The Overseas Deficit

Australia has had a chronic balance-of-payments problem since early 1952, when quantity import restrictions were first imposed. But for exceptionally good prices for exports, particularly wool and wheat, in the early post-war years, and the large capital inflow stimulated by these prices, the weakness in the overseas position would probably have revealed itself even sooner.

The weakness arises from the greatly increased demands of the Australian economy for imports, without any improvement—and perhaps some decline—in its capacity to export. In 1953/4 Australia imported in physical terms about 55% more than the average of the three pre-war years 1936/7 to 1938/9. This increase is only partly accounted for by the growth in population. Australia was also importing substantially more per head of population. Per capita imports, in volume, were something like 20% greater in 1953/4 than before the war. Nor does this rise fully reflect the true increase in the demands of the Australian economy for imported goods for it has been held in check by restrictions and by exchange controls over goods from dollar sources.
Indeed with some easing of import restrictions in the current year 1954/5, imports have increased markedly. Preliminary estimates suggest that the volume of imports will be 80% above pre-war—or 40% per head of population.

On the other side, the increase in the volume of exports, since before the war is only around 22% (1953/4 over 1936/7 to 1938/9). Per head of population, exports have declined by 6%. Thus, along with an increased per capita demand for imports averaging about 30% over 1953/4 and 1954/5 has gone a decline in real exports per head of 6%. No wonder Australia has run into heavy weather with its balance of payments! Moreover the difficulties we are now experiencing in paying our way would have been intensified had not the terms of trade moved in our favour. The prices we have been getting for our exports have risen by 400% compared with a 280% increase in the prices we have to pay for our imports—in other words we can now obtain a given quantity of imports for a smaller quantity of exports than before the war.*

The greater per capita demands for imports are a natural consequence of full employment (in the pre-war years unemployment averaged about 9%), higher average standards of consumption, and a more-than-normal rate of development in both private and public projects. But the difficulty of achieving a balance in our overseas accounts arising from these basic causes has been aggravated by the rapid inflation of money incomes and production costs, especially over the last five years. It would be fair to say that these reasons, between them, embrace the generally accepted explanations of the post-war balance-of-payments problem; although there are varying views as to the importance to be placed on the different factors.

*FURTHER light can be thrown on the problem by adopting a rather different approach. What is insufficiently stressed in the currently accepted explanations is the fundamental

*During the first half of 1954/5 import prices rose slightly while export prices fell back from 400% to 360% above pre-war.
structural change in the economy over the post-war years, and
the relationship of this change to the overseas deficit. An
understanding of this would help to clarify present notions
of whether the problem is likely to be temporary or long-lived
and of the lines along which a satisfactory solution is to be
found. The adjective “satisfactory” is used advisedly. One
way to solve the balance-of-payments problem would be to
drastically reduce effective demand. This would mean a
serious lowering of Australian living standards. Such a solu-
tion would be far from “satisfactory.”

Over the last 20 years the Australian economy has
changed in basic character. It has become highly, even in-
tensively, industrialised. Before the war, in spite of substantial
manufacturing development, we still thought of ourselves as
predominantly a primary producing country. If this were
ture then, it is certainly not true now. A transformation of
immense significance has occurred. There are today nearly
twice as many people engaged in manufacturing as in primary
production—1,080,000 as against 550,000. At the 1933
Census the figures were 550,000 manufacturing, 670,000
primary industry. Since 1938/9 real output in the rural
industries has risen by just over 20%, in manufacturing by
possibly 100%. In 1933, of the total employed population
manufacturing comprised 20%, primary industry 24%; to-
day, the proportions are manufacturing 30%, primary in-
dustry 15%. The degree of industrialisation in Australia is
indicated by the fact that in the United States official statistics
show that 26% of the employed population are engaged in
manufacturing.

This far-reaching change in the structure of the economy
has given rise to a dangerous fallacy in our economic thinking.
This is the view—where it is not specifically argued it is often
tacitly assumed—that the expansion of manufacturing has
made us less dependent upon imports and has brought Aus-
tralia a long step toward “self-sufficiency”. In fact this is
the reverse of the truth. The increased dependence of the
economy on imports is indicated by the fact—to which we
have already drawn attention—that the quantity of imports
per head—in spite of import restrictions—is now about 30%
greater than before the war. Moreover, this has been accompanied by a reduction in the real capacity to pay for imports since the quantity of exports per head has fallen by 6%.

The economic growth and progress of Australia since the end of the war have been of such a nature as to swell the demands of the economy for imports without contributing in any material degree to its overall capacity to export. The great expansion of manufacturing has been one of the most striking features of this progress and has itself increased the import requirements of the economy (not merely in absolute quantity but per head of population).

This should not be taken to imply any criticism of the main body of the development in secondary industry since the war. This expansion has been in part a response to deliberate government policy to foster secondary industries and national development, and in part a response to the very high level of post-war incomes and phenomenal prosperity in the primary industries. These high incomes have led directly to heavy imports of consumer goods and of motor cars, parts and petroleum. But they have also swollen the demands for the products of Australian secondary industries which, in turn, have had to purchase abroad specialised equipment and materials and component parts which either cannot be obtained locally or made here only at excessive cost.

It is clear that the extraordinary post-war growth in secondary industry can be sustained only by a continuance of high living standards or, in other words, by a high level of incomes and spending power. But these incomes, as we have seen, will swell the demand for imports both directly for consumption and, more important, by increasing the need for overseas equipment, materials and parts for local industry.

It is true of course that we can now produce many things in Australia that were not produced here before the war. Motor vehicles are an outstanding example. But the production of motor vehicles, and of many other products, has set up new and heavy demands for imported materials, parts and productive equipment.

It is now becoming more widely known that the main bulk of Australian imports consist not of consumer goods but of materials, parts and industrial and transport equipment for use in local industry. Consumer goods over the last few years have comprised only around 15% of all imports. Since before
the war all these categories show substantial increases. Here are some comparisons (in 1936/37-38/39 £'s per head of population):—

<table>
<thead>
<tr>
<th>IMPORTS</th>
<th>1936/7-38/9</th>
<th>1951/52</th>
<th>1953/54</th>
<th>1954/55</th>
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<tr>
<td>Producers' Materials</td>
<td></td>
<td></td>
<td></td>
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<td>8.1</td>
<td>7.1</td>
<td>8.5</td>
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<tr>
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<td>1.8</td>
<td>3.9</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
<td>1.7</td>
<td>4.3</td>
<td>2.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Fuel and Oil</td>
<td>1.3</td>
<td>2.8</td>
<td>2.6</td>
<td>2.25</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>3.1</td>
<td>4.1</td>
<td>3.0</td>
<td>4</td>
</tr>
<tr>
<td>All Imports (including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>miscellaneous)</td>
<td>16.6</td>
<td>29.2</td>
<td>19.8</td>
<td>23</td>
</tr>
</tbody>
</table>


Imports of producers’ materials for use in manufacturing have risen, per head of population, since before the war. Also some part of the increase in producers’ equipment, together with a proportion of the increase in motor vehicles and parts, oil and other items, must be attributed to the expansion of local manufacturing industries.

Perhaps the notion that the post-war development in manufacturing has led to greater national self-containment has resulted from confusing the structure of Australian manufacturing with that of the United States, whose economy is largely self-sufficient. It is true that Australia now employs somewhere about the same proportion of its population in manufacturing as America. But in spite of a growing dependence on imports of certain strategic materials, the manufacturing structure of the latter is largely self-supporting. The United States imports only a comparatively minor proportion of its raw or processed materials and practically no parts or capital equipment. Australian manufacturing is fundamentally different. It is compelled to import a substantial proportion of its materials, a large volume of component parts and a good deal of important productive equipment.

Many new developments in manufacturing in Australia thus set up additional demands for imports and throw an in-
creased strain on the balance of payments. Moreover this situation is unlikely to alter greatly in the foreseeable future. Australian manufacturing is supported at present by heavy imports. Without these imports it could not operate at its present scale and level of efficiency. Unlike the manufacturing structure of the United States, it is far from being self-contained. In its reliance on imports it bears a much greater similarity to the United Kingdom, which is dependent on the large-scale importation of raw materials without which its industries cannot function. To obtain these essential requirements the United Kingdom must be able to export a high proportion of the finished products of its factories. Australia, fortunately, is not in this position. It can still pay for the major part of its import needs by exporting its surpluses of wool, wheat, meat and other primary products. But the continuance of import restrictions for over three years, in spite of good export returns, strongly suggests that the traditional export of primary products is no longer, by itself, sufficient to pay for Australia's requirements of imports, at its present standard of living and level of employment.

This can only mean that if Australia is eventually to dispense with import restrictions and achieve a more or less permanent equilibrium in its overseas trading it must supplement its traditional exports of primary products with increased exports of the manufactured goods now being produced by its enlarged industrial structure. At present Australia is exporting manufactured goods to the value only of about £40m. to £50m. a year, or about 2% of its total manufacturing output. If we are to pay our way in overseas trade, without the aid of import cuts, this figure would have to be raised to something of the order of £200m. a year—probably more rather than less. It is not suggested that this objective can be achieved in the near future. We are concerned only to establish the point that unless and until it, or something like it, is achieved, Australia will in all likelihood be compelled to suffer the continuing inconvenience, indignities and economic drawbacks of large-scale import restrictions.

This conclusion rests on two important assumptions which should not be overlooked:—First, that income from the export of primary products will continue somewhere around present levels, i.e., about £700m. a year. If anything this assumption may err on the optimistic side. If export income from pri-
mary products fails to maintain this level, that would increase the need for exports of manufactured goods. Second, the continuance of Australian standards of living not greatly below the present standard and the maintenance of high employment levels. A reduction in Australian living standards or in employment would of course lower the demand for imports. It would also, of course, reduce the demand for the products of local manufacturing industries.

* * *

It seems clear that Australia can no longer look to its traditional exports of primary products to pay for the imports required to support accepted standards of living and employment and rapid large-scale development. Until we have developed a sizeable export market for manufactured goods, the balance-of-payments problem is almost certain to continue. Australia is today a highly industrialised nation, with the production of secondary industry contributing more to national income than that of primary industry. Under these conditions, it is hardly realistic to expect to achieve a balance in overseas trade unless a reasonable proportion of this production contributes to export income. Looked at from this perspective, it seems rather obvious that a country such as Australia, in which a rapidly declining proportion of its total work force is engaged in the traditional export field and a rapidly increasing percentage in manufacturing, whose exports are insignificant, would run into trouble with its overseas trading.

If these conclusions are correct, it follows that the level of costs will in the long run be the decisive factor affecting the balance of payments. For the development of a large export market for Australian manufactures depends almost entirely on producing at costs competitive with the rest of the world. It looks as if the despised classical economists were after all not so far wrong as some post-war economists have rashly assumed.
Share Ownership by Employees

To what extent do employees participate in the ownership of the companies for which they work?

To what extent do they share in company profits, either as a consequence of ownership or through other channels?

These are questions of great political, economic and industrial significance on which there is much speculation but little factual knowledge.

To throw light on this problem the I.P.A. in March/April of this year approached some 1,300 limited liability companies listed on the Australian Stock Exchanges for relevant data. Some highly important results were secured.

Each company was asked to reply to the following questions:

1. How many people are employed by your Company (including subsidiaries)?
2. What is the total number of shareholders in your Company?
3. How many of your employees own shares in your Company?
4. Does the Company make, or has it ever made, special arrangements for the issue of shares to employees, such as—
   (a) Portion of public issue reserved for employees.
   (b) Purchase by instalments deducted from pay.
   (c) Special employee shares.
5. Do employees share in profits in any other way, such as—
   (a) Bonuses or gratuities at the discretion of the Board.
   (b) Profit-sharing schemes, i.e., proportion of profits to be shared fixed in advance.
   (c) Special appropriations from profits to employee provident or retirement funds, etc.

Over 700 forms have been returned.

This represents about three-quarters of the companies from whom a return might reasonably have been expected. The emphasis on employee shareholdings probably led many companies with relatively few employees to ignore the questionnaire.

The sample, which embraces a substantial proportion of the employees and the share capital of all listed public companies, can be taken as giving a fairly representative picture of the position for industry as a whole.
The results for 704 companies showed:—
Total number of employees: 449,676.
Total number of shareholdings: 1,060,892.
Proportion of employees holding shares in companies which employed them: 1 in 12*.

Special Arrangements for Encouragement of Employee Share-ownership

<table>
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<tr>
<th>% of Employees participating</th>
<th>No. of Companies</th>
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<tr>
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<td>Public Issue Reserved</td>
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<td>Under 10%</td>
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<tr>
<td>10-30%</td>
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<tr>
<td>Over 30%</td>
<td>29</td>
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<tr>
<td>% not stated</td>
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<tr>
<td></td>
<td><strong>207</strong></td>
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Other Methods of Sharing in Profits

<table>
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<tr>
<th>% of Employees participating</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bonuses Profits Sharing Superannuation and Provident Funds..</td>
</tr>
<tr>
<td>Under 10%</td>
<td>60</td>
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<tr>
<td>10-30%</td>
<td>124</td>
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<tr>
<td>Over 30%</td>
<td>198</td>
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<tr>
<td>% not stated</td>
<td>127</td>
</tr>
<tr>
<td></td>
<td><strong>509</strong></td>
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</table>

The survey bears out what the I.P.A. has already shown to be true for a number of large representative companies, i.e., that in the great majority of companies shareholders greatly outnumber employees. Of the 704 companies tabulated only 58 had more employees than shareholders. Totaling all the companies surveyed—and ignoring the element of duplication arising from the fact that many people hold shares in more than one company—the number of shareholders exceeds the number of employees by more than 2:1. The extent of this duplication is of course unknown. But it is clear that for any particular business the number of people providing capital for the conduct of the business is usually greatly in excess of the number of people employed by it.

The number of employees holding shares in companies for which they work is, on the whole, comparatively small—

*Since some companies, particularly those with very large share registers, were unable to furnish particulars of employee shareholders it is not possible to give a total figure. The proportion shown covers only the companies which gave this information. Even this figure could be misleading in that women, juveniles and casual employees are included and it does not take account of indirect holdings through superannuation and provident fund investments.
about one out of every twelve employees for the companies which made returns. An analysis of individual questionnaires also made clear that the majority of the employees holding shares are executives and members of administrative staffs. Holdings of factory or shop employees are comparatively insignificant. It must, therefore, be concluded that, despite notable exceptions, the practice of industrial employees directly owning shares in the companies which employ them is not widespread. This does not necessarily mean that industrial employees do not hold shares in other companies; but it is a fair inference that most do not.

A high proportion of employees, however, certainly benefit from company profits through a kind of indirect ownership of shares. For example, life assurance companies have invested over £50 millions in company shares and debentures. Unit Trusts, investment companies and super-annuation and provident funds are other avenues of investment of employee savings in company shares. Although it was not specifically requested in the survey, some companies volunteered information about indirect share ownership by employees through share purchase associations and provident funds. Nearly 10,000 employees were shown in this way to be virtually shareholders in their respective companies. The number for all companies would certainly be much greater than this since only a small proportion of companies with provident funds indicated whether or not these funds held their shares. By these indirect means it is likely that a high proportion of employees share in profits, to a small extent at least. For example, in these days most employees hold a life assurance policy and thus receive bonuses which in part are earned from investments in company shares.

About 250 of the companies replying to our enquiry have made arrangements of one kind or another to encourage their employees to obtain shares in their companies. The commonest method is to set aside a portion of a new public issue for employees or to give preference to applications for shares by employees. This trend is most noticeable among companies floated or converted from private to public status since the end of the war. Two hundred and seven of all companies which returned questionnaires reserved shares for employees out of new issues. Of these, in 110 companies 10% to 30% of all employees participated. In 29 companies over
30% of employees participated. Twenty-eight did not state
the proportion covered.

Forty-five cases came to hand of companies which had
made "special employee share" issues. "Special employee
shares" do not possess the full rights of shares issued to the
public. Usually they do not carry voting rights and are not
freely transferable. They are generally paid for in cash or
by instalments, but some amount to a free gift under bonus
and profit-sharing arrangements. Rates of dividend on "em-
ployee shares" are normally equivalent to dividend rates on
ordinary shares.

Seventy-two companies made arrangements for employees
to purchase shares by instalments.

* * *

THE survey shows that where a company went out of its
way to promote employee share ownership striking results
could be achieved. Dunlop Rubber, for example, operate a
Share Purchase Employees’ Association. 2,000 of Dunlop’s
7,500 employees are members of the Association and through
it hold over 100,000 Dunlop £1 ordinary and preference
shares. While the company contributes towards the cost of
operating the Association, control rests entirely in the trustees
who periodically purchase Dunlop shares on the open market
with funds subscribed by employees. Dividends received are
distributed pro rata to members who also have the right to
withdrawal of monies invested.

On the other hand, the Olympic Tyre & Rubber group
of companies have in the past issued special employee shares
payable in instalments. Nearly one-third of employees took
up these shares. They have since exchanged them for ordinary
stock units in the new holding company (Olympic Consoli-
dated Industries).

1,212 or 70% of McPherson’s employees own “employee
shares.” These shares can be paid for either by cash or from
dividends as declared. It is therefore not necessary for em-
ployees to make any payment but eventually they have an
asset of fully paid shares and receive regular dividends. These
shares always remain at issued par value and must be trans-
ferred to a nominee of the directors if the employee leaves
the company.

Australian Paper Manufacturers in 1948 inaugurated a
scheme whereby all employees could participate in new share
issues by weekly deductions from their pay envelopes. 1,100
—just under 20% of the company's payroll—have taken advantage of such offers. Associated Pulp & Paper Mills have also reserved portion of new public issues for employees. 13% of employees have participated.

On conversion to a public company in 1951, A.R.C. Industries Ltd., designing engineers and manufacturers of steel and wire products, created a special class of 5% cumulative redeemable preference, participating shares for sole issue to the Trustees of the Superannuation Funds, in which all employees with more than one year's service are participants. These shares participate in full with ordinary shares—last year employees were credited with a dividend of 13 1/2%.

All Edwards Dunlop employees with over 3 years' service are members of a non-contributory Provident Fund with a substantial share interest in the company. Goldsbrough Mort also made available shares amounting to £51,441 (face value) to the Provident Fund on a very favourable basis and thereby 1,100 employees (75% of the staff) became indirect shareholders in their own company.

**Arrangements for Sharing in Profits:**

Apart from sharing in profits through ownership of shares, the survey shows that a substantial proportion of employees participate in profits through special bonuses, through formal profit-sharing schemes and through membership of superannuation and provident funds. Formal profit-sharing schemes under which profits are shared on some pre-determined basis are not numerous—78 companies, or around 10%, reported schemes of this kind. On the other hand, the practice of paying periodical or annual bonuses out of profits to employees is fairly general. Five hundred and nine companies, or 70% of all the companies from which replies were received, pay bonuses to employees.

A large proportion of companies—at least 2 out of 3—now have superannuation or provident funds. (The proportion is probably substantially greater as the form in which the question was worded may have led to a large number of companies with such funds to have replied in the negative.) Superannuation schemes are usually administered by life assurance societies, individual companies subsidising employee contributions, while provident funds are operated by companies themselves for the benefit of employees. Funds appropriated from profits and contributed by employees are invested in various securities including the company's own shares. It is worth
noting that this practice is growing rapidly in the United States, particularly in conjunction with deferred profit-sharing plans.

Participation in profits in the ways described does not of course necessarily apply to all employees of the companies concerned. For instance, of the 509 companies reporting the payment of bonuses, the proportion of employees participating varied widely as between different companies. One hundred and twenty-seven companies did not state the extent of participation by their employees in bonus payments. Of the remainder, 155 companies paid bonuses to all, or virtually all, of their work force; 124 to between 10% and 30%; 60 companies confined bonuses to selected administrative and supervisory personnel.

Of the 451 companies which reported a superannuation or provident fund, 141 or about one-third stated that over 30% of employees participated. Only 32 companies reported that the applications of such schemes were restricted to under 10% of their personnel.

For obvious reasons, many women workers, juveniles and casual or temporary employees, which together make up a fairly large proportion of all employees, are not suited for pension schemes, share-ownership and profit-sharing arrangements.

Some General Observations:

The broad practice of giving employees a greater financial stake in their companies is growing. It is true that there has been no significant expansion of formal profit-sharing schemes of the older type. (There may be good reasons for this.) On the other hand, the payment of bonuses and the institution of company subsidised retirement funds have become widespread. There has also been some development in share ownership by employees, notably through the issue of “special employee shares.” But whatever the method used, the broad principle of encouraging employees to acquire a financial interest in their enterprises is almost certain to extend both in the range of companies to which it is applied and in the coverage of employees within individual companies. Apart from the relative merits or de-merits of the various possible methods, this general trend is certainly to be welcomed as a stabilising influence both politically and industrially.

Most schemes, of course, have disadvantages as well as
advantages. For instance, bonuses paid regularly year by year come to be accepted as a right and if they are reduced in amount or discontinued—even though there may be no alternative—discontent and even antagonism to the company may result. Again, strong arguments may be adduced against employees, especially industrial employees, holding shares in their companies. This may mean that they have virtually all their eggs in one basket and, in the event of a decline in the company’s fortunes, they risk losing not only their job but also their savings. The issue of “special employee shares,” however, offers a means of overcoming most of the hazards of loss of capital. Usually these carry a fixed par value; they cannot be realised on in the open market but have to be sold back to the firm or to another employee. This also applies where employees leave the business for reasons other than retirement.

Perhaps the central problem of modern industrial relations, especially in large concerns, is the inculcation of a feeling of “belonging” and of loyalty on the part of employees towards the business in which they work. This objective should be promoted where employees possess a financial stake of some kind in the business. A strong sense of loyalty on the part of employees to their company could prove to be an invaluable asset in the event of threatened nationalisation and, from the wider standpoint, should help fortify the private enterprise system against socialist policies. Some observers attribute the recent introduction by Imperial Chemical Industries, England, of a scheme of “free shares” for employees partly to the fact that the company has been threatened with nationalisation by the Labor Party. The company also had in mind that it would contribute to more harmonious relations within the industry and to the all-important goal of greater productivity. Under the scheme I.C.I. employees receive a yearly bonus of 1% of their annual wage for each 1% by which the ordinary dividend rate exceeds 5%. The bonus is paid in the form of ordinary I.C.I. shares which are held by trustees and handed to an employee when his total reaches 25.

In Australia at present the danger of extreme socialist policies may seem remote. Private enterprise should, however, beware of complacency on this account; the “Singapore” frame of mind must always invite disaster. Rather it should continue to explore every avenue of strengthening its human foundations. This is the surest way of rendering itself impregnable to hostile political forces.
IT is idle to deny that economists are not notably popular with the rest of the community—more particularly, perhaps, with the business community. This is possibly partly traceable to the economist himself. If he is misunderstood maybe it is because he has never bothered to explain himself. Perhaps he is in need of a little public relations.

Thirty or so years ago it would not have mattered very much whether the economist was popular or unpopular. In those days there were comparatively few economists and for the most part they were attached to universities. Occasionally the recognised leaders would emerge from their cloistered seclusion to write a newspaper article, deliver a public lecture or to offer advice on some special matter referred to them by governments. Then they would return to their prime task of university teaching.

But over the last decade or two this situation has been transformed. The annual output from universities of people with some pretensions to specialised economic knowledge is now considerable. True, a good number of these, either through lack of opportunity or for other reasons, never engage in practical economic work. But many do. Government departments, especially those of the Commonwealth, are now well stocked with graduates in economics. Most departments have their economics divisions, their chief economist, deputy chief and research officers. In several instances—and this is a most significant acknowledgment of the value of the economist in public administration—economists have risen to the eminence of departmental heads. Thus, the present Secretaries of the Treasury and the Department of Commerce and Agriculture are economists. So is the Governor of the Commonwealth Bank.

All this is not peculiar to Australia. Similar developments have occurred in the United Kingdom, the United States and other countries. In the process of modern government the economist is regarded as indispensable.

In business, opportunities of employment for the economist as an economist have been more restricted. But even here there has been a disposition to make greater use of the specialised knowledge that a training in economics provides.
Most of the big banks and some life assurance companies now have their economics sections; economics is an almost essential qualification for the financial staff of the modern newspaper; a growing number of the larger industrial organisations have begun to employ economists for special work.

Over the last decade or so the economist has thus become a figure of some significance in the every-day affairs of the community. It is therefore in his own interests, and perhaps in the interests of the community too, that the work he does, and is capable of doing, the practical worth and also the practical limitations of his particular brand of knowledge, should be better appreciated.

Let us examine some of the main criticisms directed at economists. Six at least keep cropping up:

1. Economists never agree.
2. They are practically all socialists.
3. They can’t predict the future.
4. They don’t prevent depressions.
5. They are academic and impractical.
6. They should never be anything else but advisers. ("Good or indifferent servants but bad masters.")

1. *Economists never agree.*

The layman’s attitude on this point might be summed up in a remark—made no doubt in facetious vein—attributed to Sir Winston Churchill: "Whenever I ask England’s six leading economists a question, I get seven answers—two from Mr. Keynes".

Economists, of course, do disagree; so do doctors, lawyers, scientists, engineers and businessmen. But to suggest that economists disagree more often than they agree is not true; and if they differ more than the members of other vocations this may be excused by the almost terrifying complexity of the matters with which they deal and by the comparative youth of their particular science.

On the fundamentals of economic policy there is usually a wide degree of unanimity among responsible economists. For instance, the plans of financial and economic reconstruction prepared by economists during the war in countries such as the United Kingdom, the United States, Canada, Australia, Sweden, to mention a few, bore a notable similarity. So too
did the methods of war finance which were followed in World War II by the different countries and which were based largely on the advice of economic experts.

The differences that occur most frequently arise on matters of detail, of interpretation or emphasis, on the relative importance to be placed on factor A as compared with factor B. These differences are many. They are sometimes very important in formulating practical proposals. But they should not be allowed to obscure the very wide and significant measure of unanimity that exists.

Admittedly the disagreements occasionally cut deeper. For instance, economic policy in Australia since the war has been profoundly influenced by an uncritical acceptance and, consequently, a reckless application of Keynesian doctrine. This form of thought, which predominates in departmental and university circles, is one with which other economists strongly disagree and one to which our economic difficulties in Australia at the moment can, in the I.P.A. view, be largely attributed. This is a difference not merely of emphasis but on the very bases of thought and policy.

But other fields of knowledge and activity are not entirely free from fundamental disagreements of this kind. It should not, therefore, lead the layman to overlook the multitude of matters on which the great majority of economists see eye to eye—for instance, in the modern world, on the desirability of "managed" currencies as opposed to the traditional gold standard, and on stable (as distinct from "fixed") internal prices and exchange rates, on the dependence of better living standards on higher productivity, on the use of government budgets to stabilise economic activity—the list could be expanded to fill a page.

2. They are practically all socialists.

This belief is important because it accounts to a large extent for the unpopularity of the economist in some business circles. Fortunately, it is not true.

If one made a list of the leaders of economic thought in the main democratic nations few could be labelled "socialist." An overwhelming majority of responsible economists today would regard private enterprise to be an indispensable ingredient of a progressive, democratic economy. At the moment, indeed, the trend of much economic thinking in high places is
toward more free enterprise rather than less, and certainly there is an aversion to "control for the sake of control".

It may be true that many university lecturers and students exhibit pronounced socialist tendencies. Admittedly in these circles there is a noticeable lack of sympathy toward the business community and free enterprise—although this is probably much less so today than in the years directly after the war. But that it exists is not altogether surprising. If one is not rebellious against the existing order of things in one's youth one is hardly ever likely to be. Wisdom and tolerance come later. Idealism leads to dissatisfaction with reality and dissatisfaction to far-reaching notions of reform.

But more important than this—and a question the business community should frankly ask itself—is how far its own attitude towards the economist is responsible for the "pinkish" tendencies of many university students. May it not be, at least partly, a case of action breeding reaction? If business took a more sympathetic attitude to the economist, if it endeavoured to understand his problems better, would it not evoke a response in kind?

The fault no doubt lies on both sides. Many of the, shall we say, "academic" beliefs about business arise from a woeful lack of understanding of the inescapable raw material of human nature and of the problems which the businessman is compelled to confront. If the University man would modify the attitude of intellectual arrogance which he too often tends to assume, and the businessman frankly concede that success in business does not necessarily qualify him to speak with authority on complex economic issues, there would accrue real benefits to the community as a whole. What are wanted are a little more tolerance and a great deal more understanding on both sides.

3. They are academic and impractical.

Of course many economists are—possibly too many. But all branches of knowledge in which research is proceeding have their academic men, their impractical dreamers. It is probably true that too much of economic discussion and research is carried out in an atmosphere remote from the hurly-burly of the market-place. But this is not easy to change. And in any case it is not desirable that it should be wholly changed. The finest creations of the human intellect have often come to
fruition in an environment of peaceful quiet far out of ear-shot of the disturbing noise and bustle of everyday affairs. Many of the most valuable ideas in economics—valuable in the ultimate practical sense—have been the product of the pure academic mind, of men who were “academicians” in the full sense of the word, and who could not have been and did not wish to be anything else. They are not to be despised for that.

Mistakes, however, arise when the academician—and this frequently happens—comes forth to prescribe policies for everyday problems, without any conception of what is politically possible or administratively practical. The most brilliant theoretical qualifications do not necessarily mean that their holder will be, or could ever be, a reliable economic practitioner. Of worldly matters his ignorance may be abysmal.

If we want more good economists, that is, good in the practical as distinct from the academic sense, then the way to get them is to give the economist opportunities to supplement his theoretical knowledge with personal experience of the market-place. Perhaps the business community could help in this.

One further connected point may be made. Economists are frequently assailed for writing and speaking in a jargon which is incomprehensible to the layman. The criticism is partly justified. When the economist is endeavouring to influence or to educate public opinion he should strive to express himself in a way in which he can be readily understood. Too often he fails to do so. When he is speaking to his fellow economists it doesn’t matter. And in any case the development of the theoretical aspects of the subject would be seriously impeded if the economist were not free to use a technical jargon which to him and his fellow-workers is little more than a convenient form of shorthand.

4. They can’t predict the future.

The economist might justly retort: “Who can?” When the economist enters into the field of prediction he is sometimes, but not always, wrong. There was the classic case of the leading Australian economist who, in 1950, on the eve of the Korean outbreak, predicted that the peak of inflation had been reached and that we could look forward to a period
of stability in prices and costs. The next two or three years saw the greatest inflation in our history.

The example is worth mentioning. It illustrates precisely why the economist finds it so difficult to play the part of soothsayer. Could the man who ventured this prediction be expected to read the minds of Asiatic communists? How easy it would be for any forecasts of economic conditions in Australia over the next year or two to be turned completely haywire by the outbreak of a major conflict.

And it doesn't need world-shaking events of that kind to falsify the predictions of the economist. What happens in the Australian economy is very largely determined by the course of wool prices. Who can be sure what the course will be? The economist may go to the wool experts, but can these experts be certain? What if revolutionary new developments should occur in the field of synthetic fibres? That is not entirely in the realm of fantasy. Any predictions indulged in now could be made to look ridiculous.

This does not mean that we should give up all attempts at forecasting the future. Indeed we have no alternative but to try. And it is fair to claim that in these matters the economist is more likely to be right than anyone else. It is better that we should have a forecast with a 6 to 4 chance of being correct than one with only a 4 to 6 chance, or than no forecast at all.

When the economist is invited to address a gathering of businessmen he is invariably requested to speak on "The Economic Prospect." His audience hope to hear something definite and conclusive on which they can base their business plans for the coming months or years. They usually come away disappointed with feelings akin to those aroused by the great English statesman, Lord Balfour, renowned for his power and lucidity of exposition in stating an issue. His audiences were frequently left to wonder: "Was he 'for' or 'against'?'"

The economist who is definite about the future is usually a crowd-pleaser or a publicity-chaser (there was a notable example in America last year). The responsible economist—the one worthy of respect—is more likely to disappoint. He will leave his listeners with a balance sheet of "fors" and "againsts," of possibilities and probabilities, and he will not omit all the reservations which must be attached to predictions in this highly unpredictable world.
5. *They don't prevent depressions.*

A criticism perhaps more appropriate to the 'thirties than to today. The economists might retort: "We propose, the politicians dispose."

It would be a fair answer. The government, after all, is the maker of the decisions which, for good or ill, affect our economic destinies. The economist is expected to advise but it is for governments to say whether they will accept his advice.

Nor, if things go amiss, can it always be blamed on the government. To some extent—it should not be too great an extent—the government is forced to adjust its sails to the winds of public opinion, often blown up into gale force by the bellows of powerful pressure groups. Government decisions are made not wholly on grounds of economics but partly on grounds of politics, and no government can entirely avoid this.

But all this greatly lessens the responsibility of the economist for what actually occurs. Before the war, so long as things went smoothly, governments were inclined to forget the existence of economists. When disaster threatened they rushed to the doctor for a prescription. In the Great Depression a commission of economists was appointed to say what Australia should do to climb out of the economic abyss into which it had fallen. This they did. Their advice was largely followed. Health returned to the Australian economy. This was a contribution of transcendent importance. But people have short memories; time passes; other people or groups claim credit to which they are not entitled; and the real benefactors are forgotten.

Since the war the democratic countries have experienced a decade of unparalleled economic good health. There has been no depression or serious recession. The movements that have taken place have been little more than ripples on the calm, benign oceans of long-continued prosperity.

Has all this been just a miracle of good fortune? Or is it partly to be attributed to conscious planning, to the fact that we have profited from past errors? Is it conceivable that the despised subject of economics has made contributions of some value to our knowledge of how to control our economic destinies? No one will surely dispute that, in the economic sense, the post-war world has been a far better place for the great majority to live in than the pre-war world, yet in these post-war years the reliance of government on the economist is
well known. Economic advice is apparently proving of some worth in the complex arts of government.

This being so, would it be too bold to claim that if an Oscar were to be awarded to the profession that had conferred the most notable benefaction on mankind during the last decade, measured in physical terms of the amelioration of human misery and the betterment of the human lot—would it be too bold to claim that the Oscar should go to the economist?

6. They should never be anything else but advisers.

There is a view, not narrowly held, that the economist should never be entrusted with large executive responsibilities, that his activities should be confined to backrooms, so to speak, and that he should be restricted to functions which are strictly advisory.

If this were correct it would amount to a condemnation of all university training. It would, in effect, imply that anyone holding a university degree is *ipso facto* unfitted for work which requires drive, practical capacity and executive skill. Yet in the business world today the executive heads of large organisations are not infrequently drawn from the ranks of university trained scientists and engineers. So far as we know, in Australia, no economists have earned similar recognition.

One point here is most relevant. Economics is not just a body of knowledge. It is, in one sense, an intellectual discipline, a training in how to think accurately and imaginatively. The contribution made by a university education in economics to the general intellectual development and, even more, to the attitude to life, the philosophical slant, of the person who partakes of it is just as important as the specific theoretical and technical knowledge that it imparts. It is surely wrong to suppose that a person who has undergone this mental discipline and has developed to a fine pitch his powers of thought, and who has at the same time acquired a distinctive philosophy of life, is thereby unfitted for the conduct of great practical matters. On the contrary!

But if the economist is to fit himself for the managerial and directorial heights, he must play his part. He needs to indulge in a little salutary self-improvement. Three faults are at present discernible.

First, among those who have achieved more-than-ordinary academic distinction, there seems to have been some reluctance
to undertake the routine of practical business detail. No one can expect to be entrusted with high executive responsibility without a working knowledge of everyday business procedure, of technical and industrial processes, and of the nature of the problems that confront those called upon to make decisions. If the economist prefers a backroom where he can analyse statistics and read the current economic journals in comfortable solitude—wearying as this can be—he must expect his opportunities to be limited.

Second, he has of late years been over-ready to take a strong partisan position in the great free-enterprise-socialist debate. This has detracted from his worth as an economist, as a man, and as a prospective leader. To say this is not to argue that the economist should remain loftily aloof and refrain from taking sides at all. But there is a world of difference between assuming a position on a critical political issue after mature reflection, and jumping impulsively to a conclusion which is more the product of prejudice and sentimentality than of rational thought.

Third, his horizons have been too confined. He has revealed, in a rather striking degree, all the drawbacks of specialism in a world of specialists. Economics after all deals with a part of life only and that not the most important part. Without a broad appreciation of the other branches of man’s activities the economist cannot hope even to be a good economist. Lord Keynes once wrote—

"The master economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher. He must study the present in the light of the past for the purposes of the future. No part of man’s nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a single mood, aloof and incorruptible as an artist, yet sometimes as near the ground as a politician."

This is a tall order and few will come within a hundred miles of achieving it. But the point holds good. Indeed there is probably nothing more important for the present-day economist in Australia to learn and observe. If he adheres inflexibly to a narrow specialism, he will almost certainly find his opportunities restricted. If, on the other hand, the economist can transcend himself as an economist, all doors may be opened to him.
The United States

by

Professor Zelman Cowen

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The United States is today the predominant world power and the leader of the free nations. She has much more than dollars—with which she has exhibited unsurpassed generosity—to give the world and particularly Australia whose destinies, economic and strategic, are inevitably linked with her own.

It is today supremely important that Australia should understand something of the "real" America, not just the more sensational aspects of American life with which they are so frequently presented. There is so much to admire and so much to learn—to our advantage.

With this in mind, we asked Professor Zelman Cowen, who spent a year in the United States during 1953 and 1954 as Visiting Professor in the famous Harvard Law School, to prepare this article.

Professor Cowen has had an academic career of the rarest distinction. After carrying all before him at Scotch College and Melbourne University, he was elected Victorian Rhodes Scholar in 1940. He served in the Royal Australian Navy from 1941-45 before taking up his Rhodes Scholarship at Oxford in 1945. He achieved one of the highest academic honours which Oxford has to offer when he became Vinerian Scholar in 1947. A Fellowship of Oriel College followed. In 1950 he resigned to accept his present position. In the meanwhile, in 1947, he visited Germany as Constitutional Consultant to the British Military Government and again, in 1948, in a similar capacity to the American Government. Recently he received a highly remunerative offer of a Chair at the University of Chicago, but he decided to stay in Australia. Australia, which has a record of losing some of its most brilliant minds to other countries, should be grateful for that.

Professor Cowen has thus had not only a unique scholastic background but a unique opportunity to study the United States.

It is one of the very regrettable consequences of the régime of exchange controls that most of us are denied the opportunity of visiting the United States of America. At the present time this is particularly unfortunate. Since the close of the second world war, the United States has assumed leadership in the non-Communist world and thinking Australians, together with other peoples, have viewed the American scene with anxious eyes and with a very real sense of personal involvement. This preoccupation with American politics, foreign and domestic, stems from the realization that American decisions can and will profoundly affect our lives. These barriers to travel therefore give rise to great frustration in those of us who wish to know and understand more about America and the Americans. Nor, in general, are we well served for information about the United States by the world
press. More often than not it concentrates on the bizarre and extraordinary elements in American life: it gives a Hollywood picture of America. On big issues it seems to me that the Press tends to caricature the American scene. Maybe this is inevitable in reporting technique. But again and again I am impressed by the fact that questions put to me by people about America which are stimulated by what they have read in the Press reveal an unbalanced and distorted picture of America and the Americans.

In this article, I propose to offer some comments on the American scene as it appeared to me. I was one of the fortunate few who were permitted to penetrate the exchange control curtain. I was invited to spend the period September, 1953, to June, 1954, as Visiting Professor at the Harvard Law School in Cambridge, Massachusetts. My family and I in fact spent practically a year in the United States. During that time I was living and working alongside Americans, so that I did not see the United States from the unsatisfactory vantage point of a hotel bedroom and an aeroplane window. I was there long enough to become accepted as part of the scenery, and to develop a reasonable perspective. Moreover, I had the opportunity to travel widely throughout the United States: to the south, to the mid-west and to the far west. In all these places I met and talked with people. So that if it be thought that my picture of America and the Americans is distorted, it was not for want of opportunity to view the passing parade from many and varied vantage points.

I should say at the outset that it was a remarkable year in which to be in America. During the year, Senator McCarthy reached the pinnacle of his success and power, and as we left he was tumbling down the mountain. In the same year, when much of the world press was depicting the United States as embroiled in the McCarthyite witchhunt, the Supreme Court of the United States unanimously held that the segregation of white and coloured children in the public schools was unconstitutional and illegal. Other extraordinary things happened during the year: one which I shall not easily forget was the struggle for control of the great New York Central Railroad by two rival groups who, at fabulous cost, solicited the support of the shareholders in that great company with full-page advertisements in the daily papers. These things and many others made my year in the United States an unforgettable one. So, too, did other less dramatic things: the kindness with which Americans receive their overseas guests, their lively curiosity about us, and their concern to see that our time in the United States was comfortable and happy.

II.

EVERY visitor, even the unfortunate one who has only sufficient dollars to cross the United States in a matter of days, agrees about the pace, the competitiveness and the vitality of American life. It is apparent from the moment of landing at the airport or wharf, it is evident in the city streets and even in the University classroom. To be sure, the intensity varies in different parts of the country, but everywhere life seems to proceed at a pace which we never experience. Just why this is so should be better explained by a competent sociologist: it may be that the Puritan tradition of hard
The United States (Continued)

work survives; it may be that in the grim struggles of earlier years when the masses in the melting pot were battling for survival, the competitive tradition was forged. It appears everywhere: it was very obvious in the Harvard Law School where I taught. The School houses a large group of young Americans drawn from all parts of the country who have come through a rigorous selection process. They work prodigiously hard and long. To move up a place in the examination ladder is a matter of enormous importance. Indeed the race has rich material prizes: those who head their classes have great professional opportunities, for the large law firms recruit from the most successful graduates of the great American law schools. But the pace of life tends to become an end in itself: I remember posing the question “What is the object of this fantastic race?” to a group of law school students at a luncheon one day. They settled down to discuss the question; they expressed considerable dissatisfaction with their way of life in the sense that they were frazzled and driven by some enormous pressure to run, run, run. And for what? One of the senior professors was present. He explained it this way: the intense competition exists in the school because that is the way in which big American professional and business life is organised. Students are trained in this way because the pattern of professional and business organisation demands it. I objected that this argument simply kept the wheel spinning round and round: if you start that way in the school, you cannot hope to change the pattern of adult life. But the luncheon was over and back went everybody to more hard work until the early hours of the following morning.

Frankly I must confess that I enjoyed the atmosphere. It seemed to draw the best out of me. But maturer reflection leads me to believe that our slower pace has something to commend it. The intense competition produces anxiety and some uncertainty, which does not appear to anything like the same extent in our slower and more comfortable way of life. What we have, we enjoy. I do not mean that Americans do not enjoy life: that would be absurd. And they have material things to enjoy that we have not yet dreamed of. But I believe that they avoid facing up to the question expressed in the title of a well-known American novel “What makes Sammy run?” In the United States the striving and the competition produce a wider range of goods and services; the customer may shop at practically any time that suits him in conditions of convenience which are virtually unknown here: he will, in general, be courteously and well served. With us, as often as not, there is a surly “Take it or leave it”; we live in a society in which, too often, “good enough” is all that we can hope for.

It struck me again and again in America that it is nonsense to call Australia a young country; our preferences for leisure, our restrictive practices are certainly not the marks and characteristics of youth. It is America that is in so many respects a young vigorous giant with not very much awareness of the limits to the possible. I wish, for the good of this country, that we had more of the American spirit, though, for the reasons I have indicated, I should not wish to see Australia made over wholly in the American image.
I believe that this striving and competition in American life throws a significant light on the American attitude to democracy. The distinctive emphasis in American democratic thinking and living is upon egalitarianism and upon the career open to talent. Although one finds within the United States sharp differences of wealth and power, a strong belief exists in the possibility of the advance from log cabin to White House. This has been well expressed by a recent English commentator on the American scene:

"The ordinary man has the conviction that no gates may be barred to his entry. He feels that he has the right to experiment with himself. He feels the elbow-room that comes from membership in a community that is dynamic in quality. Not only can he lift up his eyes to the hills, the community expects him to lift them up. That he has made his way forward gives him a title to pride; there is no assumption that he is moving outside the boundaries to which, by his origin, he ought to be confined."

To be sure, the picture can be exaggerated and overdrawn. Colour still represents a real barrier to advancement, and in certain unhappy respects so does creed. But this attitude to life serves to distinguish the American pattern from the European. With all the great changes that have taken place in English economic, political and social life, class divisions survive and remain important in a sense in which they are not significant in the United States. At one level it is put clearly by the writer already quoted: "The English workman may speak frankly to his employer, but he stands, as it were, with his cap in his hand. He expects always to be a workman; he cannot forget his dependence on his employer. There is no such habit of deference in the American workman". Of course this picture is not all of one piece. But this does reflect a striking difference in the American and English view of democracy. If asked what was meaningful in the democratic way of life I believe the American would stress the opportunity to move and rise; while I believe the Englishman would lay emphasis upon the importance of tolerating diverse and heterodox opinions and activity.

III.

THE questions which I have been most often asked about America concern Senator McCarthy and his activities. He has had a prodigious amount of publicity during these years, although in the last few months he has fallen a long way. Senator McCarthy is not the only person engaged in the activities which have given him international notoriety; there are others both at the national and state level. Many people outside the United States are much concerned about the effect of "McCarthyism" on American life and institutions. The inquiry is not only directed at the peculiar McCarthyite technique of Congressional investigations; it is directed also, for example, to American immigration policies, as exemplified by the McCarran-Walter Act which imposes rather stringent political limitations upon entry into the United States of even the most casual visitor.

All this is felt to be symptomatic of a restrictive and repressive atmosphere corroding free institutions within the United States.
Now what is the truth? I do not think that there is any doubt but that the United States has, in this respect, gone through a very unhappy and disturbing period, and I do not doubt that the activities of Senator McCarthy and others like him have had a very serious effect—at least temporarily—on American institutions. There have been investigations into the conduct and activities of public servants, notably in the State Department (the Foreign Service), into Universities, schools and colleges, even into the text books used in the instruction of school children. I do not mean to say that all these activities were unwarranted, but I have no doubt that they have produced some very unhappy effects. I believe that they have presented a serious threat to American free institutions. Many people, whose normal obligation it is, in a free society, to speak up and express dissent, have been very much afraid to do so. In some spheres of the public service, notably in the State Department, which was under constant attack by Senator McCarthy, there was on reliable accounts, a serious weakening of morale. The spectre of guilt by association has haunted many people. The activities of Senator McCarthy and others have been carried out in the pitiless glare of nation-wide publicity and there is no doubt that great harm has been done to individuals and associations, sometimes certainly without warrant.

I do not mean to say that these investigations into subversive activities in the United States have been wholly misdirected. It is felt in many quarters that Senator McCarthy really did perform a national service in exposing the canker of Communism in the heart of America. The case of Alger Hiss—although this was not one of McCarthy's investigations—had an enormous impact. It will be recalled that while Hiss was convicted technically of perjury, his substantive crime was that of betraying secret information, obtained while he was in the State Department, to the Communists. The conviction of Hiss pointed to the fact that Communist influence might be found in the highest places; for Hiss had been at Yalta with President Roosevelt, had been Secretary-General of the San Francisco Conference at which the Charter of the United Nations was drafted, and at the time of the case was President of the Carnegie Endowment for International Peace. Now I do not want to debate the Hiss case again; he stood trial twice and was convicted. I simply want to point to its impact on the American people. I do not doubt that the Hiss case itself materially helped McCarthy in his insistence that there were traitors in the heart of America, and in the high places of the nation.

It is perhaps a little difficult for us to understand all this agitation about Communists and Communism in America. To be sure we have had some excitement about Communism in Australia. But we have had nothing like McCarthy or McCarthyism. I think that an understanding of this phenomenon involves some appreciation of the American situation. America emerged suddenly as a world leader; she did so in circumstances in which the world was divided into two hostile camps. There was little experience of world leadership in America, and there was a very real fear in a country, which in a certain sense is lacking in cohesiveness, of being sapped
from within—as Czechoslovakia was sapped—by traitors. Looking at the magnificent productive machine and the great prosperity of America, one might have thought that the fear of any conspicuous success for Communists within America was groundless, but this is not how it appeared to masses of the American people. The Hiss case showed many how deep and high treason could go, and when McCarthy and others pointed the finger at others, some of whom incidentally occupied the most trivial appointments, there was a great measure of popular support and approval.

An atmosphere in which there is a great popular response in favour of a demagogue who cries “Communism” is inevitably a tense one. Moreover, it must be remembered that Senator McCarthy, in his use of the technique of the Congressional Investigation with nation-wide publicity, gave many of those whom he investigated little effective opportunity of vindicating themselves. The real danger in McCarthyism was that a person ran the risk of virtual destruction through being named; not through being convicted by due process of law. Now this is a very dangerous situation and I have no doubt that it has had a most deleterious effect on freedom of expression and association in many places in which it is important in a free community that it should exist.

But it is also important to remember—and this is what is often ignored or understressed—that there was a persistent core of opposition to McCarthy and to McCarthyism. Furthermore, this opposition did not stem only from radical sources. Much of it came from responsible conservative persons who, while detesting Communism, saw in the gathering strength of McCarthyism a great threat to American traditions and free institutions which they deeply prized. It is significant that the sponsor of the Senate resolution to censure McCarthy was a Conservative Republican Senator from the State of Vermont.

Furthermore, it is false to picture the United States—as did many, particularly outside America—as so far within the grip of the witch-hunt that there was a totalitarian repressive atmosphere pervading the country. Such a picture is false and absurd. I found an enormous intellectual vitality wherever I went. To be sure I lived a good deal among intellectual people, but it was primarily at such people that the witch-hunt was directed. Yet the attack on and the opposition to McCarthy were insistent. While I was at Harvard, McCarthy turned his attack on that great University. If it had yielded to him, the effect on intellectual institutions throughout the country would have been devastating. But it did not yield.

I am sure that there is a great reservoir of individualism in the American people. From time to time it goes into eclipse, when some ugly hysteria sweeps the nation. But I believe that the situation rights itself, and the fall of McCarthy, I think, serves to show that the worst has passed. I do not think that the personal decline of the Senator means that the witch-hunt is entirely over; but it does mean that the darkest days have passed. If I could sum up the situation briefly I should say that these last years have exposed a very
serious threat to vital freedoms in the United States. But there is at base in America a profound respect for free institutions and this, at no stage, has been eclipsed. America belongs to the free society but she still has a considerable way to go before she attains the measure of political tolerance which is perhaps the most striking of English contributions to democratic life.

It is perhaps relevant to ask how in American politics it is possible for a man like McCarthy to attain such national political prominence. After all, he was a relative newcomer to the national political scene. He was elected to the Senate first in 1946, and was only in the early stages of his second term. In the organisation of politics as we know it in the English-Australian sense, it would be extremely unlikely for a relatively newcomer, a back-bencher, to cut such a swathe and attain such national prominence.

To understand this, it has to be remembered that there are great differences between American and English-Australian political organisation. In the first place, the party systems are very different. The two great American parties, Republicans and Democrats, represent historical agglomerations, and in each party you will find the whole gamut of political opinion from extreme conservatism to radicalism. Now our parties are rather differently constructed: not all Conservatives or Liberals or Labour party men are, as we know, linked in precisely common belief, as is now apparent, but there is a far greater common bond between members of our parties than in America. With us party discipline has a meaning which, in the case of American parties, it is impossible to attain. It is quite possible for a voter to support one party in national politics and another in state or municipal elections—because the complexion of party policy may vary considerably at different levels. The looseness of American party organisation makes it much easier for the individual member to attain personal prominence.

Furthermore, the relationship between the executive and the legislature is significantly different in the two systems of government. Whereas with us, as in the English system, the executive is drawn from the party commanding a majority in Parliament and depends for its continued existence upon its power to control that parliamentary majority, the American constitutional system requires the President to be separately elected from the legislature and separately elected. The result may be—it is at present the case—that the executive and legislature are of different political complexions: a situation which could not make sense to us. The American system makes for a much looser organisation and control of individual members of Congress both because of the nature of the party control and the character of the executive-legislature relationship. In these circumstances an individual Senator like McCarthy with a policy which commands wide appeal, and using such an instrument as the Congressional investigation, may attain great heights and may indeed represent a challenge to presidential policies. There is little doubt, I think, that President Eisenhower had considerable distaste for Senator McCarthy and his policies. For long, however, he hesitated to come out openly against the Senator, no doubt because the Republican
Party leaders regarded McCarthy as a powerful vote-winner and advised against internecine strife within the party. This in itself contributed not inconsiderably to McCarthy's strength.

IV.

In May, 1954, the Supreme Court of the United States handed down its unanimous decision that segregation of white and coloured children in the public schools was unconstitutional and illegal. In the American terminology, which in this respect is rather more reasonable than our own, the public schools are those provided out of the public purse. The colour problem has been before the Supreme Court in various forms over the last two decades. The Court has upset convictions of negroes in circumstances in which confessions had been extorted by violence and other pressures, in which negroes had been excluded from juries in trials of other negroes, in which the atmosphere of mob violence had intimidated courts which were trying negroes. The courts had struck at legal devices designed to keep the negro away from the polling booths; it had refused to enforce provisions forbidding the transfer of land to coloured persons. It had also obliged state universities to accept negro students into their professional schools. But the greatest test came on the issue of elementary education in the public schools. Those who supported segregation at this level argued on the authority of earlier decisions that it was lawful to provide separate educational facilities provided that those facilities were equal. The court, in its 1954 decision, rejected this argument, pointing out that it was the very separation of children in elementary schools that made for inequality: that here separation and equality could not coexist.

It would be shallow and foolish to say that colour has ceased to be a problem within the United States. Indeed, there are very ugly tensions still surviving, not only in the southern states, but also in northern cities, notably Chicago and Detroit, where the spread of negroes into white housing areas has set off some ugly race riots. But it is, I think, a matter of general consent that race relations have greatly improved in the course of the last two decades. The Supreme Court has played a great part in this.

V.

I have heard it said, not infrequently, that America is "spoil- ing" for war; that there is a widely held belief that it would be good policy for the United States to lead the world into a "preventive war" while it still holds some weapon or strategic advantage over the Communist world. The picture of a mass of Americans spoiling for a new Armageddon is utterly absurd. I suppose there are few peoples on earth who are less militaristic and who have less to gain and more to lose from involvement in international conflict. In the first place, a new war would represent a physical threat to American cities and towns; it would mean abandoning the most comfortable and bountiful living standards in the world. I believe the American people are very reluctant to become embroiled in war. The Korean war became very unpopular indeed in the United States, and there is little doubt that Mr. Eisenhower's promise to bring the American boys home from Korea materially assisted his presidential
campaign in 1952. I believe that the debacle in American foreign policy in Indo-China in 1953-54—the threat of massive retaliation followed up by nothing—is to be explained in terms of a fear of the political consequences of committing American troops once more in Asia. I found nowhere—except in the bellicose pronouncements of some service chiefs and congressmen—any feeling that it would be desirable to take the Communists on at the present stage. There is an awareness of the danger of war—on many highways there are warnings that the roads will be closed in the event of enemy attack, and directions as to the procedure to be adopted in the event of enemy attack are to be found in hotel rooms and in repeated broadcast messages. But such a measure of preparation and awareness of possible danger would only be confused by the blind, the malevolent and the foolish with an active desire on the part of Americans generally to become involved in war.

It is an odd commentary on the structure of American government that policy is expressed by several voices, not always harmoniously. To one trained in our traditions, it is strange to hear service chiefs sounding off on major foreign policy issues; calling for war as a preventive measure without any apparent awareness that they are not policy makers but policy executants. I think that it is the multitude of uncontrolled voices which often makes America's allies extremely edgy and nervous about her international policies. Apart from the service chiefs, it is often difficult among the babel of voices in government to determine governmental policy at any given time. At the moment of writing, it is far from clear what is the Administration's policy with respect to the Chinese off-shore islands. These uncertainties also serve to increase anxiety among America's friends and allies. This diversity of voices, and seeming uncertainty of direction, serve perhaps to underline the point made at the beginning of this article that the United States is a late-comer to world leadership, that her decisions on foreign policy may therefore sometimes lack clarity, experience and balance. It is perhaps appropriate to observe that this disturbs many thinking Americans just as it disturbs those outside the United States who feel, with very substantial justification, that they will be significantly affected by American foreign policy decisions.

VI.

THERE are many other facets of American life and opinion on which, were space available, I should like to offer comment. I must content myself only with saying that my experience was a rich and satisfying one. There were many things in America which pleased me greatly and, as I have indicated in this article, some that disturbed me. But when the balance is struck, I have no doubt that it comes down on the side of good. Despite the jeremiads of those who are, in general, poorly informed, I cannot believe that an Australian can have such an experience as I had in my year in the United States without coming home as a strong friend and supporter of the Alliance.