Resignation

It is with regret that we have to announce the resignation of Mr. G. H. Grimwade from the Council of the I.P.A. and the Editorial Committee of “Review.” Mr. Grimwade has accepted an invitation to join the newly constituted Commonwealth Bank Board, and has rightly felt that his responsibilities as a member of the Board could not properly be combined with the retention of his association with the Institute.

Mr. Grimwade has been closely concerned with the activities of the Institute since its inception and for some years has been Chairman of the Editorial and Executive Committees. The enthusiasm and drive which he has brought to his work with the Institute have been of the greatest value and will be very much missed by his colleagues. We wish Mr. Grimwade every success in his new sphere of responsibility. When, and if, in the future he relinquishes this post of honour, we trust that it will be possible for him to resume his association with us.
Early in this year the Director of the Institute, Mr. C. D. Kemp, left Australia on a business visit to the United Kingdom, the United States and Canada. This article records some of his impressions of the American scene. In the next issue of “Review” it is intended to publish Mr. Kemp’s views of the political and economic position in the United Kingdom.

AMERICA TODAY

I LEFT Australia in February this year and returned in August. I thus had in all about six months abroad, three of which I spent in the United Kingdom. I had five weeks in North America — four in the United States and one in Canada.

I saw little of the American giant. My visit was mostly confined to the north-eastern corner and the cities of New York, Boston, Washington and Chicago. My week in Canada was about equally divided between Toronto, Ottawa and Montreal. I am thus obviously ill-qualified to write about these countries, and the impressions I record here of the United States should not be taken in any sense as authoritative or conclusive. It is almost impossible, however, to visit the United States without succumbing to the temptation to say something about it. Here, everything is so large-scale and so extraordinarily vivid that one’s mind is invaded and overwhelmed by a multitude of impressions almost from the day of arrival.

TODAY the American colossus dominates the world scene. Her leadership of the free nations of the world is now indisputable and undisputed. The future of the great causes of democracy and of human freedom and decency are largely in her hands; the destinies of mankind for perhaps centuries will be largely shaped by the decisions she makes.

Yet the United States comes to these momentous responsibilities relatively inexperienced in the ways of other countries and with an isolationist tradition only recently abandoned. How, then, will she fulfil her new role of world leader? How, then, will she discharge her newly acquired responsibilities? These are questions in the minds of the citizens of all the free countries today, not least in the minds of Americans themselves.

If the U.S. has little experience in the arts of international government, she has one supreme asset to bring to the task which now confronts her. In a democratic age, an age in which the master currents of the world are all flowing in the direction of greater equality between man and man and between nation and nation, the American people have, I think, a clearer conception of the basic democratic idea, a truer instinct for the essentials of real democracy, than almost any other peoples. The thinking, the psychological approaches, the general philosophy of living of the American people are, I believe, perhaps better attuned to the needs of the age in which we live than the understanding and psychology of any other country.

THE U.S. today presents a most heartening and encouraging picture. The visitor can hardly fail to gain a strong confidence in the ability of the free peoples of the world to win the peace that all desire, and, if the worst should come, in their ability to overthrow the aggressor. The United States is facing up to and discharging its new responsibilities resolutely and intelligently. She has a clear picture of what she wants to achieve, and she is determined to achieve it.
The United States has problems — some very big — but they loom small beside the problems facing the countries of the old world. The best thinking in the United States is as big and generous and idealistic as any in the world today, and if this thought prevails, as I believe it will, the rest of the world will have no reason to complain of the era of American leadership.

* * * * *

I HAVE three outstanding impressions of the American scene: — First, the magnificent job that these people have made of their great country in such a comparatively short time and in face of all the problems of welding a great variety of peoples with their corresponding variety of outlooks into one homogeneous nation — homogeneous, not of course in the racial sense but in their philosophy of living, in, shall I say, their “Americanism.” And I mean magnificent not merely, or mainly, in material achievement, but in the greatness of their democratic conceptions and their deep unshakable love for the democratic way of life. The American democracy is one of the great wonders of the world and one of the finest achievements of man.

Second is the intense pride of Americans in America and in the American way of life. To Americans, the United States is “God’s own country.” This pride invariably comes to the surface in their everyday conversation, in their speeches and articles and books. They do not attempt to conceal it. They believe, perhaps naively, that if only other countries would do things the American way, they would soon overcome their difficulties. Washington, with its inspiring national monuments, is a place of pilgrimage for the American people. An Australian cannot help contrasting the lack of evidence of any deep national pride in his own country with the overflowing belief of Americans in America and its destiny. Such pride as we have is more racial than national. We are proud of our membership of the British race, of our British background and ancestry and traditions; we have a great affection for the old country; but we have not, as yet, developed great pride and belief in Australia herself. This I believe to be one of our most urgent national needs.

Third is the abundant material wealth, the vast productive power, and the almost limitless potentialities for further progress which spring from this power. If a major world conflict can be avoided and a reasonable stability in its domestic economy maintained, the U.S. is only at the beginning of what it can achieve in the provision of the material things of life for its people. It is the first nation in human history which has brought within reach the possibility of completely abolishing poverty and of giving all its citizens a decent standard of life and comfort. Already far ahead of any country in the strictly material sense, it is I think certain, in the years to come, to race further ahead.

I can’t at the moment envisage the countries of the British Commonwealth — with the possible exception of Canada — keeping pace with it. It is not merely that the production of the U.S. is already so vast and its productive resources so large-scale, but also, because with nations as with individuals, the possession of wealth simplifies the creation of more wealth. The first step in the process of wealth acquisition is always the hardest. I feel that in the United States the most difficult steps are over; she is now, by any human standards, an astonishingly wealthy country and in coming decades
she should reap in full measure the fruits of that achievement.

There is evidence of this wealth on every hand — in the lavish abundance of all kinds of goods in the shops and large stores; in the clothes of the men and women in the streets; in the great variety and first-class quality of the food served in the numerous restaurants — most of an excellent standard; in the labour-saving gadgets in the home, the radios, television sets (I saw a large block of new lower-middle class homes, all equipped with television equipment); and last, of course, in the stupendous number of shiny, opulent automobiles. For an Australian to stand by the wide and straight Lake Shore Drive in Chicago and watch the continuous lanes of automobiles is to see the new world in its most vivid manifestation.

* * * * *

The American economic scene today is dominated by the problems of rearmament. The United States aims to spend an average of $50 billions a year over the next three years on defence. She hopes to carry through this gigantic assignment without any severe curtailment of consumption standards and without involving the economy in runaway inflation. Most astonishing is the general belief that a rearmament programme of this magnitude can be carried through without a severe tightening of the standards of living of the American people. I was told that if the U.S. were to decide to dispense entirely with the production of any new automobiles for the next few years (and they already have so many cars they could easily do that without real hardship), the resources released would serve to cover the needs of the whole war production programme. Of course they will not do this. Automobile production will be cut from the present output of about 5,000,000 cars a year to a mere 4,000,000.

The intention is that by 1953 America will be sufficiently tooled up to wage all-out war, if necessary, and will be so powerfully armed that Soviet Russia would not dare risk aggression. At that point, if there is no war, production of end-products for the armed forces would be cut back and the upward march in American living standards resumed. When I was in the United States, the head of the war mobilization programme, Charles E. Wilson, told the semi-annual conference of the Committee for Economic Development (May 10) that defence orders were running far ahead of deliveries. He anticipated that by the end of this year deliveries would be keeping pace with orders and running at the scheduled rate of expenditure. The "hump" in defence expenditure will thus occur in 1952 and 1953. These will be the danger years from the standpoint of inflation (assuming there is no large cut in defence expenditure which could conceivably follow a "Korean Peace").

When I was in the United States prices and costs were relatively stable. This was largely due to the easing of the speculative buying that followed the Korean invasion and to the anti-inflationary measures put in train toward the end of last year and the beginning of this. Between June 1950 and February 1951 wholesale prices rose alarmingly by 16 per cent., consumer prices by 8 per cent. Since February prices have increased only slightly. The main anti-inflationary measures were:

(1) A price-wage "freeze" on January 26. This naturally created many inequities and anomalies which have since been adjusted, but it apparently achieved its purpose of putting a strong brake on the spiral.
(2) The withdrawal of Federal Reserve support for the bond market in March, resulting in a rise in interest rates and a fall in bond prices. By May bonds had fallen to 97-98. A member of the Federal Reserve administration told me that the effect of this had been considerable, not so much because of the rise in interest rates, but because of the reduction of the cash resources of banking, insurance, credit mortgage institutions and the like. To provide cash for new credit commitments, finance institutions would have to sell bonds at a loss. They were naturally not anxious to force down further the price of bonds, of which they were very large holders.

(3) An increase in down payments on home building.

(4) The tightening of restrictions on instalment buying.

(5) Federal Reserve pressure on the commercial banks to curtail advances.

The real test of the ability of the U.S. to control inflation successfully may commence toward the end of this year, when defence production will — in the absence of cuts — be building up to its scheduled peak rate. The aim of the U.S. is to achieve this without recourse to a multitude of rigid direct controls. There is a strong feeling, among economists as well as businessmen in the U.S., against direct controls, such as subsidy payments, because of the fear that they would become a permanent part of the economy. A high official of the Federal Reserve Board told me that far-reaching direct controls could be avoided provided Congress levied the necessary increase in taxes. With taxation insufficient, the budget would be seriously unbalanced and the increased spending power in the hands of the public would exert strong upward pressure on the price and cost structure. This inflationary pressure would strengthen the need for more direct controls in an attempt to hold the price-cost line. This official nominated an increase of $10 billions in taxes as the minimum necessary. This was the figure being set by the Administration. When I was in America political forecasters were predicting that Congress would provide for an increase of only $5 or $6 billions. (These predictions have apparently since been borne out.)

Generally, I think, Americans are fairly wide-awake to the dangers of inflation. By contrast with Australia, an immense amount of simple and non-technical educational material is poured out to the public on the subject. The experience of 1929 has bitten deep into the American mind. This “wide-awakeness,” combined with her massive production, may enable the United States to weather the danger years safely.

Of course, in the American economy, in which everything moves so fast, in which technological change, new capital formation and the development of new products proceeds so rapidly, in which competition is so intense, and which is subject to unpredictable shifts of consumer demand, complete stability is not to be expected. There are certain to be ups and downs in the tempo of economic activity, and sometimes perhaps recessions, such as that in 1949, which could threaten to become of serious proportions. But the great hope — and there is quite solid substance for it — is that disastrous depression with mass unemployment can be averted. At least it can be said that the structure of the American economy today is very much more strongly fortified to withstand economic collapse than it was in the years preceding 1929.
AMERICAN production is one of the world’s miracles. Total industrial production in the States is well over double the pre-war volume. The output of steel is now double the pre-war level — over 100 million tons a year. Moreover, plans are in hand to expand the capacity of the industry by another 17 million tons within the next two years. This increase would be equal to the total capacity of the British steel industry. At a luncheon given me by the directors of a large industrial concern, I was asked how Australia's steel production compared with pre-war. I said it was slightly greater — around the million tons mark. The silence that followed was shattering and embarrassing to my Australian pride. (The Americans, incidentally, are very fond of Australia and the Australian people, but they often find it hard to understand why we are not progressing and developing this great continent much more rapidly. There is a danger that we could place a severe strain on this friendship unless we convince the Americans that we are really doing a worthwhile job of work.)

The capacity of the aluminium industry in June 1950 was 750,000 tons a year. It is planned to raise it to 1,300,000 tons by 1953. Electric power capacity at the beginning of 1951 was 67,500,000 kilowatts. In the next three years it is hoped to add a further 22,000,000 kilowatts.

Paul Hoffman in his book, “Peace Can Be Won” gives some encouraging comparisons with Russian production:

<table>
<thead>
<tr>
<th>Product</th>
<th>U.S. Capacity</th>
<th>Russian Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Steel</td>
<td>95 million metric tons</td>
<td>33 million metric tons</td>
</tr>
<tr>
<td>Coal</td>
<td>600 million metric tons</td>
<td>400 million metric tons</td>
</tr>
<tr>
<td>Cement</td>
<td>45 million metric tons</td>
<td>13 million metric tons</td>
</tr>
<tr>
<td>Oil</td>
<td>2300 million barrels</td>
<td>350 million barrels</td>
</tr>
<tr>
<td>Electricity</td>
<td>400 billion K.W.H.</td>
<td>140 billion K.W.H.</td>
</tr>
</tbody>
</table>

What is the secret of the American production achievement? There are many reasons, ranging from rich primary resources to the large home market for the finished article. But deep down the fundamental reason is to be found in the American attitude of mind — the American's zest for living, his abounding confidence in America, his strong urge always toward self-betterment, his deep-seated feeling of social equality. This all adds up to the "American Way of Life." The Americans, it is true, are more "material-minded" than any other peoples (although this may be a somewhat different thing from "materialism"). From his zest for the material things of life springs his willingness to make great sacrifices on the altar of efficiency and productivity. He works hard, often under considerable strain; he is not afraid of competition; he accepts, although not altogether without question, the penalties imposed by the specialization of the individual in a single simple task. Americans will readily admit to these "sacrifices," but they believe them to be well worth while and justified by the outstanding results achieved.

ARE there any weaknesses in this "production miracle?" Is the game worth the candle? There is of course much that one can easily criticise in the "American Way of Life," but the critics would do well to bear in mind that it is this way of life which is today the protector and succourer of all the peoples of the free world. Should, then, other countries follow the American example and adopt the American way? The question posed thus is rather unreal. The realistic question is not whether other countries should follow the American pattern, but whether they will. Up to a point it is certain that other nations will adopt American ideas and methods. The Anglo-American Productivity Councils afford an example of that. Moreover, no country can become the supreme power in the world without having a strong impact on the institutions and thought and methods.
of the other countries of the world. But the American achievement springs basically from the American mind and outlook, the American psychology, the whole American attitude to life. And this is not something which can be ordered for breakfast tomorrow morning. Perhaps the nearest country to the American outlook—apart from Canada—is Australia, and even we are in some ways different. The countries of Western Europe, including Britain, are poles apart from the United States.

There was hardly one American whom I interviewed who did not, in the course of conversation, betray his conviction that the solution of the world’s ills was to be found in greater productivity. The American aim at the moment is to sell this idea to the rest of the free world. In pursuit of this aim they are generously prepared to give away their own secrets, experience, and “know-how.” The Americans may suffer some disillusionment in this mission. They will I believe, achieve only a part success. America is a unique country and the Americans are a unique breed. But other peoples are generally not so “material-minded” as the Americans; they would certainly all like to have a car in the garage, but they are not, I think, prepared as yet, by taste or mental constitution, to make the “sacrifices” the Americans have made to achieve that end. In time, they may, and probably will, come more to the American view.

THE United States is one of the easiest countries in the world to criticise. This is not because her faults or defects are greater than those of other nations—far from it—but simply because she does not attempt to conceal them. In the U.S. “everything is in the shop window.” Personalities are abused, policies are dissected and exposed, all in the full view of the public. No country is freer from the taint of hypocrisy. There are, of course, some phases of American life which set the foreigner wondering—the violent excesses of irresponsible thinking; the waves of emotionalism which from time to time sweep over the country; among a small minority a certain aggressive Americanism which is combined with a disposition to unreasonable criticism of other countries; some ignorance of the rest of the world (this, not peculiar to America); a lack of reserve (which, however, has its good side); a tendency to over-indoctrination of the young in the American way. But these defects are one feels, phases in the development of a great continent and a still young people.

There is, it is true, much wild and much bad thinking. During my short visit it was hardly possible to pick up a newspaper without reading the most irresponsible and outrageous attacks on Britain and other countries. Day after day it went on in exaggeration and gross untruth. But, against this, there is a solid minority core of big and great-hearted thinking. To some extent it is a continuation of the Franklin Roosevelt tradition. It is represented in the international sphere by people such as Eisenhower and Paul Hoffman and General Marshall, and in the high-class officials of the State Department; in the business field by organisations such as the Committee for Economic Development and their leaders, in the newspapers by the New York Times.

FOR anyone wishing to understand the very best in American thought today, Paul Hoffman’s recent book “Peace Can Be Won,” is, I think “must” reading. Here is sound reasoning except perhaps for a tendency to over-estimate the curative powers of productivity, fine vision and idealism, a magnificent conception of the American role in the world.
The American mind is at present greatly agitated over the question of the "welfare state," and whether large-scale social services can be fitted into the framework of a free enterprise economy. Will the United States follow in the footsteps of Britain in providing comprehensive social security and large state sponsored and financed social services?

I got a variety of answers to this question. It was almost universally assumed that the progressive liberalization of the social services and the development of greater social security were certain. But many felt that the methods by which this would be achieved would be very different from those followed in Britain. Much greater reliance would be placed on private voluntary action than on state provision. For example, increasing pensions and sick benefits would be provided by private businesses (there has been a remarkable expansion in pension schemes in private industry over the past decade); hospital and medical services, sickness insurance, would be financed by voluntary contributions rather than by taxation. It was pointed out that in a high productivity economy there would not be the same demand (or need) for state assistance as had arisen in Britain. On the other hand, some people expressed the view that the provision of social benefits and health services on a systematic and comprehensive basis was possible only through governments and that reliance on private voluntary action was impracticable.

The outcome of this matter may be determined by the course of economic events in the U.S. So long as the U.S. is able to maintain economic stability with full or near-full employment and rapidly rising productivity, any movement toward the welfare state on the British model will be gradual. Should, however, serious unemployment occur then the public demand for increased government assistance could become irresistible.

The best and most progressive business opinion in the U.S. stands squarely behind the policies of full employment. Much of the work of that very fine employer body, the Committee for Economic Development, is directed to this end.

A top executive of a giant industrial corporation told me that full or high employment was essential to the maintenance of free enterprise. He saw no reason why this could not be achieved provided businessmen acted intelligently and with a sense of their public responsibilities. He thought that the Full Employment Act of 1946 constituted a great turning point in U.S. history. The Act had created the Council of Economic Advisers, which was an excellent and necessary development, notwithstanding the criticism made of the personnel of the Council. He thought that more or less complete independence of thought on the part of the Council was vital to its full success.

The amount of earnest thought being devoted to the question of economic stability and avoidance of recession in the U.S. is staggering and augurs well for the future.

Only a serious depression could precipitate the U.S. along the socialist line. But this would be tantamount to a loss of faith in the "American Way of Life," for individual competitive enterprise is a central part of this conception which dominates the imagination of so many Americans.

A highly placed official of the American Federation of Labour told me that the formation of a "labour party" in the U.S. was unlikely. His organisation was opposed to it. It believed the unions could achieve more through industrial action than through being tied closely to a poli-
tical party. However, an economic crisis with mass unemployment could lead to the formation of such a party. If this occurred its policy would probably be a rightist form of socialism. He said that reactionary policies constituted the greatest danger to the present order; they encouraged radicalism and the spread of socialism.

* * * * *

A QUESTION greatly exercising and disturbing America at the moment is the rapid depletion of her basic resources brought about by the gargantuan appetite of her vast productive machine. Perhaps there is here some element of possible weakness. The U.S. is becoming more and more dependent on foreign sources for certain vital materials such as manganese, rubber, tin and bauxite. The U.S. is even importing small quantities of oil. On present knowledge the end of some basic resources is now in sight. High grade iron ore may be exhausted in 10 years. The same applies to lead and zinc ores. Known supplies of coppper are estimated to last another 10 to 30 years. Supplies of high grade aluminium ore, bauxite, are almost used up. Supplies of tin, nickel, tungsten, vanadium and manganese are meagre. Known reserves of oil are estimated to last another 30 years. However, resources of bituminous coal are vast.

At first sight the prospect looks almost frightening, but it may not be nearly so gloomy as it may seem. If high grade iron is exhausted, there are immense deposits of lower grade ores. Aluminium can be made by a more expensive process out of the common clays. Oil can be obtained from coal and shale. Substitutes can be used. Then there is the development of atomic power, which may revolutionise the entire industrial outlook. One can feel fairly confident that the U.S. will surmount this problem when, and if, it becomes acute.

WHEN I was in America anti-British feeling was running high. This was due to the combined effect of the dismissal of MacArthur (which was attributed to British pressure), the resignation of Aneurin Bevan, a feeling that Britain was not sending enough soldiers into Korea, the official recognition of Communist China by Britain, and, of course, the socialistic policies of the British Government. All this was fanned up by the mighty bellows of the McCormick and Hearst press.

Practically everyone felt that the dismissal of MacArthur was unnecessarily abrupt and insulting to a great general. Most people thought that MacArthur was quite right to put his point of view to the American people. Many favoured the policies MacArthur was advocating. A public opinion poll taken by the State Department showed that 53 per cent. of the public favoured the MacArthur viewpoint. However, after the emotional sympathy for MacArthur began to die down, and the Senate Committee's inquiry was under way, opinion began to swing against the MacArthur policy.

Many Americans have closed minds on the subject of British socialistic policies. They are quite unable to concede that, in spite of all its mistakes, the Labour Party may have done one or two good things. Generally I feel, however, that the American people are very sympathetic toward the British people, even though they disapprove of their government, their socialistic policies, and even though they find it hard to understand why their industries are not more efficient. There will always be a great deal of criticism passing back and forth across the Atlantic — this is inevitable since the general outlook of the two people is so at variance — but in a tight spot Britain and America will always be found together. America regards Britain as her only reliable ally, and the attitude of the
best Americans is that Britain must, at all costs, be kept on her feet.

I found that my own strong confidence in America and American leadership was not always echoed in non-American quarters. In Britain, one naturally hears a great deal of criticism of the United States and its policies. But generally this arises out of a constitutional antipathy to some things American, and out of the blow to British pride brought about by dependence on American dollars and the assumption by the U.S. of the leadership of the free world. It does not, I think, represent a considered judgment and it is one not held by the best-thinking Englishmen. A prominent Australian, now working in the United States, expressed serious doubts whether America was yet fitted for her role of world leadership. On the other hand, other Australians with a longer experience of the American scene hold the American people and leadership in the highest regard. These people insisted that the Marshall Plan was inspired almost wholly by motives of altruism and goodwill and that there was no semblance of economic self-interest behind it. The former leader of the E.C.A. administration, Hoffman, was described to me as a "radiant personality." Hoffman, Eisenhower, and Marshall are held everywhere in the greatest respect and confidence. In fact, their names must stand as high as any in U.S. public life today.

I DO not think the United States is unready for world leadership. Notwithstanding the strong isolationist tradition, the best Americans have long accepted the inevitability of America's destiny to lead the world — notably one of the greatest Americans, Walter H. Page, as far back as the 1914/18 war. I think this feeling or sense of American destiny will spread — is already spreading — from the top thinkers and leaders down through the American people in general, and that they will fulfil it with a high responsibility, courage and imagination.
“Australia is an example of the gross occurrence of shipping delays. The cost to the Australian economy of their inefficient ports has not been calculated, but it must inevitably be reflected in their cost of living... With the exception of 47 mail ships which operate to a schedule and handle only comparatively small quantities of cargo, every ship is taking an average of some four weeks longer to discharge in Australia than would be necessary in almost any other part of the world.”


REPORT ON SLOW TURN-ROUND OF SHIPPING

The main conclusions of a survey conducted by the Institute of Public Affairs—Victoria on the slow turn-round of shipping in Australian ports are summarised below:

- The overall tonnage handled by Australian ports has increased by about 8% since 1939-40, although there has been a considerable decline in the volume of interstate cargo.
- Shipping delays and higher freight rates are aggravating inflation in Australia.
- Since 1939, there has been a serious decline in the rate of handling cargo, notwithstanding the employment of a larger labour force.
- Waterside workers have borne the brunt of the blame for shipping delays, but every group concerned with the waterfront and ocean commerce must share some responsibility.
- Customs house procedure requires simplification and speedier documentation is very necessary. Pre-clearance of documents before arrival of vessels is the first step towards quicker turn-round.
- Improved supervision, the adoption of some form of incentive payments, efforts designed to eliminate some of the factors responsible for non-productive working time, and a campaign to educate the men in the value of mechanisation appear to offer the greatest possibilities of improving the rate of output.
- Because the rate of loading or discharge is greatly influenced by wharf congestion, wharf sheds should not be used for storage, but purely as quick transit sheds.
- The early closing of warehouses, following the introduction of the 40 hour week, has obstructed the delivery of goods by carriers. Some of the resulting bottlenecks would be avoided if merchants agreed to accept delivery outside regular hours.
- Better liaison between merchants, carriers, port authorities and shipping companies is needed to reduce wharf congestion and to keep cargo moving after it leaves the ships' slings.
THE pocket of every person is being affected by slow turn-round of shipping. In order to maintain the profitability of their fleets, overseas shipping companies have imposed a steep surcharge on all freight business with Australia. Apart from dealing a heavy blow to our prestige in international trade circles, this bombshell is having serious repercussions throughout the entire Australian economy. These extra freight charges are inflationary and must be passed on to the public in the form of higher prices. Moreover, high freight rates could possibly price some of our manufactured lines out of the export market.

Freight rates per ton of cargo between Melbourne and Sydney have increased about fourfold since the end of the war, but the profits of local shipping companies are less than the average for all public companies. One company, with almost 100 years of service in coastal trade, has announced its intention to suspend operations because of high costs and rail and road competition. It is rather significant that the overall figures of interstate cargo shipped by sea have fallen substantially over the last decade, despite the great increase in economic activity throughout the Commonwealth.* As the railways are hampered by lack of rolling stock and manpower, more costly road transport is being used to an increasing extent to maintain the flow of goods between our main cities. Moreover, since the war there has been an extraordinary expansion in the volume of interstate air freight. Part of this interesting development arises from the need for speedy delivery of supplies, but shipping and rail bottlenecks have been contributing factors as well.

High transport costs strike at the heart of the price structure. The Australian economy can never be really healthy under the burden of excessive freight rates. Nor can our industries operate at peak efficiency whilst subjected to intermittent deliveries of coal, steel, timber, cement, sugar and a host of other basic raw materials, owing to shipping hold-ups and recurring wharf delays.

**Causes of Slow Turn Round of Shipping**

The slow turn round of ships is in line with the general lethargy evident in the Australian economy in the post-war period. The disastrous fall in output on the wharves has been one of the most disturbing aspects of the poor production performance of Australia. The contributing factors are complex and interdependent. There is much more to the problem than Communist-inspired disruption and loafing on the job. Many skilled men have been lost to the industry because of the greater attractiveness of other occupations. Labour turnover is abnormally high and an adequate number of gangs is seldom available.

The radical change which has occurred in the methods of employing labour has probably led to some reduction in efficiency. Pre-war, the stevedoring companies were able to select their labour and many men consistently worked for one employer. This system enabled the employer to obtain specialist gangs for work which required particular skill and experience. Now, the entire labour force is administered by the Stevedoring Industry Board, which has been interposed as a third party. This has weakened the personal relationship which should exist between employer and employee. Irrespective of the personal choice of the parties concerned or the type of cargoes to be handled, gangs are allotted out to various employers, and attendance money is paid to those men for whom there is no work. This lack of a permanent link between employer and employee has rendered

---

*According to the Commonwealth Year Book, 80 to 90% of Australian interstate trade pre-war was carried by sea. The percentage today would be substantially less.
much more difficult the problem of maintaining discipline and industrial harmony.

Unfortunately, industrial relations on the waterfront have never been particularly harmonious. In the past, once the pendulum of economic circumstances swung their way, both employers and union leaders have not failed to use their superior bargaining strength, sometimes to the detriment of the community. It is true that undue prominence has been given to waterfront disputes. It is not generally known that during the three years ended June, 1950, only about 2 per cent. of working time was lost through industrial disputes at Australian ports.*

Notwithstanding the availability of considerable mechanical equipment, the main cause of slow turn round of shipping is undoubtedly the slowing down in the rate of work on the wharves. Shorter shifts have had an important bearing on this decline. But in addition union-imposed restrictive practices are taking their toll. Furthermore, it is estimated that one hour in every four is lost because of delays in getting access to cargo, interruptions in the flow of cargo to the wharves, early finishing, late starting, breakdown of equipment, rain and similar causes. Before the war non-productive working time was very much less than it is today.

But the fall in the efficiency of labour is not the only factor contributing to the slow turn round of shipping. Working only a 40-hour 5-day week, the activities of warehouses and other industries are not co-ordinated with round-the-clock operations on the wharves. The N.S.W. Maritime Services Board recently estimated for the Port of Sydney, that vessels were working for an average of approximately 59 hours a week in discharging cargo, whilst cargo was being removed from the wharves at the rate of only 32 hours a week. Moreover, there do not appear to be sufficient stores and warehouses available, even if the wharves could be cleared promptly. Delays are inevitable when bad stowage on ships and lax supervision in sorting and stacking on the wharves occurs. A frequent cause of bad stowage arises through the failure of merchants and shippers to deliver cargo to the ship in the correct order. Cartage contractors are unable to cope with the flow of goods to and from the wharves whilst congestion and bottlenecks prevail. Furthermore, the railways are desperately short of manpower and rolling stock. Delay in passing customs entries is also an important factor in delaying movement of goods from the wharves.

No Simple Solution

The nature of dock work, the turbulent background of the industry and the employment of casual labour are circumstances which are not conducive to a simple solution of the turn round problem. In fact, there are greater opportunities for the activities of deliberate trouble-makers on the waterfront than in most other industries. This is the more important because of the strategic importance of the nation's ports, and the necessity to maintain a free flow of trade through the sea lanes, both in peace and in war. Communist saboteurs are not slow to appreciate the vital importance of shipping and consequently the waterfront is an ideal target for disruptive activities. At the same time, despite apathy and obstruction, the Waterside Workers' A.L.P. Industrial Group is waging a constant and increasingly successful battle against those Communists who still hold high office on the waterfront.

* For example in the year ended 30th June, 1950, approximately 37,000,000 man hours were worked and about 850,000 man hours were lost owing to disputes, representing a loss of 2.3%. There was a greater percentage loss of time owing to rain. (vide, First Report Australian Stevedoring Industry Board).
Frequent meetings have been held, both at the national and the port level, at which representatives of the many interested organizations have discussed the turn round problem. Some improvements have occurred, but the problem is far from being solved. The latest move in this direction is the arrival of an overseas expert, Mr. H. Basten, who will investigate the problem and make recommendations to the Commonwealth Government.

It would be wrong to think that slow turn round cannot be overcome. It can, and it must be solved, if this country is to progress and maintain its place in international trade. Bold and imaginative action is called for to tackle the waterfront malaise which threatens our standard of living and each day adds to the toll exacted by inflation.

* * * *

A Constructive Programme

In the following paragraphs we refer to the more important constructive measures which we believe are necessary, after a detailed investigation into published information, as well as first hand information obtained from interviews with organizations concerned with the waterfront. At the outset, however, let it be said that we feel that the greatest hope for improvement lies first in securing far better liaison and closer co-operation between all the bodies concerned; and in the second place in improving human relationships in the industry, looking to a hopeful future, rather than to the mistakes and bitter disputes of the past. Every section must share in the responsibility for slow turn round and must co-operate in finding remedies.

Documents and the Customs House.

The prompt processing of shipping documents by exporters, importers, banks, customs agents and the Customs Department itself, is a prerequisite for a satisfactory rate of turn round of shipping. There is room for much greater co-operation among these groups than there has been in the past. Speedy documentation is fundamental to a good start when the vessel berths, because carriers cannot remove goods from the wharves, until the necessary bills of lading are in their possession.

The evidence shows that there is frequently considerable delay at the Customs Houses. Some action has already been taken to improve Customs Department procedure in the interests of quicker turn round. Further action could be taken to streamline the cumbersome requirements of the Customs Act without jeopardising Commonwealth revenue. Movements of shipping and cargo would be greatly facilitated by observance of the following points:

(a) Checking of customs entries before the arrival of goods. Where this is not possible preference should be given to checking entries for ships with priority berthing and those already berthed. This principle has already been established, but the system is not working well in practice owing to lack of co-operation of the Customs Department with importers and customs agents.

(b) Simplification of information required on customs entries.

(c) Granting of more discretionary powers to senior customs officers to permit a more flexible interpretation of customs regulations, thereby avoiding unnecessary obstruction and red tape.

(d) An extension by the Collector of Customs of the principle, whereby all reputable firms can obtain delivery of overseas goods without delay, on receipt of a written guarantee to pay the full amount of duty payable.
More Efficient Use of Labour

There is a large body of opinion which blames waterside workers for all our troubles. While this misinformed viewpoint prevails it is futile to expect 100 per cent. co-operation from the men who actually handle cargoes. Nevertheless, as the Australian Stevedoring Industry Board points out, an increase in handling rates is within the reasonable capacity of the men. In the Board's view, "the real solution lies partly in a reduction of non-productive working time, and partly in the successful introduction of labour-saving appliances, which enable the men to move cargo in and out of vessels at a greater rate. . . . Two very important practical aspects must not be overlooked. Firstly, to engineer these changes successfully it will be necessary to overcome the opposition of that element among watersiders which acknowledges no obligation to the industry, the community, or trade unionism. Secondly, the industry has slumped so far in efficiency, because of the emergence of unjustifiable customs and practices, that, with the swing of balance of power to Labour, it would be idle to suggest that rehabilitation will be easy or speedy."

Labour turnover on the waterfront is high and for every 13 men who enter the industry, 9 men leave. The overall shortage of labour and the natural attraction of men to jobs offering higher pay and better conditions elsewhere are formidable problems. A further difficulty is that it is no easy matter to persuade the union in some ports of the necessity to maintain an adequate labour force.* It is apparent under present conditions that more men are needed in the industry, but more important still, efforts must be made by every practical means to obtain better production from the men already available.

The press and radio pick-up operative in Melbourne and some other ports, by which gangs are advised to proceed direct to vessels requiring labour, instead of first attending the compound, has been instrumental in avoiding some wastage of time. This method has much to commend itself, and its extension to Sydney and the larger ports which have not yet employed it appears to be most desirable. While labour is short, gangs on completing a ship early in the day should be transferred with advantage to other ships needing labour. In the Port of Sydney in particular, it is claimed that many man hours are wasted because this is not done. In addition to the usual morning pick-up, there may be some merit in introducing a supplementary midday or afternoon pick-up to make use of any labour which may become available for further employment during the day.

A grave defect of the roster system, at present in force at Waterside Employment Centres, is that specialist gangs are used indiscriminately for general duties.

Where men have acquired a special skill and experience at handling a certain type of cargo, e.g., timber, these specialist gangs should be placed on a special roster and allocated to other work only when their specialist skill cannot be employed. It would be a step in the right direction if, when rain interrupts work at the ship's side, stevedoring firms adopted to a greater extent the practice of employing men on other useful work under shelter, such as re-sorting badly stacked cargo. Furthermore, there is undeniably much scope for the various industries concerned with Port operations to introduce much greater uniformity of working hours, lunchtime breaks, "smokos," and so on, in order to eliminate waste time. A

* A recent exception has been in Melbourne where the Australian Stevedoring Industry Board has advertised for men to join the W.W.F. and many applications have been received.
definite improvement would be the establishment of a universal lunch hour by bringing the various awards into line on this matter.

As in any other industry, efficient work on the waterfront depends greatly on good supervision and the maintenance of discipline. It is well known that some shipping companies have achieved a better loading and discharge rate for general cargo than others, owing to good foremanship and sound supervision. Apart from the power of the Stevedoring Industry Board to discipline labour when this is necessary, the Board has taken disciplinary action against both shipping and stevedoring companies which have aggravated slow turn round, owing to lax supervision of operations. In a recent case the Board temporarily suspended two firms and refused to supply labour to them for the period of their suspension.

An important influence on the rate of handling of outward cargo is outside the control of the watersider. If the flow of goods is delayed through congestion or other causes, this has a big effect on his output. Every effort should be made by shippers to deliver the correct amount of cargo required for loading each day. Even in the much-maligned post-war era there have been shining examples. A few vessels have discharged general cargo at the rate of approximately 1000 tons per day, which is equal to the pre-war rate. But in each case, all the conditions were favourable. For example, ample labour was available to work three shifts on a round-the-clock basis, and the wharf sheds were kept clear of congestion.

Transport and Storage

Although an improved rate of work on the wharves is most desirable it is not, by itself, the entire solution. An improved rate of removing cargoes from the wharves is of equal importance. Wharf sheds which are congested with cargo, severely hamper the rate at which ships can be loaded or discharged. It is essential that cargo on the wharf should be sorted and stacked according to marks and numbers. If the stevedoring firms fail to maintain proper supervision in this respect, carriers are held up and frustrated in their endeavours to clear the wharves promptly. Ships work an 80-hour week, but by and large the commercial world works for 40 hours only. Since the advent of the 40-hour week, the closing of many warehouses for the receipt of goods on Saturday mornings and after 4 p.m. on week-days has further reduced the rate of cargo clearing. The net result is congestion of goods on wharves, which in its turn hampers the loading and discharge of vessels. Further delay and congestion are caused by the trader who uses the wharf for storage space and sells his goods direct from the waterfront. If the wharves are to function properly, it is of paramount importance that they should be used as transit sheds only. Therefore, penal storage and removal charges should be levied on those importers who disregard warnings in this respect.

The ideal would, of course, be the removal of goods from the wharves simultaneously with, and at the same rate as discharge from the ships' slings. If this could be accomplished we would have few turn-round worries in this country. There is a great deal of room, for the cooperation of traders and merchants in this vital matter of prompt clearance of goods from the waterfront. It is therefore encouraging to read a recent statement by the President of the Adelaide Chamber of Commerce on this point: "Members of the Chamber of Commerce will co-operate by
opening their warehouses and stores to accept delivery of goods discharged outside regular hours, or in any other possible way that may be suggested." It is imperative that merchants and their agents should take prompt action to move goods from the wharf immediately they come out of the ships' holds, otherwise they would be setting in motion a chain reaction of delays, bottlenecks and congestion.

There is an apparent shortage of road transport for dock operation, because the available vehicles are not being used to the best advantage. The carriers claim that they have about 25 per cent. more capacity than is needed, provided they receive the full co-operation of traders, port authorities and the shipping and stevedoring companies. The solution to the problem of using road transport more efficiently lies partly in improved stacking on the wharves and also in a better working liaison between port authorities, shippers, stores and individual carriers. There is considerable room for improvement in the matter of reducing delays in loading and unloading vehicles at stores, and in eliminating unnecessary and wasteful movement of transport.

Along with the urgent need for more railway rolling stock and more effective use of motor vehicles, additional storage space must be provided outside the dock area in most of our main ports. Merchants are often faced with the baffling problem of having goods on the wharf and nowhere to put them. So long as storage space is inadequate, turn-round of shipping will continue to be adversely affected. Part of the turn-round problem would disappear overnight if additional stores could be rapidly erected and men were available to operate them.

**Mechanisation and Port Facilities**

In general, mechanisation and port facilities have kept pace with the growth in trade since 1939. In Melbourne, for instance, many additional sheds and wharves have been built and approximately 70 per cent. of the wharf areas have been concreted. The Melbourne Harbour Trust Commissioners claim that the Port of Melbourne has a far greater potential for handling shipping and cargo than what is actually being accomplished at the moment. However, in an expanding economy, all port authorities must keep a watchful eye on the need for development and expansion of existing facilities in order to meet the future requirements of shipping. The nation's ports are vital arteries of commerce which are rightfully entitled to some priority in the allocation of labour and materials, so that capital construction can keep abreast of future needs. Owing to the larger ships now coming to our ports, future development should provide for bigger wharf sheds to handle the bigger tonnages.

Prior to 1939 practically all cargo handling and stacking were carried out by manual labour, with the aid of ships' gear and a limited number of wharf cranes. Considerable progress has been made in the use of mechanical equipment, including fork lift trucks, tow motors and mobile cranes provided by the various port authorities, the Commonwealth Handling Equipment Pool and some private employers. It is probable that the more exten-
sive use of conveyors would help. But the Australian worker has not yet completely lost his distrust of mechanical aids and the old fallacy that a machine replaces a man still persists. The port authorities in particular are recognising the need for an educational campaign, to show that, rather than being an enemy, machines help to raise living standards and create more jobs. Most modern equipment exists for the handling of bulk cargoes at certain ports; for example, iron ore at Whyalla; coal at Newcastle; the gas works wharf at Melbourne; the Osborne Wharf at Adelaide; salt and gypsum at Stenhouse Bay (S.A.); timber at a number of ports, and wheat at Sydney, Newcastle, Geelong and Fremantle. It is claimed that Melbourne is the most highly mechanised port in Australia. The remarkable growth of mechanisation in the Port of Melbourne during the last decade can be readily seen from the illustration which appears on the opposite page.

**Worthy of Investigation**

The three suggestions which follow were made to us by a representative of the Waterside Workers' Federation and appear to be well worthy of further investigation:

(a) It has been suggested that the more extensive use of lighters would help to minimise congestion of wharf sheds. Now that overseas shipowners are sending large cargoes to single ports lighters can play an important part. For instance, suppose a vessel arrives in Melbourne with 500 tons of cargo for Adelaide. In such a case the Adelaide cargo might be transferred to a lighter which can be readily moved adjacent to an interstate ship bound for Adelaide for reloading, thereby avoiding additional handling and congestion.

(b) A considerable saving of time in handling small cargo could probably be effected by the more general use of large transport boxes of permanent construction. These could be built to take small cases, cartons and fragile cargo. Boxes of this type could be moved direct from factories and warehouses to the ship. Their use would undoubtedly reduce the number of sling loads required and to some extent help to lessen damage and pilfering of cargo.

(c) The W.W.F. claims that the number of men employed down the hold, has not kept pace with the progress of mechanisation on the wharves. It would appear that a more flexible policy to increase the number of men below might be adopted with advantage, when the occasion warrants it.

**Incentives**

In our view, the adoption of some form of incentive payments offers great possibilities for improvements in the rate of loading and discharge of vessels. This is not to say that a satisfactory system of payments by results could be introduced overnight; nor, that there are not considerable difficulties in formulating a comprehensive plan acceptable to ship-owners and waterside employees.

It is of interest to record that about 90 per cent. of the workers employed on the waterfront in the United Kingdom are paid by results. According to "The Economist," there is no doubt that, if this system were to be abandoned, the tempo of work on the British docks, as well as the turn-round of ships, would at once be slowed down. "Almost all dock work in London is paid by the piece. A great variety of cargoes is handled, and a rate must often be agreed for each different commodity. Although there are in most trade groups in the Port agreed schedules of rates, the number of commodities is so great that differences are always liable to arise in interpreting or applying the schedule in any given case. Claims for increases on the agreed rates may be made according to the method of stowage, the state of the cargo after a sea voyage, or the handling facilities in the hold, and
Growth of Mechanisation in the Port of Melbourne, 1929-1951

<table>
<thead>
<tr>
<th>HEAVY LIFT CRANES</th>
<th>3-TON ELECTRIC CRANES</th>
<th>MOBILE EQUIPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1939</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td></td>
<td>350 UNITS</td>
</tr>
</tbody>
</table>

NOTE: The mobile units shown above are owned by the Melbourne Harbor Trust Commissioners and represent only about 1/3 of this type of equipment employed in the Port of Melbourne. The remaining 2/3rds are owned privately by stevedores and carriers.

all such claims must be settled as they arise, by ‘spot settlements’.”

In order to avoid the possibility of frequent disagreements which may occur, where there are a great variety of piece rates to cover the diversity of modern cargoes, a means may be found for fixing a “norm” for loading and/or discharging each ship, based on a fair and reasonable rate of work. A bonus would then be paid to each member of the gangs employed on those ships, which were cleared at better than norm rates. It is obvious that a great deal of discussion, between employers and the unions would be necessary, before a satisfactory working basis for payments by results could be established. Waterside workers would be entitled to have adequate safeguards, and the shipowners and stevedoring companies on their part would be entitled to assurances of the co-operation by organized labour.

Payments by results, provided goodwill and co-operation exist on both sides, offer great possibilities for the common good. It is significant to note that the Trade Union Congress in Britain, and also the British Ministry of Labour under a socialist regime, have given their blessing to the principle of incentives. If the A.C.T.U. were to do likewise, on receipt of satisfactory assurances from employers, the way would be paved for the commencement of negotiations aimed at introducing them to waterfront operations.

What some form of incentive can accomplish, in the way of prompt movement of cargo and shipping, is illustrated by the successful co-operative stevedoring venture associated with the small Tasmanian vessel “Merino.” In this case the Melbourne branch of the Waterside Workers’ Federation co-operated enthusiastically with the Port Phillip Returned Soldiers and Sailors’ Co-operative Stevedoring Co. and the owners, in achieving a most satisfactory rate of turn-round, which resulted in a substantial bonus for the union. The adoption of some form of wage incentive appears to be a most realistic way of obtaining better work on the waterfront.

### Tonnage of Cargo Through Australian Ports.

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports Tons</th>
<th>Exports Tons</th>
<th>Total Overseas Trade Tons</th>
<th>Interstate Trade Tons</th>
<th>Total Annual Throughput of Cargo Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939/40</td>
<td>6,215,000</td>
<td>5,744,000</td>
<td>11,959,000</td>
<td>18,589,000</td>
<td>30,548,000</td>
</tr>
<tr>
<td>1942/43</td>
<td>5,078,000</td>
<td>3,637,000</td>
<td>8,715,000</td>
<td>18,359,000</td>
<td>27,074,000</td>
</tr>
<tr>
<td>1945/46</td>
<td>6,248,000</td>
<td>3,932,000</td>
<td>10,180,000</td>
<td>15,147,000</td>
<td>25,327,000</td>
</tr>
<tr>
<td>1946/47</td>
<td>5,565,000</td>
<td>4,454,000</td>
<td>10,019,000</td>
<td>17,373,000</td>
<td>27,392,000</td>
</tr>
<tr>
<td>1947/48</td>
<td>6,904,000</td>
<td>5,777,000</td>
<td>12,681,000</td>
<td>17,160,000</td>
<td>29,841,000</td>
</tr>
<tr>
<td>1948/49</td>
<td>8,400,000</td>
<td>6,800,000</td>
<td>15,200,000</td>
<td>15,544,000</td>
<td>30,744,000</td>
</tr>
<tr>
<td>1949/50</td>
<td>11,266,000</td>
<td>6,508,000</td>
<td>17,774,000</td>
<td>15,302,000</td>
<td>33,076,000</td>
</tr>
</tbody>
</table>


Note: In the figures for interstate trade each shipment is counted once for inward and once for outward.
The stresses and strains to which the British Commonwealth has been subjected over the eventful decade that lies behind us, have not spared the sterling area which, in large part, may be regarded as the monetary expression of that Commonwealth. It is true that the sterling area is by no means synonymous with the Commonwealth; Canada and Newfoundland lie outside it while the sterling world extends over considerable areas that are not within the Commonwealth. But the fate of the sterling area mechanism is in many respects one facet of the greater problem of the evolution of that community of nations which had its political and economic genesis in the combined roles of Great Britain as coloniser, administrator, teacher, merchant and banker.
The evolution of the British Commonwealth and of the sterling area has many traits in common. Each of them reflects the essentially British qualities of empiricism, of adjustability to changing circumstances, of capacity to move with the times and therefore incapacity of ever being definable within the rigid compass of a statute or treaty or formal agreement. This looseness of structure has undoubtedly contributed to the strength and endurance of both political and economic organisations of the Commonwealth. If, however, the sterling system has endured, it is not only by reason of the looseness and adjustability of the structure but, even more, because of the unquestioned confidence which all its members had in the solidity, solvency and judgment of the banker at the centre, in London.

ITS MEANING

Let us look back at this unique phenomenon of the sterling area, for it is only by retrospect that we can measure the prospects that lie before it. The sterling area is a group of countries which over the course of the years have come to base their currencies on sterling, to choose sterling as the anchor to which they have tied the exchange rates of their currencies and to maintain in London both the major part of their currency reserves and the bulk of their working external balances. This sterling system grew up imperceptibly over the 19th and 20th centuries as a result of the commercial and financial importance of Great Britain to the countries in question. As British traders developed their activities in colonies and dominions they naturally tended to take their currency with them. That trade was done in sterling even when the territories in question sold their produce to countries other than the United Kingdom. In large part those transactions, even those between third parties, were made in sterling through one of the great produce markets situated in Britain, financed in sterling through a London credit, shipped in a sterling vessel, insured in the London market. It was this commercial and financial supremacy of London which lay at the root of this growth of the sterling area. It was an imperceptible growth because in those decades of the 19th and early 20th century the sterling mechanism was merely part of the wider international gold standard which itself was
dominated and guided by London. It might with some justifica-
tion be claimed that in those years the whole world was in
the sterling area. But those, let it be noted, were years
when there was no exchange control in London, when the
pound could be exchanged for any currency in the world,
when sterling and gold were virtually synonymous terms.

This sterling area first became recognisable after the de-
parture of the pound sterling from gold in 1931. This event
set a choice before all important commercial countries of the
world. Should they follow sterling or cling to gold as the
anchor of their exchange policy? The divergent answers which
came to this question created on the one hand the gold bloc
and on the other what was first known as the sterling bloc,
and was later to become the sterling area. Among the coun-
tries which chose sterling were most of the members of the
Commonwealth. The membership of the sterling bloc, how-
ever, extended well beyond the Commonwealth. It included
the Baltic countries, Egypt, Portugal, Iran and later Japan,
Argentina and France. It should be stressed that within this
group there was no formality of admission and membership,
no recognition of set rules and regulations, no commitment
to take orders or even advice from London, and certainly no
pretensions on the part of London to rule the affairs of the
other members—with the one reservation that the Colonial
territories and dependencies within the sterling area have
throughout had their monetary policies formulated for them
in the appropriate government departments in London.

Although these countries in the sterling bloc maintained
their exchange rates stable in terms of sterling, there was no
rigid consistency even about this fact. Certain parities were
changed without reference to London, some countries came
into the group and others left it, without a by-your-leave.
Moreover, some countries kept the bulk of their external re-
serves by way of London funds, others only maintained work-
ing balances here and kept the greater part of their reserve
in the form of gold. In other words, this was a typically
British institution, defying any attempt at codification, based
not on compulsion or on the logic of a definite set of rules
but on the convenience and self-interest of the countries con-
cerned. They adhered to the sterling bloc for the good and
adequate reason that this served their interests. Great Britain
succeeded in avoiding the worst of the economic blizzard that was to sweep over the greater part of the world in the early 1930's—and that, in its turn, added to the attraction of the sterling bloc. One by one the members of the gold bloc were compelled to escape from the virulent deflation of that period, either by devaluing their currencies in terms of gold or, as in the case of France, by choosing sterling as the anchor for their exchange rates. During this period of the 1930's the sterling area gradually acquired recognisable shape and very considerable substance—but be it noted that throughout this period sterling, though no longer anchored to gold, remained a fully convertible currency, free from exchange control and continuing to serve as the basis for invoicing and financing the bulk of the world's trade.

THE EFFECT OF THE WAR

Then came the outbreak of the war and with it exchange control. In the weeks immediately preceding the war the sterling area had lost most of its neutral adherents and comprised solely the British Commonwealth (apart from Canada and Newfoundland) plus Egypt, the Sudan and Iraq. Since it was decided to keep payments within the sterling area as a whole, it was necessary to give the sterling area a statutory definition. That definition was first made in Statutory Rules and Orders issued under the Defence Regulations. It was later to be made in schedules to the Exchange Control Act of 1947, since when the sterling area has become technically known as the "Scheduled Territories." Although the net of exchange control was thrown round the sterling area as a whole that control has not been operated by a central authority. Each member of the sterling area has been left to operate its own exchange control and to determine its own import licensing policy. In the case of the colonial territories, these matters have been largely dictated by London; but for the rest of the sterling area the necessary homogeneity in exchange control and import policies has been the product of voluntary co-operation, of readiness to appreciate the obvious advantages of operating these controls on similar lines, of general recognition of the fact that the common advantage could best be secured by acting in concert, by economising dollar imports and by pooling not only their policies but their reserves.
It must now be questioned, however, whether this very loosely knit monetary structure will emerge intact from the strains to which it has been and is being subjected. The wonder is that it has escaped so unscathed from the turmoil of the past decade, a period during which many of the basic ingredients of the system have changed beyond recognition. Let us look at some of the items in this revolution.

(1) Before the war even when the pound was fluctuating in terms of gold and dollars, it was a completely free currency; now it is subject to control. Until 1939, it was fully convertible, now it is unconvertible and a considerable volume of sterling deposited in London on overseas account is in fact blocked. Sterling is still a great and widely used world currency but it has unquestionably though perhaps temporarily lost some of the qualities on the basis of which it acquired that greatness.

(2) Great Britain, the banker at the centre of the sterling area, owed his position to his strength. Immediately before the war the current liabilities of the United Kingdom to overseas countries amounted to £556 million. At the same time the gold and dollar reserves of the United Kingdom were in the neighbourhood of £800 million. In addition to these gold and dollar reserves Britain before the war held overseas assets worth £3,545 million, a part of which was in the form of short-term credits which could be called in virtually overnight. The banker's liabilities, in other words, were amply covered.

Today partly as a result of the financial recklessness with which the war was waged (a recklessness which may well have tipped the scale in securing the victory), but also as a result of balance of payments deficits which Great Britain has run since the end of the war, that relation between banker and customers has been reversed. Now the sight liabilities are in excess of £4,000 million, while the gold and dollar reserve on June 30 last amounted to £1,380 million. The most marketable of the overseas investments were sold during the war and by the end of 1948 their total had fallen below £2,000 million. In the immediate aftermath of the war Great Britain acquired credits from the United States and Canada amounting all told to over $5,500 million, the burden of which will
begin to weigh on the balance of payments as from the end of this year. The position has therefore deteriorated considerably. Although the current account showed a remarkable improvement in 1950, when Great Britain succeeded in amassing an overall balance of payments surplus of £229 million there has been a return to deficit in 1951, notably in the relations between Great Britain and the rest of the sterling area. That latest deterioration will find itself duly reflected in a further increase in the British sterling liabilities owing to the rest of the sterling area. The banker, in other words, is allowing his liabilities at the moment to rise faster than his assets, which is not a recipe for good or enduring banking.

(3) Another change in the loose structure of the sterling area to which insufficient attention has as yet been given, has been the admission of the new Asian dominions as members possessing full financial autonomy. Their monetary policy is no longer one of the "reserved subjects" which in the past were ultimately settled by London. These dominions have brought with them ideas based on centuries of gold hoarding and on a traditional monetary use of the precious metals. Since some of them are on balance net dollar earners, they may find it difficult to resist the temptation of holding on to their hard currency earnings, of building up their own separate gold reserves. This temptation will grow with every evidence that the non-convertibility of sterling is a permanent feature of the situation and that the dominions concerned will find it difficult to spend their mounting sterling balances in buying what they want at competitive prices in Great Britain.

(4) It should finally be noted that many members of the sterling area have also become members of the International Monetary Fund. Up to now membership of the I.M.F. has been tempered by the transitional clauses of the Fund Agreement under which members have been sheltered from the full rigours of the rules during the immediate post-war period. But a time may come when certain incompatibilities between the two loyalties may emerge and this would undoubtedly add to the strains to which the sterling area is subjected. The International Monetary Fund stands for a monetary system in which there will be full multilateral convertibility of currencies at least for current transactions.
is no inevitable antagonism between that objective and those of the sterling area; but the sterling area as it has necessarily evolved over the past twelve years, may well have become a currency bloc between which and the dollar world the bridge of full convertibility will not be thrown in any foreseeable future. If that be so, this clash of loyalties will sooner or later occur.

* * * *

In the light of these fundamental changes in certain of the basic ingredients that make up the sterling area system, we can now consider the main problems that face the sterling area.

THE DOLLAR POOL

The first of these concerns the pooling of hard currency earnings of the whole membership. This pooling is not a result of hard and fast rules. It is a process which evolves almost automatically from the fact that the British Commonwealth conducts the bulk of its trade in sterling—even its trade with non-sterling countries. This tradition has grown up as part of the evolution of the sterling area, as a reflection of the facts that Britain provided the principal commodity markets where the produce of the Empire could be sold, that London financed, insured and arranged the shipment for these transactions. Thus Malaya sells the bulk of its rubber in sterling, largely through the London market. Similarly West Africa sells its cocoa in sterling. These commodities may be destined for hard currency markets and be ultimately paid for in currencies other than sterling. But as far as the producing countries are concerned, the trade is conducted without anyone going consciously through the process of “pooling” hard currency earnings. Long before the concept of the sterling area was thought of, this process of pooling was taking place. The countries in question maintain the bulk of their external working balances in London funds and hold the bulk of their currency reserves invested in Great Britain. The war years did little more than give a slightly greater sense of
formality and conscious volition to this process. Some of
the countries which previously maintained separate gold re-
erves were prepared to pool these resources in the common
cause, realising full well, especially in the pre-Lend-Lease
period of the war that dollars were as essential a munition
of war as any scarce strategic material.

This habit of pooling, ingrained in tradition and conveni-
ence as it is, should not however be regarded as something that
will endure irrespective of what may be happening to sterling
and to the British balance of payments. There is nothing
artificial in the policy of pooling gold and hard currency re-
serves if this occurs within a framework of reasonably equated
balances of trade. Malayan rubber may be sold to the United
States, the dollars may be used to buy American cotton and
tobacco for Britain and the triangle completed by sales of
British textiles, mining equipment and motorcars to Malaya.
But if this pattern of multilateral trade is not balanced, if
the rest of the sterling area is called upon to pile up balances
of unconvertible sterling—unconvertible either in dollars or
into the goods that the rest of the sterling area needs—these
age old habits will begin to lose their force.

There is already some evidence that these traditions are
becoming eroded. Certain net dollar earners within the Com-
monwealth, Ceylon and Pakistan for example, are striving to
divert their trade from sterling to dollar channels. They
are trying to sell direct those goods which will ultimately earn
dollars instead of going through the traditional sterling mar-
kets. They may lose some of the advantages and facilities
which those markets provide them but they are prepared to
risk that loss in order to acquire greater direct control of the
ultimate hard currency proceeds of their exports. This wan-
ing of old habits is also evident in the fact that these two
countries have recently signed financial agreements with the
United Kingdom under which they have obtained gold from
the central pool so as to serve as currency reserves for their
newly established central banks. It is true that most members
of the sterling area maintain small separate reserves of gold
and, in addition, hold working balances in currencies other
than sterling; but hitherto these separate reserves have, except
in the very special case of South Africa, remained compara-
atively modest and static while the truly fluctuating and domin-
ant element in the external reserves of the rest of the sterling area has been found in the volume of their London funds. Nevertheless, the existence of these separate reserves introduces an element of potential disruption in the system. These reserves could be built up and a menacing inroad made into the principle of pooling. The prospects for the sterling club would become decidedly unpromising if it became a collection of countries running dollar deficits. If the net dollar earners are to remain within the system, they must be given clear assurances, in deeds as well as words, that Britain can deliver the goods, that the sterling proceeds of the hard currencies they earn will be available to purchase what they want at competitive prices and with reasonably rapid delivery.

The attitude of members of the sterling area towards the gold and dollar pool held by the Exchange Equalisation Account in London, may change not only in the readiness of members to pool but in the forbearance which they exercise in dipping into that reserve. Access to the pool is in no way controlled by London. It is a function of import licensing by the authorities in the member countries. Any operation for which an import licence has been granted and which involves payment of dollars is automatically accepted as justification for securing dollars from the pool. If, however, it becomes increasingly evident that some members of the club are bearing the main part of the burden of maintaining payments equilibrium with the non-sterling world and that others are content to run overall deficits, the highly commendable restraint which has hitherto been shown may be weakened. Some members, conscious of the work they are doing in earning the dollars and seeing the proceeds of their earnings pile up in London in the shape of sterling balances, may make considerable changes in the criterion of essentiality which they apply to goods for which they grant dollar import licences. This trend is already apparent. It may gather momentum if Great Britain, owing to rearmament and high domestic consumption, runs into increasing balance of payments difficulties. In that event the rest of the sterling area will tend to import what it cannot get in the United Kingdom from the dollar world or from the industrial countries of Europe—in either case dipping into the pool directly or through the mechanism of the European Payments Union.
THE ADMINISTRATION OF THE STERLING AREA

The next set of problems which faces the sterling area is that which concerns nothing less than the government of this monetary system. Since the sterling area developed gradually as a functional response to the convenience and needs of traders in Britain and other sterling countries, no system of government for the sterling area has ever been recognised or formalised. It was only after 1931 that the need for such a government could have been conceived. The countries in question, other than the United Kingdom, were tacitly prepared to leave to London matters which concerned them closely, including the day to day adjustment of rates of exchange and the consequent fixing of the sterling price of gold. These were decisions that had to be taken on the spot by a small handful of technicians handling the affairs of the Exchange Equalisation Account. The need to devise a more representative government for the sterling area, began to crystallise after the war, when sterling area problems began to involve such questions, as the unification of exchange control technique among the members and the acceptance of common measures to economise dollars. These matters came to a head in the financial crisis which preceded the suspension of the short-lived post-war convertibility of sterling in September, 1947, a crisis which called to London most of the Finance Ministers of the Commonwealth, who then considered the broad issues of sterling policy. This was the first of a series of such meetings of Finance Ministers. They are now regular occurrences, which fortunately no longer require an emergency to call them into being. They usually take place about the time of the annual meetings of governors of the International Monetary Fund.

These high level meetings of ministers are not, however, the forum in which detailed problems of policy and technique can be worked out. To meet the need for day to day contact and exchange of information a Sterling Area Statistical Committee was set up in London in 1947 on the initiative of the British Treasury. This, as its name implies, exists largely for the mutual exchange of information that may have a common interest to all members of the sterling area. The problem of sterling area policy is one that may tentatively
be considered by another body, also located in London, the Commonwealth Liaison Committee. This is a clearing house for ideas and suggestions and not an executive instrument of policy; its members are, however, in constant touch with their governments, they consider all wider issues of sterling area policy and there can be no doubt that their deliberations in London have considerable influence on the policy decisions which are ultimately taken.

Beyond the occasional meeting of Finance Ministers and the continuous session of these two committees in London, the work of co-ordinating sterling area policy is also furthered by the closest and most friendly co-operation between the Bank of England and central banking and monetary authorities in the Dominions and Colonies. It may be doubted, however, whether this machinery, effectively as it has functioned, provides a sufficient response to the challenge that will be made in years to come to the loyalty and complete unity of the sterling area system. The devaluation of sterling in 1949 was a striking example of an issue in which decisions fundamentally affecting the whole sterling area were taken with next to no consultation with the other members and, indeed, with the bare minimum notice to most of them. It is very much open to doubt whether any repetition of this incident could occur without striking a serious blow at the hegemony of the sterling area. The Asian dominions have made it abundantly clear that they resented the abruptness with which at that time they were pushed into policy decisions in the formulation of which they had had no say. One of them, Pakistan, pushed its resentment to the point of refusing to follow sterling in its devaluation against gold and the dollar.

This problem of sterling area government and formulation of policy would become acute if the advice of those who are suggesting that the rate of sterling should be allowed to go free were followed. A floating sterling rate would necessarily call for some official intervention which, as in the 1930's, would have to be operated by a handful of technicians in London and not by committee decisions. If, therefore, the rest of the sterling area were to follow faithfully the movements of a floating sterling rate it is hardly conceivable that
this could be achieved without a considerable readjustment of the present sterling area mechanism, without in fact creating what scarcely exists today, a form of representative sterling area government.

THE SOLVENCY OF "THE BANKER"

These are some of the vital problems that face the sterling area today. But the most vital of them all is the position of the banker at the centre. The sterling area was built on the basis of a strong and solvent Britain, on a currency whose stability, world-wide acceptability and convertibility, were taken for granted. That system had to be adjusted to allow for the impoverishing impact of the war and the emergence of exchange control. On looking back it is astonishing how well this loose piece of machinery adjusted itself to the strains to which it was subjected. But looking to the future, its endurance must surely depend on the banker at the centre retaining the confidence of the other members. He must honour the cheques drawn on him—that is the only way in which he can remain a banker. If he does so, whether by making sterling ultimately convertible or by his ability to deliver goods at competitive prices, we need have no fear for the future of the sterling mechanism. If not, the process of disintegration may go faster than we imagine.