good reason to believe that the excess costs of protected products range from a negligible amount up to over 40 per cent. of their value, and that the costs of the more expensive are about twice as high as the average for the same benefits as measured by employment given. When we considered the possibility of alternative production in Part VI., we saw a likelihood of considerable expansion of some export industries at the lower costs prevailing without a protective tariff, although it appeared very unlikely that the whole £47m. required would be obtained.

Some new export production, just below the present margin of profitable working, would require little relief in costs to bring it into being. But the better part of the £47m. required would take us—we judged on rather general evidence—a long way below the present margin. In these circumstances there can be no reasonable doubt that the *least* expensive part of the

alternative production possible might be profitably substituted for the protected industry which is *most* costly in relation to benefits.

271. We do not wish, for the reasons given in §83, to take particular industries as examples of excessive costs, but an exception may be made of sugar, because the facts of sugar are public property, the excess price is actually fixed by the Government, and the case for protecting sugar does not pretend to rest on economic grounds.

We pay £4m. annually to subsidize the production of sugar which might be imported for £6m. It is clear that sugar might be imported by the Government and sold for the same price as at present, so that prices would not be changed from the present level; but the Government would have £4m. in hand to subsidize other production to take the place of the £10m. of sugar production. Supposing wheat were, under certain conditions of soil and transport, to pay now if it yields 10 bushels per acre, it would be sufficient if it yielded 6 bushels per acre when assisted by this subsidy. We should require enough wheat land yielding 6 bushels to make up £6m. of production, or about 4m. acres. There is little doubt that this area and more could be found. So far as it was not necessary to go as low as 6 bushels per acre to find 4m. acres of new wheat crop, to that extent the full subsidy would not be required and the country would be richer and would have a larger national income per head for the same population. Without being able to give figures for the possible wheat lands of Australia, we have no doubt that the required area could be found without going as low as 6 bushels per acre, and to this extent the production of sugar is less economic than the extension of wheat, and furnishes an instance of our limited available surplus not being used to the greatest advantage in the subsidizing of new production.

*(d) The Limits of Total Cost.*

272. We have been dealing chiefly with individual protected industries in the preceding section, and we have a few remaining observations to make on the total amount of tariff costs which the country can bear without loss. We have concluded that the total cost does not impose a loss of income per head greater than would be brought about by dependence on an

equivalent amount of other (chiefly export) production. Could not this total cost be increased with the same advantage? Is £36m. of cost the exact amount necessary? Why not £30m., or £40m.?

273. We think it impossible to answer these questions precisely. The degree to which tariff costs can be imposed, like the degree to which taxation can be increased, without adverse effects, cannot be stated exactly. In both cases it depends chiefly on the resources from which the income is drawn. If our export industries have natural resources rich enough to suffer little reduction in output, as a result of greater costs, then £40m. or more might be borne by the community, and an equivalently larger population secured. On the other hand, they may be rich enough to bear their proportion of £30m. only, or less, in normal seasons.

274. The basic factors are the degree to which the export industries on the one hand and the protected industries on the other respond to a given increase or decrease in costs, or the equivalent fall or rise in the prices of these products. We believe the export industries are in such a state that they will react readily for a considerable range of costs on both sides of present costs, but beyond that much more slowly. Consequently, they cannot expand sufficiently to replace the whole of protected production, though they might to replace some of it. (§269-271.) On the other hand they will, for this same considerable range, be seriously affected by an increase in costs, so that a further addition to the costs of protection would result in a considerable shrinkage in export production. So that in our (admittedly rough) judgment, the excess costs of protection are as much as the richness of our resources justify, and probably somewhat in excess of that limit.

275. Can such an excess of protection be justified? We have seen, on the one hand, how the severe tariff may impose increasing costs as it becomes effective, and imports are replaced by home-production,—if there is no concurrent decrease in price substantially below the full price of imports with duty added. On the other hand, prices may be so considerably decreased with the growing efficiency of Australian production that the total excess costs due to a constant duty on the goods considered may actually grow less with increased home-production. This is, of course, the Mecca of the faithful protectionist's vision.

There are undoubtedly industries of both these classes in Australia to-day. We are unable to grade the protected industries accurately for their present costs, and still more unable to measure their tendencies. This is one of the outstanding subjects for economic inquiry. If, however, on the whole, the decreasing of prices through growing efficiency is greater than the increase through increased home-production, then some diminution of total excess costs will take place, if the tariff is not further heightened, and a temporary excess of protection costs beyond the economic limit may be justified.

We have not the information to decide the question. But we have been impressed with the way in which some industries have reduced prices below imports and duty, and others appear to be in process of doing so. We are therefore inclined to think from this aspect that there is a good prospect of any excess of tariff costs being corrected by the natural development of the industries.

276. But there are other aspects which are not so encouraging. The quantity of resources which can be used for protection,—the income which can be pooled,—depends on our export price-level. This has been high relative to imports—see Appendix T, para. 27—for the last few years, and particularly high in 1924-25. It has now seriously fallen, and threatens to fall further. We are therefore less able to bear the excess costs of protection, and even if they declined somewhat with increasing efficiency of production, our capacity to bear them may very well be declining to a greater degree.

277. Again, our national income has been inflated to the extent of £30m. per annum over a considerable period by borrowing abroad. Borrowing at this rate cannot long continue—unless totally new resources, such as a great new mineral field, are discovered. Even now borrowing is being cut down, so that we shall be less able in the immediate future to bear the excess cost of protection, even though these excess costs did not increase.

278. Taking all these influences into account, so far as possible, we can only conclude that the present costs of protection are dangerously high. It does not follow that no new industry should be protected, but the greatest care is needed in discriminating between industries in the way we have suggested in Parts

IX. and X. The dominant factor, however, is the costs in industries now protected, and here again the principles and procedure of Parts IX. and X. suggest a line of action. It cannot be too strongly emphasized that only by improved efficiency and consequent reduction in prices in the industries now protected can resources be set free for protecting new industries.

## 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. Free under General Tariff, Independent of By-laws.	GROUP B. Free under Preferential Tariffs, Independent of By-laws.	GROUP C. Free under By-laws.	GROUP D. Free for Commonwealth Government.	TOTAL. 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
<b>TOTAL</b> .. .. .	<b>23,474,413</b>	<b>22,486,810</b>	<b>6,699,452</b>	<b>471,228</b>	<b>53,131,903</b>

\*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
<b>TOTAL .. ..</b>	<b>63,364,999</b>	<b>11,228,769</b>	<b>17.72</b>	<b>74,366,322</b>	<b>14,062,019</b>	<b>18.91</b>	<b>158,063,060</b>	<b>22,515,812</b>	<b>14.24</b>

**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
<b>TOTAL ..</b>	<b>148,198,064</b>	<b>28,401,450</b>	<b>19.16</b>	<b>161,080,259</b>	<b>32,783,983</b>	<b>20.35</b>	<b>142,641,845</b>	<b>30,391,282</b>	<b>21.31</b>

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	9,162,606	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	856,167
Lime, Plaster, Cement, Asbestos and Asphalt .. . . .	334,902	3,723,911	321,258	4,185,285	306,691	4,566,311
Marble, Slate, etc. . . . .	89,307	739,802	98,740	622,716	116,335	313,751
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	26,866,900
Galvanized Ironworking and Tinsmithing	5,260,451	4,130,010	5,379,506	4,316,560	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	1,333,894
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	502,985	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	66,720	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	595,194	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	162,290
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	439,954	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	152,290	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	997,136	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	68,322	318,053	66,003	363,499	89,141
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
Spices and Bullion .. ..	61,792	—	10,542,897	—	420,758	—
<b>TOTAL</b> .. ..	<b>140,618,293</b>	<b>348,577,583</b>	<b>157,143,296</b>	<b>380,843,996</b>	<b>151,638,178</b>	<b>400,342,993</b>
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.	£
<b>SPIRITS—</b>				<b>SPIRITS (Beverages)—</b>			
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/-	—	—	<b>SPIRITS—Other (Beverages) .. .. .</b>	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				
Spirits for fortifying Wine (other) ..	6/-	797,258	239,177				
Spirits for making Vinegar .. .. .	2/-	43,303	4,330				
Spirits for the Manufacture of Soaps, etc. .. .. .	17/-	11,345	9,877				
Amylic, Alcohol and Fuel Oil .. .. .	20/-	483	483				
	23/-	24,306	27,962				
	29/-	25	38				
<b>TOTAL SPIRITS ..</b>	—	<b>2,461,052</b>	<b>1,968,604</b>	<b>TOTAL SPIRITS, gal.</b>	<b>1,452,451</b>	—	<b>2,569,850</b>
					<b>£292,266</b>		<b>£123,114</b>

**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
	<hr/>
Proportion of Customs and Excise to Central Taxation	49·4%
<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
	<hr/>
Proportion of Customs and Excise to All Taxation ..	42·6%

*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
	<hr/>
Customs and Excise (adjusted) . . . . .	229·4
Other Taxation, including Motor Licenses and Stamps, and the £10·6m. omitted above . . . . .	453·2
	<hr/>
Total Taxation (central) . . . . .	682·6
Proportion of Customs and Excise (adjusted) to Central Taxation . . . . .	33·6%
	<hr/>
Local Government Taxation (p. 38) . . . . .	179·9
Total Taxation, Central and Local . . . . .	862·5
	<hr/>
Proportions of Customs and Excise (adjusted) to all Taxation . . . . .	26·6%

## (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
<b>TOTAL MERCHANDISE ..</b>	<b>28,072</b>	<b>31,753</b>	<b>29,787</b>	<b>18.9</b>	<b>19.7</b>	<b>20.9</b>

## 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	1378
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	2698
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.