EDITORIAL

In the last number of "Review" (April-June) we drew attention to the central place now accorded to expert economic advice in the machinery of modern government*. This, of course, has been a necessary development. All democratic governments are today burdened with immense economic responsibilities and none would attempt to frame its economic policy without the assistance of a thoroughly equipped staff of economic experts.

Australia has been well in the forefront of this process and Australian governments have not been reluctant to recruit economic specialists for a wide variety of purposes. Practically all Commonwealth Government departments are stocked to capacity with economists and statisticians trained in the analysis and interpretation of economic data. Perhaps no democratic country, in proportion to its size, has, in the employment of government, more specialists of this kind than Australia.

On the surface this is all to the good. But in another respect the story is not so encouraging. It is highly questionable indeed

*See article: "Explaining the Economist"—April/June, 1955, "Review."
whether the great wealth of expert knowledge at the disposal of governments is being used in Australia to the best advantage. Perhaps the most important end-product which should emerge from all this specialist activity is a regular—annual or semi-annual—comprehensive survey of the state of the national economy, the points of weakness and of strength, of the policies which the Government is following and what these policies are intended to achieve. In most other countries the production of an embracive economic survey of this kind is now taken for granted and is generally regarded as essential to the public understanding of economic questions and of government economic policy. In America there is the President's Economic Report to Congress, a lengthy document prepared with the assistance of his Council of Economic Advisers; in Britain there is the well-known Annual Economic Survey; Canada, New Zealand, and in Europe, the Netherlands and Swedish Governments also issue reports of a similar, comprehensive character.

In his article in this number of "Review," a recent visitor to Australia, Mr. W. F. Crick, economic adviser to the Midland Bank, one of the great British financial institutions, comments caustically on this feature of our economic administration. He says: "—the central Government seems to lack an explicit, coherent economic policy, adaptable to changing current conditions, while its actions seem to be limited to improvisation. This is the only explanation that appears of the lack of authoritative presentation and interpretation of facts (by the Commonwealth Government) designed to inform the public and provide the basis for objective analysis and criticism."

Why Australia has not followed what is a universal practice among other democratic governments is indeed hard to understand. In Australia there seem to be even stronger reasons than in other countries why the central Government should take special pains to see that the public is properly informed on economic conditions and on the reasons underlying its decisions on economic policy. Canberra is a hot-house, artificial growth, far removed by distance and outlook from the main centres of life and industry of the people which it governs. As such it provides an ideal breeding-ground for the development of a bureaucracy acting in splendid, lonely isola-
tion from the rest of the community. Such an atmosphere encourages a secretive attitude among officials, an ill-concealed disdain for the views of those outside the select circle, and rigid, ingrown habits of mind unable to countenance views foreign to their own confined experience.

Some of these dangers are already becoming apparent and it is the Government's responsibility to take corrective action to restore the greatest possible measure of democratic discussion and influence to the process of policy-making.

In the economic sphere, the provision of an annual or semi-annual public report on the state of the economy, and on the measures which the Government and its advisers consider necessary to meet changing economic circumstances, is an essential foundation for such discussion. The public cannot be expected to understand, and to offer, therefore, intelligent comment on, high economic policy unless that policy is made known in all its aspects.

There are, too, a number of other good reasons why a public document to serve this purpose should be published. One of the most important is that it would inform the Commonwealth Arbitration Court of the Government's objectives in the sphere of economic policy, so that the Court would be in a position to relate, if it so desired, its own decisions to the purposes of the Government.

In the absence of such information there have been, in recent years, grave divergences between government policy and the decisions of the Court. This fact has been deplored by members of the Court itself as well as by members of the public.

The administrative machinery of the Commonwealth Government will not be adequate for present-day needs until this vital omission has been rectified.
Dissatisfaction with the arbitration system is widespread. The President of the A.C.T.U. (Mr. Monk) recently stated that the A.C.T.U., at its next Congress, would recommend fundamental changes in the present system. Many economists and other authorities, such as the former Chief Justice, Sir John Latham, have severely criticised important aspects of the existing methods. Although the official employer bodies have proposed no basic changes, employers in private conversation are ready to voice a strong dissatisfaction with the system. Two or three essays in collective bargaining, mainly by American construction companies and the unions concerned, have stimulated thought as to whether arbitration could not be profitably replaced by direct negotiation over a much wider field.

A great deal of confusion in discussions of the Commonwealth Arbitration Court would be avoided if the critics were careful to draw a clear distinction between arbitration as a system for establishing conditions of employment, and the machinery of arbitration which exists in Australia and through which the system is administered.

Broadly there are two distinct systems for settling industrial disputes and determining conditions of employment in operation in the English-speaking countries. In North America and Britain, wages and industrial conditions are determined, in the main, by direct negotiation between employers and unions. This is the process commonly called collective bargaining. In Britain the bargaining usually takes place on an industry-union basis; whereas in America it is more often on a company-union basis. The results are normally embodied in written agreements. Arbitration, by some independent authority, only takes place where negotiation breaks down and usually only after every possible avenue to achieve a voluntary settlement has been exhausted.

In Australia, on the other hand, wages, hours and the main provisions affecting employment are determined by industrial tribunals. The supreme authority is the Commonwealth Arbitration Court, whose decisions are usually taken by other tribunals as a standard on which to base their own. There are, admittedly, exceptions, such as the Wages Boards in Victoria. But even these Boards, which consist of representatives of employers and employees, are largely guided by
the determinations of the Commonwealth Court in reaching their decisions. Direct negotiation between employers and unions is also not uncommon on a multitude of minor matters affecting the terms of employment. But it still remains true that the essential framework of wages and industrial conditions is established by the Commonwealth Arbitration Court—including the system of Conciliation Commissioners attached to it—and the various State and special industry tribunals which closely follow the lead given by the Commonwealth Court.

Both systems—direct negotiation and arbitration—have their merits and demerits. But, on balance, and in the light of experience, the former would appear superior.

The arbitration system, as practised in Australia, has admittedly one important advantage. It provides a suitable instrument for the administration of a more or less uniform national wages policy. But against this it has manifold defects. The main one is that it engenders an irresponsible attitude on the part of both employer and employee representatives; moreover, the very fact of its existence in the forefront of industrial relationships tends to emphasise the divergence, rather than the unity, of interest between employers and employees. It acts, in effect, as an umpire on the conflicting claims of employer bodies and unions, but no one would pretend, in the light of the industrial history of Australia, that the umpire’s decisions are accepted with good grace by the contending parties and without leaving behind a residue of bitterness and frustration.

On the other hand the methods of direct negotiation and voluntary settlement possess one overwhelming, indeed conclusive, advantage. They promote a high sense of responsibility on the part of employer representatives and unions. If the decisions reached are bad ones, that is, if they react adversely on the industry concerned, or on the wider national economy, the contending parties cannot avoid their share of the responsibility. They cannot shelve it off on to some third party. Moreover, the fact of having to thrash out their differences in often lengthy and difficult negotiations, gives each side a better appreciation of the difficulties confronting the other. Over the years this tends to build up a bond of mutual respect and understanding. This responsible approach bears a sharp contrast to the highly extravagant attitudes
which not infrequently characterise the claims and advocacy of Australian employer and union organisations in Arbitration Court proceedings.

The entire replacement of compulsory arbitration by a system of collective bargaining is not, however, an immediately practicable policy for Australia to pursue. Such a transition could be effected, if at all, only over a period of years. Success in collective bargaining needs an attitude of tolerance and responsibility and a determination to reach a reasonable and successful issue on the part of the parties concerned. The long reliance on arbitration by Australian employers and unions has hardly been conducive to the creation of the right attitude of mind. A highly developed and workable system of voluntary negotiation, such as exists in Britain, can be achieved only step by step as part of an evolutionary process. It cannot be introduced, with any hope of success, at one fell swoop. Moreover, in the political sense, Australia seems wedded to the methods of arbitration and it is doubtful indeed whether a policy to abandon these methods would command any substantial electoral support.

A highly intricate and extensive network of wages and conditions has been built up in Australia on the basis of a multitude of Arbitration Court decisions and precedents. To abandon overnight the legal and administrative foundation on which this network rests would almost certainly give rise to industrial confusion in extremis. Thus, whether we like it or not, it would seem that, for some considerable time ahead, Australia is saddled with compulsory arbitration as the basis of its wage-fixing system. This does not mean that, along with the existence of arbitration, there should not take place a steady extension of voluntary negotiation along the lines of British and American methods. Indeed there are good reasons why such a development should be given positive encouragement. After all, the founders of the Commonwealth Arbitration Court never envisaged that the instrument of their creation would be a substitute for direct negotiation between employers and unions. The arbitration power was visualised as something to fall back upon when all efforts at voluntary settlement had proved abortive. The predominant position that the Commonwealth Court has assumed in the industrial picture over the fifty years of its existence would almost certainly have horrified its creators could they return to see it.
They would realise that the modest institution they had devised with the best of intentions had grown into a kind of industrial Frankenstein.

All this does not mean, however, that because we cannot forthwith abandon the system of arbitration, we cannot therefore improve the machinery by which it is administered. It is regrettable that the former difficulty is too often used as an excuse for doing little or nothing about the latter.

The machinery in its present form has three outstanding weaknesses. The first arises from the Constitution, which limits the power of the Commonwealth in industrial matters to the settlement of disputes extending beyond the limits of any one State. This has two main consequences.

It means, first, that the arbitration machinery cannot act unless there is a dispute. Since the Commonwealth Arbitration Court is the supreme authority in the fixation of wages and conditions, this limitation on its power—arising from the Constitution—encourages the deliberate manufacture of disputes in order to gain the attention of the Court and achieve an alteration in existing conditions. A piece of machinery, established for the express purpose of promoting industrial peace, therefore acts as an incitement to industrial discord and unrest. As Sir John Latham has pointed out, the psychology of this approach to industrial problems is deplorable—"It is wrong to lay down a rule that you can't get what you regard as justice unless you first have a dispute about it".

Second, the limitation of the Court's authority to interstate disputes means that matters of purely State concern fall within the jurisdiction of the States themselves. While it is true that on the whole the State industrial authorities follow fairly closely the awards of the Commonwealth Court, discrepancies naturally arise on questions of detail. This leads to serious anomalies. For instance, employees working in the same industry, and even business, are not infrequently paid different wages according to whether they come under State or Commonwealth awards. A recent and notable example is to be found in the refusal of some States to follow the ruling of the Commonwealth Court on the abolition of the cost-of-living adjustments. Variations in the wages or conditions of employees working in close proximity may not only be inequitable but are hardly conducive to industrial contentment and harmony.
This state of affairs has existed for too long. Its manifest disadvantages have frequently been assailed by highly respected authorities with no axe to grind. An appeal to the common-sense of the people to achieve a suitable amendment to the Constitution, if backed by the major political parties, should be successful. There is no longer any reason or excuse to delay action on a matter of vital concern to the future of industrial relationships in Australia.

The second serious weakness of the present machinery lies in the structure of the Arbitration Court itself. The original conception of the Court was that it should be an instrument for settling industrial disputes by conciliation and arbitration. In practice, the Court has become an economic policy-making body of transcendent importance. The Court virtually sets the level of wages to be paid and the hours to be worked throughout Australian industry. In effect, it administers a national wage policy, a policy which must necessarily be determined in the light of present and prospective economic conditions. The decisions at which the Court arrives are of such significance that they can, for better or worse, affect the stability and prosperity of the whole economy and thus the welfare of the Australian people.

The Court is singularly ill-equipped for this task. It is comprised of men whose basic training and experience have been in the law, not economics. They are expected to appraise the significance of a multitude of economic trends and measurements, a task so complex that it would provide a severe test for men of outstanding intellectual calibre who had spent their entire lives in the study and practice of economics. It is an unfair burden for men of legal training and one they should not be asked to carry.

How, then, should standard wages and hours be determined? The Commonwealth Government is responsible for national economic policy. If things go wrong the Government must expect to collect the blame. Yet one of the major factors determining the success or otherwise of its policy is entirely outside of its control. Few people, however, would be happy to see the level of wages in industry fixed by the Commonwealth Parliament, even if that were possible from the point of view of practical administration. The manifest danger is that wages would be used as a political play-thing and that, as with social services, political parties, in their
desire to achieve office, would vie in out-bidding one another in wage offers during electoral campaigns. The intrusion of politics directly into the industrial sphere is something which should at all costs be avoided. When it has occurred, on matters of much less importance than the national wage level, it has invariably had the most unhappy consequences. How, then, can the dilemma be solved?

Double-pronged action would seem to be necessary. First the Arbitration Court should be reconstituted as a standing Industrial Commission prepared to undertake periodic reviews of wages, if need be on its own initiative. The precise constitution of the Commission is not important at the moment, but clearly it should include one or two economists of national eminence, respected both for their intellectual stature and their independence of viewpoint. The Chairman of the Commission might be a Judge. It may be desirable, although this would need deep consideration, to invite the unions and the employer bodies each to nominate one person for appointment to the Commission. A Commission would have the advantage over a Court—a considerable one as we shall see in a moment—that it would be perfectly free to follow its own methods of procedure.

There would, however, still remain the problem of achieving at least a broad co-ordination between the decisions of the Commission and the objectives of the economic policy which the Government is pursuing. It would be necessary, for example, to avoid the kind of situation which arose a few years ago when, on the same day that the Government announced a policy of counter-inflation, the Arbitration Court brought down a judgment which worked in precisely the opposite direction. This does not mean that the Commission should follow what it believes to be the Government's wishes. In that event there would be no purpose in having an independent wage-fixing body. But it does mean that such a body, in arriving at its decisions, should have the assistance of a comprehensive interpretation of the economic situation as seen through the eyes of the Government and its advisers, and also a full explanation of Government policy. This advantage has been denied the Arbitration Court, and whatever Government has been in power has only itself to blame if decisions of the Court have sometimes been seriously contrary to the purposes of its own policy.
Australia needs, and needs not only for purposes of wage-fixing, what the British Government provides in its Annual Economic Survey and the American Government in its President's Economic Report to Congress. When the Commonwealth Government sees the necessity for publishing a periodical economic survey of a similar kind, the prospect of wise decisions on standard wages and hours will be greatly advanced.

The third disadvantage of the present machinery is that it is slow-moving, cumbersome, costly, round-about, and wedded to a procedure ill-suited to the determination of major industrial and economic issues. These defects are what the critics have in mind when they speak of the need for "streamlining" the existing methods. There is a strong, and justified, feeling that the machinery could be simplified and the administration of industrial justice greatly expedited with advantage to all concerned.

Much of the trouble arises from the over-legalistic character of the proceedings. This has aspects too numerous to mention here. But one point can be referred to briefly. The Arbitration Court in its hearings proceeds in an almost identical fashion to an ordinary Court of Law dealing with civil or criminal litigation. There is a vast array of "witnesses". There are barristers whose knowledge of economic and industrial questions may be limited and whose main purpose is to discredit the personal qualifications of the witnesses and the reliability of their evidence. All this takes immense time, it promotes ill-feeling, it is excessively costly and, in relation to the matters with which it is concerned, it has an unreal and indeed a Gilbertian quality. The procedure of the Arbitration Court is an affront to the good sense of Australians. It is certainly far removed from the severely pragmatic Australian approach to most other matters.

A Commission of the kind suggested would feel no obligation to base its methods on those of an ordinary Court of Law. It could devise its own form of procedure. It might prefer to conduct its hearings in camera. But whatever the procedure adopted, the object should be to arrive at a wise and just determination by the simplest and shortest route.

What matters is the quality of the final decision. No one can surely pretend that the complicated, costly, and time-consuming procedure of the present methods is a necessary adjunct to that end.
Each decade seems to bring forth its own particular crop of economic fallacies. We are not referring to the cranky notions of the few inevitable crackpots; but to ideas that gain a wide credence and exert a powerful influence on thinking in high places. These ideas become a kind of prevailing mode, the dogmas of the moment. They tend to underlie discussion at learned societies and in lecture rooms. Often they play a not inconsiderable part in determining the shape of economic and financial policies.

Ten years ago the popular fallacies centred around government planning. Detailed economic planning was the master-tool which was to do away with all the ills inseparable from the pre-war laissez-faire economy. The continuation into peace of government controls introduced for war purposes; bureaucratic interference with the free choice of what should be produced; the national ownership of large-scale industries; massive government spending on social security, and the such-like, were to bring about, in short time, an economic Heaven here on earth below. Many of the fancy notions then held with such conviction have since gone by the board. They have failed to stand up to the acid test of experience, to later—and more sober—reflection, and to intellectual assaults by leaders of economic thought in many countries of the world. They no longer command a wide public acceptance, nor the support of a consensus of expert opinion.

But, in Australia, they have now been replaced with a series of other ideas just as tenaciously held and with just as wide a currency. Many of these present-day notions will, in another ten years, almost certainly have gone the same way as their predecessors. But, for the time being, we are inflicted with them; they are holding sway in important places of thought and are exerting a by-no-means negligible influence on government and business thinking and policy.

Many of the current fallacies arise from the magnificent, if foolish, refusal to recognise any limitations on the rate at which the Australian economy can expand. If expansion is being pushed too rapidly—which means simply that we are trying to do more than we have resources to do it with—the economic warning-signs show up in several ways.
becomes scarce. Materials and productive equipment become inadequate. Loans subscribed for public projects fall short of the intended amounts. Prices and costs threaten to rise further. And most important of all, the balance of payments becomes seriously adverse.

All these are symptoms of deep-seated stresses and strains in the economy. But to many people the symptoms are unpalatable. They turn their backs on them. They refuse to recognise them for what they are—the danger-signals of an over-stressed economy. How can the rate of development and expansion of a country be too rapid, they say? If labour is scarce, then import labour by stepping up migration. If materials and equipment are in short supply, then import more, or, better still, where possible make more at home. If internal finances are inadequate, then borrow money overseas. If prices and costs continue to rise, then does it matter anyhow? If overseas earnings fall short of overseas commitments, then run down overseas reserves or impose restrictions on imports, particularly of consumer goods. And if the balance of payments is obstinate and refuses to right itself, and the reserves dwindle, then we can always fall back on that unfailing weapon of last resort, exchange depreciation.

Here we have quite a harvest of fallacies, expressed or implied. We will discuss five of them.

1. That migration can in all circumstances be used to cure a general labour shortage.
2. That overseas borrowing will ease the difficulties associated with an adverse balance of payments.
3. That costs don’t matter.
4. That exchange devaluation will, by itself, correct a chronic deficiency in the balance of payments.
5. That drastic cuts in imports of consumer goods will solve the balance-of-payments problem.

1. Migration and a Labour Shortage.

If there are, say, 40,000 unfilled jobs in the community then it may at first sight seem that the obvious way to fill them is to import 40,000 workers from overseas. There are two flaws in this idea.
One arises from the fact that migrants bring not merely a pair of hands to work, but a mouth to feed, and a body to clothe and shelter. Migrants don't only produce, they also consume. They therefore set up immediate claims on the production of the community—on its supplies of food, of clothing, of housing accommodation and furniture, on its transport facilities, on its water supply, gas, electricity, sewerage, postal services and a hundred and one other things. These fresh demands create fresh jobs and the need for still more labour.

To this, the objector might be tempted to reply that the additional worker should consume no more than the equivalent of what he adds in the way of production. But this overlooks the fact that many of the demands of the migrant on the community's production run in advance of his own contribution to it. For instance, he makes an immediate demand for accommodation (and all that goes with it) which he may be able to pay off out of the product of his work only over a long period of years.

The second flaw is that migrants frequently don't come alone, but bring their wives, children and relatives. It has been estimated that only one in every two migrants is a producer. The other is purely a consumer giving rise to additional demands on the community's production.

All in all the net effect of migration is to create more jobs than it fills.

2. Overseas Borrowing will Assist with Our Balance-of-Payments Difficulty.

The doctrine that more overseas capital is the answer to Australia's balance-of-payments weakness has many adherents, even in high political and financial circles.

The effect—and intention—of overseas investment in Australia is to promote development in both public projects and private business and to provide the basis for increased population. The investment takes two main forms:

(a) Government borrowing chiefly from the International Bank.

(b) Investment by financial interests abroad in Australian enterprises.
Loans from the International Bank are ear-marked for the purchase of specific dollar goods which would not otherwise be obtainable. The immediate impact on the balance of payments is neutral since the importation of the capital equipment is exactly counter-balanced by equivalent dollar grants.

But the more rapid development, made possible by the loan, increases imports of consumer goods (because of the additional employment provided) and also of materials, parts and equipment of Australian industries which expand as a consequence of the development. The effect on the balance of payments is, therefore, unfavourable. The only circumstances in which this would not be true would be where the development is of such a type as to increase the capacity to export faster than it raises the demand for imports.

Investment by private interests abroad, mainly in the manufacturing field, has the same train of consequences. It promotes development, increases employment and thus the demand for imported consumer goods, and materials and component and replacement parts for the new industries.

Overseas borrowing and investment make possible a higher rate of development without immediate detriment to the balance of payments, possibly even a short-run saving if it is devoted to "import-replacement". But the higher rate of development before long must raise the over-all demand of the economy for imports, and thus place increased pressure on the external balance. Some economies in a stage of rapid development, notably Canada, have been able to avoid the dilemma in which Australia now finds herself. The Canadians have kept internal economic activity at a lower level than in this country, and thereby, avoided a spilling-over of excess demand into imports. In addition, most of the overseas capital has been invested in export production, for example, wood pulp, oil, and minerals, rather than in import-generating local industries.

Overseas borrowing is necessary for the rapid development of Australia; but let us not delude ourselves that it provides the way out of the balance-of-payments impasse. As Australia's population grows its appetite for imports will increase.

There are a number of variations of this theme. One is that costs have little or nothing to do with the adverse trade balance, which is due to quite other causes. Another is that our costs, by and large, are not high anyway; that they are still generally competitive.

The idea that costs don’t matter represents a complete rejection of the doctrines of the old classical economists to whom costs were all-important. It is Keynesianism run wild. It is inconceivable that Keynes himself would ever have countenanced such absurd notions.

It is, of course, impossible to tell to what extent the external position has been adversely affected by the rapid rise in Australian costs over the last five years. Certainly it has not been assisted. Some of the fringe exports—certain dairy products, dried fruits, some canned foods, for example—are rapidly losing ground in overseas markets. Markets for manufactured goods, established after the war, have been lost through inability to compete. To what extent imports have been encouraged because of high costs of home production cannot be known. It would probably be considerable.

The most extraordinary perversion of this general idea is that costs are not high anyway. Some economists and statisticians have been prepared to resort to the use of remarkable data to prove that this is so. What is more surprising is that their arguments seem to have been accepted in some official quarters. However, one has the feeling that the contention that costs are not high is argued without conviction by its own advocates. Why it is argued at all is difficult to understand.

In a self-sufficient economy, it is true that the general level of costs would not matter very much. Costs are no more than incomes in reverse. If costs and prices are high, incomes are correspondingly high. But Australia is not self-sufficient. It is one of a large number of nations competing with one another for world markets. Under these conditions the level of costs becomes vital, because it influences how much we can sell abroad and how much of our home market we can retain for ourselves.
The people who most strongly incline to the view that costs are not very important seem to imagine that the Australian economy can, when necessary, protect itself against the consequences of a high-cost structure by a variety of devices—restrictions on imports, tariffs, subsidies, and exchange-rate adjustments. Unfortunately such a barricaded economy is possible only within narrow limits—or perhaps in the lecture-room. For all these devices which are designed to procure trading advantages for Australia tend to be to the disadvantage of other countries. They are led to protest. International institutions register disapproval. These countries and institutions become less inclined to friendly co-operation. Overseas financial assistance becomes harder to obtain. Other nations are provoked into retaliation. The whole climate of international economics would rapidly become less favourable to Australia.

These things are so obvious that they should hardly need to be stated. But they are overlooked by some of the modern thinkers, who appear to believe that Australia has an unqualified right to manage its own affairs in its own way without regard to the effects of its policies on other countries.

4. Exchange Depreciation Will Correct a Chronic Deficiency in the Balance of Payments.

This is one of the most common, and, incidentally, one of the most dangerous, fallacies abroad at the present time. If one asks the rather unpopular question: "What will Australia do if the deficit on overseas transactions persists to the point where it threatens to exhaust our overseas reserves"? the answer almost invariably is: "Oh, in that case we would depreciate the exchange". It seems to be assumed that the simple act of depreciation would restore balance and maintain continued health in the Australian economy without the need for any other action on our part. If it were as simple as that we would certainly have nothing to worry about. Unfortunately it is not so simple.

Those who view the situation so complacently usually have somewhere at the back of their minds Australia's experience during the depression of the 'thirties when the Australian pound was devalued from parity with sterling to £130 (A) = £100 (E). At that time we had an ominous balance-of-pay-
ments deficiency; but there, any similarity with the present position, or the position which might conceivably face us sometime in the near future, begins and ends. In the Great Depression, the difficulty with the balance of payments arose from a steep fall in the prices for Australia's main exports caused by a world-wide economic collapse. Our present external troubles are not caused by any major recession in prices for our exports, which, on the contrary, have been remarkably well maintained. They are caused by an excess demand for imports which is the result of the internal policies being pursued. This is the essential difference. In the depression we had a collapse of internal demand with acute under-employment; now we have over-employment. In the depression we had falling prices and costs; now we have rising prices and costs. In the depression we had serious deflation; now we have threatening inflation.

In the conditions of the early 'thirties the depreciation of the exchange was undoubtedly the correct remedy. It gave a stimulus to spending by increasing the incomes of export producers in Australia. By raising export prices in Australian money it helped to restore profitability to the vital export industries. Even so, it did not achieve its results in isolation. Its efficacy depended partly upon a number of other measures—of which the deliberate reduction of costs was one—pursued in conjunction with it. Now depreciation is claimed to be, by itself, and without the need for other, accompanying—and possibly uncomfortable—measures, the unfailing cure-all for an entirely different situation, one of serious inflation as against catastrophic deflation.

The present balance-of-payments weakness partly arises from an over-stimulated economy. The advocates of exchange depreciation propose to solve this by giving the economy an additional stimulus, or at least by maintaining the present strength of the stimulus. They propose to correct the consequences of inflation by still further inflation. Exchange depreciation is essentially an inflationary measure. It increases spending by augmenting the incomes of export producers and thus of other producers. By increasing the cost of imports and by providing a blanket protection for high-cost local production, it eventually increases internal prices and costs in
general. It generates the dreaded spiral with all sections of the community striving to achieve compensatory increases in their incomes. How this process would benefit the already overblown Australian economy is hard to understand. Australian prices and costs would be further increased relatively to overseas prices and costs. When this happened, as it probably would, there would soon be an army of people urging a further depreciation. Who can say where it would stop?

Moreover, there are two other important aspects of depreciation which tend to be overlooked. By common consent Australia is a country which badly needs overseas capital for its programme of rapid development and migration. Would exchange depreciation be likely to help us in this need? It would almost certainly have precisely the opposite effect. Devaluation is taken by overseas financial interests to be a sign of a weak internal economy—as indeed it is. Private investors abroad, if they were not frightened off altogether, would become increasingly wary of placing money in Australia—and with good reason. The earnings on their investments, when converted into their own currency, would be badly depleted by devaluation. Official lending institutions would almost certainly turn the cold shoulder instead of the warm, helping hand they have hitherto been disposed to extend. We might even find that we were confronting a net annual outflow of capital instead of the inflow we have had since the war. That would be disastrous for the long-run development of Australia.

The second aspect is that other countries, for obvious reasons, would not look kindly on devaluation. International institutions were devised and established at incredible labour toward the end of the war to prevent this very kind of thing. Devaluation makes the products of the devaluing country more competitive in the markets of other countries, and the products of other countries less competitive in its own. Are they likely to stand idly by and watch this happen? Or will it provoke them to retaliation in one form or another? And if that occurs, may not many of the calculated benefits of depreciation to the balance-of-payments position go by the board?

All in all, exchange depreciation is one thing into which Australia should not enter lightly in the years ahead.
5. *Drastic Cuts in Consumer Goods Imports are the Answer to the Adverse Balance of Payments.*

The idea behind this suggestion is that the import of consumer goods should be severely curtailed to permit the maintenance, or even increase, of imports of so-called "essential" capital goods.

Actually, a much greater proportion of consumer goods are "essential" than is generally thought—tea, coffee, tobacco are good examples. However, we will leave that on one side.

The purpose of this suggestion is to expand production in local industry by imports of capital equipment, provide increased employment, and, where possible, replace goods previously imported. Its eventual effect on the balance of payments would be disastrous. The import of consumer goods has no secondary effects on the balance of payments. £20 million spent on tea is spent on tea and that is the end of it. £20 million spent on imports of capital equipment sets up secondary demands for imports of materials, parts and equipment and consumer goods in consequence of the increased employment provided. Moreover, savage restrictions on imports of consumer goods would be highly unpopular in other countries, and would invite retaliation to the detriment of our export income.

Money spent on imports of consumer goods helps to raise, or maintain, immediate standards of living. Money spent on capital goods promotes development and growth, and development and growth increase the demands for imports.
THE EXTERNAL TRADE PROBLEM

This is the full text of a Paper given to the Economics Section of the Australian and New Zealand Association for the Advancement of Science, by the Director of the Institute of Public Affairs, Victoria.

There is no need for me to recall the statistical facts of the Australian trade problem. They are well known. The broad picture is that after some years—from the end of the war up to 1950/51—of comfortable, and sometimes more-than-comfortable, surpluses in the balance of payments, we are now striking difficulties in balancing our overseas accounts. These difficulties have not arisen—as so often in the past—from any serious decline in export income brought about by a collapse in commodity prices. They have arisen from a persistent tendency to import substantially more than our receipts from current earnings and net capital inflow will pay for.

When import restrictions were first introduced early in 1952 it was generally believed that the external difficulty was a temporary passing phase, that it had been brought about by an unusual combination of circumstances that were unlikely to recur, and that the economy would soon again be on an even keel. Certainly this was the impression given by official statements at that time. Today we are sadder, if not wiser.

At the present time the accepted view is that import restrictions will be with us for some considerable time, and that there is certainly no prospect of their early removal.

There is still, however, a feeling that the trouble is not really serious and that, with reasonable good fortune, we can get by with nothing more drastic than the continuation of import restrictions of varying intensity but not-too-great severity. And, as a last resort, there is always exchange depreciation.

Now I believe this approach reveals a grave misconception of the true nature of the balance-of-payments problem, that it ascribes the difficulty to causes which, though important, are not fundamental and which, if necessary, can easily be brought under control. It assumes too, I think, that the great post-war expansion of manufacturing industries will, as time goes on, render Australia less dependent on imports; in other words, that this expansion has, in sum, a net import replacement benefit.

I cannot accept this view of the balance-of-payments problem. I propose to suggest that the reasons for the external unbalance can be traced to deep-seated changes in the structure of Australia's economy, and therefore in its economic relationships with the outside world, and that the economy, far from becoming less dependent on imports, is becoming steadily more dependent. If this conclusion is correct it follows that the trouble is unlikely to yield to simple, painless methods of treatment, even with the assistance of import quotas of moderate proportions. Import restrictions of immoderate proportions would clearly lead to grave dislocation of the internal economy. In other words, though you may safely use import restrictions in reasonable doses to relieve an adverse balance-of-payments position, it is not at all clear that you can increase the doses indefinitely without dire effects on the patient. In 1952, the import cuts...
then introduced were severe enough in all conscience, but you will remember that at that time we had built up an enormous surplus of stocks. It would be unwise to assume from that experience that import restrictions of a similar intensity could be applied where the stock position was more or less normal without giving rise to widespread difficulties.

Now what are the reasons most commonly advanced for the balance-of-payments deficit? There are, I think, three. These are:

1. The increased demands arising from full or over-full employment and higher living standards.
2. An over-rapid rate of development.
3. A cost structure out of line with overseas costs.

These reasons are all partly valid. They do not however, in my view, at any rate in the form which they are usually advanced, go far enough.

It is clear that if the excess pressure on resources arising from over-full employment were removed the demand for imports would be reduced. But the reduction that would occur would not, I think, be nearly sufficient to right the external balance under normal trading conditions—that is without resort to import restrictions. I am prepared to admit, too, that if our costs were lower the balance-of-payments problem would be less acute. And I would go so far as to say that if they could be reduced to a sufficiently low level it might disappear altogether. But a "sufficiently low level" would be a long, long way below the present level, indeed so far below that such a transition would be totally beyond the bounds of reasonable economic and political possibility.

Finally, I am willing to concede that some reduction in the rate of development, and its accompaniment, migration, would assist the balance-of-payments position; but for reasons which I shall shortly try to make clear, so long as development is proceeding on a large scale I doubt whether a mere reduction in the rate would effect any notable, or indeed lasting, improvement.

Nevertheless, those economists who stress development as the major reason for the overseas deficiency are, I think, nearest to the truth—that is, so long as the term "development" is taken to comprise the general growth and progress of Australia and not merely major governmental projects, such as are taking place in the Snowy River area, at Eildon Weir and Yallourn. Under this conception, development would of course include much of the spectacular expansion occurring in manufacturing industries and related activities such as transport. This expansion is especially important. A nation in which the proportion of total working population that is engaged in manufacturing activities increases in two short decades from under 20% to around 30% has clearly undergone a transition, a fundamental structural change, of the utmost significance. The implications of this great change have, I think, been both seriously underrated and seriously misconstrued.

In discussions of the trade problem there is a tendency to think of the Australian economy as it was before the war—that is, when despite a considerable development of manufacturing, primary industry still contributed the major proportion of physical production, and
when the exportable surpluses of the primary industries were generally sufficient to pay for the import requirements of an economy that was notably smaller and much less intensively industrialised than the Australian economy today. I think, too, that it is not unfair to say that the extraordinary growth of the manufacturing industries in recent years has given rise to the notion that, as we were now making many things in Australia that we did not make before, the Australian economy was becoming more self-contained and less dependent on imports. This notion has probably, sub-consciously as much as consciously, caused us to push ahead with our manufacturing development even more rapidly than might otherwise have been the case. It has also led us to undervalue the importance of exports to the economy and thus, perhaps, to fail to encourage export production to the extent that we might otherwise have done.

I think it could be said that this great expansion in manufacturing has been held to be good not merely because it is the source of a justifiable national pride, not merely because it proved to ourselves that we can do what the older industrial nations can do; but also because it was believed that through it we were bringing our economic destinies more within our own control and were rendering the economy less subject to the wide traditional swings in export income to which we had hitherto been exposed. This was particularly welcomed by many Australian economists who have perhaps been rather too greatly influenced by what is frequently called "the new economics". For if we were becoming more independent of external trade then we were getting closer to realising a basic assumption of Keynesian doctrine—I refer to the assumption of "the closed economy"—and therefore nearer to a state where Keynesian ideas could be applied without fear of retribution.

Unfortunately the facts have shown this general notion of an increasing economic self-sufficiency to be sadly astray. In spite of, indeed partly because of, the remarkable growth of manufacturing, the import requirements of the economy have risen substantially since before the war. In 1954/5 Australia imported, in volume, over 80% more than before the war, or about 40% more per head of population, notwithstanding the checks imposed by quantity import restrictions, dollar exchange controls and higher tariffs. On the other hand, the capacity to pay for imports has declined. The quantity of exports in 1954/5 was only about 25% more than pre-war; per head of population, exports were around 5% less. Had not the prices we receive for our exports risen substantially more than the prices we pay for our imports since before the war the balance-of-payments difficulties would clearly have been intensified.

How then did this extraordinary misconception of a reduced dependence on imports arise? It arose, I believe, partly from wishful thinking. It is amazing how easy it is to overlook simple, and even obvious, economic truths when emotion enters into the evaluation of practical policies, when subjective instead of objective values hold sway, when there is an obsession with theory, or when one particular economic purpose—desirable though it may be in itself—is pursued to the virtual neglect of all others. I venture to say that all these things have exerted a big
influence on economic thinking in Australia in recent years.

The misconception arose also, I suggest, from confusing the conditions prevailing in the post-war economy with those of the pre-war. Before the war it is possible that many developments in manufacturing tended to make the economy less dependent on imports. In a comparatively stationary economy, that is one which is growing at no more than a normal rate, and which has a substantial surplus of labour, it could be true that a movement toward greater industrialisation could also be a movement toward greater self-sufficiency. But in a rapidly growing and fully extended economy, undertaking an impatient programme of development, an economy in which population is increasing apace due to large-scale immigration, and total production is rising at least proportionately, and in which there is no surplus of labour, the position would appear to be far otherwise. In such a situation the total demand for imports, and even the per capita demands, are much more likely to increase than diminish, and, unless the economy's capacity to export is increasing in step with its general growth, it is almost certain to strike trouble with its balance of payments.

The import requirements of an expanding, fully employed economy of this kind will set up additional demands for imports.

Firstly, the mere growth in population will swell the demands for imports of essential consumer goods that cannot be duplicated out of home production—tea, coffee, Scotch whisky, luxury clothing lines such as furs are obvious examples.

Second, the new and expanding industries will add to the economy's requirements of imported materials, component parts and productive equipment.

Third, the increase in incomes resulting from full employment will swell expenditure on imports. Where there is a condition of more-than-full employment—such as we have in Australia at the moment, the demand for imports of course becomes greater still. Nevertheless I am prepared to assert that, while the existence of full or over-full employment has clearly added to the demand for imports, by comparison with pre-war, the basic cause of the increased demand is to be traced to the mere fact of growth, to the simple fact that the economy is rapidly becoming bigger and its appetite for imports correspondingly larger.

Now it will no doubt be contended that this argument, and also what I have said on the failure of manufacturing to make the economy more self-sufficient, entirely overlooks the import-replacement aspect of much of the development that has occurred. It may be said, for instance, that while it is true that many of the new manufacturing developments increase the need for imported materials, parts and equipment the value of these imports is necessarily less than the value of the finished goods which they produce and therefore of the imports they replace.

Is this so?

Let us assume that a new manufacturing industry is established and that this industry employs say 10,000 additional workers. It is immaterial for the argument whether these workers are supplied from migration or from the natural increase in population. At first sight
the value of the imports saved might seem to be represented by the equation:

Net value of imports saved = value of finished goods otherwise imported — (the value of imported materials and parts + an annual valuation of imported capital equipment).

This is the sort of argument, reduced to mathematical terms, advanced by the numerous people who claim that new or expanded manufacturing industries must necessarily have a net import replacement benefit and therefore a favourable net effect on the balance of payments. Unfortunately the argument is invalid.

The demands for imports which result from the establishment of the new industry do not stop at the materials, parts and equipment required by the industry itself. The industry sets in train a whole series of additional demands for imports. In the first place, there is the increased population represented by the 10,000 people employed in the industry. These people drink tea and coffee. They smoke cigarettes. They may prefer certain items of imported clothing to the home-produced products. And it does not stop there. On present statistics the 10,000 employees will buy 4,200 motor cars and 3,000 washing machines. Admittedly, these may be made in Australia, but the additional motor cars and washing machines produced may require certain imported materials and parts and perhaps additional imported machinery. They will also increase the demands on Australian steel and the increased output of the steel industry will in turn add to the import requirements of that industry. They will increase the demands for power and for oil and for rubber and this will necessitate additional imports. Moreover this is not all. The 10,000 people employed in the new industry must be fed and clothed. Their requirements of food and clothing will reduce the surpluses of primary products otherwise available for export and will thus affect the balance of payments unfavourably.

In these many ways an expansion of new manufacturing industries, which is part of a general programme of rapid development and increased population, will swell the demand for imports, and may at the same time reduce the economy’s capacity to pay for those imports.

In a country whose economy is expanding and whose population is increasing rapidly, it is clearly not true that the development of new manufacturing industries will, on balance, have a net import replacement benefit. Many new developments, pursued in the vain hope that they will reduce imports and ease the balance-of-payments position, may turn out to have the reverse effect. In a country such as Australia, as development continues and the economy grows, there seems no escape from the fact that the demand for imports will also grow. The mere fact of growth and expansion increases the requirements of imports. It is this fact of growth and expansion that constitutes the basic cause of the balance-of-payments problem. As we grow bigger, our appetite for imports will increase.

If this is true, it follows that it will not be sufficient, in order to solve the balance-of-payments problem, to slow down the rate of development. It does not matter whether the rate of development is slow or
fast. A slower rate of industrialisation will only mean that import requirements will not increase so rapidly as with a faster rate. But they will still increase.

Nor, so long as the economy continued to grow rapidly, would a mild deflationary policy give more than temporary relief. Let us assume that such a policy were applied to produce a more or less permanent excess of workers over jobs of, say 125,000, or unemployment of around 3 or 4 per cent.—undesirable as this could be from the social and human standpoint. At the present rate of increase of population, it would need little more than a year to restore the economy to its previous position so far as the total numbers employed were concerned.

Nor is the way out to be found in additional overseas borrowing, even if ample funds were readily available—which they are not. Far from relieving the balance-of-payments position this would, in the long if not the short run, only serve to aggravate it. The purpose of overseas borrowing is to permit a faster rate of development and population increase than would be possible from our own resources. The increased population, and the secondary effects of the accelerated development would result in additional demands for imports in the same way as the establishment of new manufacturing industries. Only if the development were of such a nature as to expand the economy's capacity to export faster than it increased the pressure on imports would this general thesis not be true. The same may apply to investment in Australia by overseas business interests.

It is highly doubtful, too, whether, in the long run, import restrictions and higher tariffs assist the balance of payments, unless they are so severe as to cut deeply into standards of living or to cause substantial unemployment. If import restrictions simply give rise to compensatory attempts to expand local production to replace imports, the policy would in the end be self-defeating. The new industries set up in Australia would inevitably lead to the need for greater imports of a different type to those excluded. Moreover a policy of severe import restriction would have an unfavourable effect on exports, both because of the retaliation it would invite from other countries and because of the increased cost burden it would throw on the export industries.

In particular, the idea of savagely restricting imports of consumer goods—even if that were feasible—to permit the continued importation of so-called “essentials” is so much nonsense. It would react disastrously on the balance-of-payments. The importation of capital goods to promote industrial expansion and give employment would, unlike the import of consumer goods, generate secondary demands for imports in the ways I have already described. It would promote development at the expense of a deteriorating balance of payments...

All this implies that in the absence of artificial restraints on imports—and assuming no change in the terms of trade—the balance-of-payments position in the years ahead will tend to become steadily less favourable. Admittedly this would not occur if the capacity of the economy to export were keeping step with its general growth—in other words, if its capacity to pay for imports were expanding in correspondence with its increasing requirements of imports. But this of
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course is not happening in Australia. The secular picture in Australia since the war has been a rising level of real import needs accompanied by a fall in the real capacity to export. This picture has been obscured by the terms of trade which have become markedly more favourable to Australia and to some extent I suppose by the inflow of capital which this movement has encouraged.

There is no solution to this problem through more and more industrialisation, as many people seem to imagine. On the contrary, as the economy grows, as its secondary industries and development projects expand and its population increases, requirements of imports will continue to outstrip—and by a widening margin—our ability to pay for them. A policy of import replacement would be like a dog chasing its own tail, with the difference that the more strenuous the efforts to catch it, the further away it would get.

The drive for self-sufficiency has thus proved to be futile. It has had the opposite effects to those which were visualised. Australia will shortly have to realise again, what for the time being it has forgotten, that the capacity to export is all-important. This implies not only the need for a different pattern of development, with much more attention to the importance of costs than we have been disposed to pay in recent years, but also a new view of our trading relationships with other countries. Policies designed to protect the internal economy, which adversely affect trade with other countries, which encourage retaliation in the many forms it can take, may provide short-term relief but will in the end get us deeper into the mire.

I have no doubt that many people will interpret this paper as an attack on our great post-war manufacturing development; that it, in effect, says that manufacturing is the "villain in the piece" in the balance-of-payments drama. I want to forestall any such criticism. What I have done is to attribute the balance-of-payments difficulty to the whole process of growth in the economy, not just the growth of manufacturing. What I have tried to point out—and it is a conclusion that on the score of the facts cannot be avoided—is that the post-war development in manufacturing has not, as so many people assumed it would, made the economy more self-contained and decreased the need for imports.

The great part of our manufacturing progress has been a necessary development for Australia—and necessary not merely on strict economic grounds. I am as proud of it as anyone else. At the same time there are good reasons for thinking that if this development had been more concentrated on those things which Australia can produce most efficiently and at the least economic cost, and had not been spread so indiscriminately over such a wide field, regardless of strict economics, the economy today would have been in a sounder position, and the problem of the balance of payments less acute. The classical law of comparative advantage or comparative costs seldom appears in modern economic thinking, but it is not yet ready for the rubbish tip. It is still good economics for a nation to devote its energies to those things it can do best and in which the resources used bear the most economic ratio to the value of the product produced. The fantastic idea that all expenditure
is good, so long as it gives employment, regardless of whether the expenditure is directed into the most economic channels, will rapidly become discredited. In the end it may destroy more opportunities for employment than it creates.

I was recently reading a book comprising a series of lectures on international trade given to the University of Brazil in 1952 by one of the greatest of American economists, Jacob Viner of Princeton University. In it is this pregnant statement:

"The opportunities open to an underdeveloped country in the foreign trade field are certain to be a vital factor in determining the rate at which it can make economic progress. No country except the United States has attained a high level of per capita income which has not maintained a high rate of imports to total national product, and no country, except possibly Russia, can in this respect make the United States its model without courting perpetual poverty."

The words "perpetual poverty" may be rather too strong to apply to the happy land of Australia. But "poverty" is after all becoming more and more a relative term and if Australia wishes to continue its development without seriously sacrificing its present standards, then we could with advantage pay heed to Viner's words.

In the post-war years we have indulged in a great deal of self-delusion. It is late, but I hope not too late, for us to realise that no country in a stage of rapid growth and great development—and particularly a country such as Australia, where many essential industrial resources are lacking and where much technical and scientific "know-how" must be imported—can avoid, or should by deliberate purpose attempt to avoid, an increased economic dependence on the rest of the world. Australia, because it is small, because it is young, because it must grow up economically as fast as possible, is peculiarly unsuited to doctrines of self-sufficiency. It can achieve its destiny only through the steady expansion of its external trade and with the maximum of economic, financial, scientific and technical assistance from its more highly-developed friends.

There is no easy path to the goal of national economic greatness, of greatly improved standards of life for all and a population approaching 25 million by the end of the century. It cannot be attained out of the products of the work of other countries, or by "soft" internal policies too often dictated by narrow political motives. It needs great enterprise, immense labour, a "tough" economy closer to the American model, and a restraint and discretion in the management of our internal economic affairs which we have not exhibited since the war. Our supreme delusion has been to suppose that such a goal could ever have been easy of attainment, or could be achieved by the self-regarding doctrines of economic self-sufficiency with which we have been infested since the war. Unless we can dramatically and greatly increase the capacity to export, the vision of Australia as another United States—in the economic sense—will almost certainly remain an idle dream.
The Need of an Economic Policy for Australia

By

Mr. W. F. Crick

General Manager
of Research and Statistics,
Midland Bank, London

The author of this article, Mr. W. F. Crick, recently spent some weeks in Australia at the invitation of the Bank of New South Wales. Mr. Crick, who is well known overseas as an authority on economic and financial questions, is the General Manager of Research and Statistics of the Midland Bank. He has been a member of many government committees, including the Committee on the Form of Government Accounts (1947-50), of which he was chairman. He was also a member of the important Royal Commission on the Taxation of Profits and Income, whose report has recently been published.

As an acknowledged expert in monetary matters, Mr. Crick's observations on the Australian financial system and the improvements he suggests will be noted with keen interest.

I cannot claim to write with profound knowledge of Australian affairs, but a short visit, into which a great deal of observation and instructive discussion has been compressed, has served to give colour and correction to earlier impressions, formed at a distance through extensive reading and contact with Australian friends. It is out of gratitude, admiration of Australia's past and recognition of the glowing future before her people, that these lines are written, for it is surely accepted that plain speaking from one who stands aside from the currents of affairs can sometimes express a truer friendship than honeyed words of unqualified appreciation.

Both distant observation and closer inspection of the Australian economy confirm the impression that the gravest threat to sustained progress, over the long run, springs from an unusual concentration of factors of short-term instability. In any vigorous community a certain rhythm of movement is perceptible as the natural expression of powerful, underlying, dynamic forces. But progress by fits and starts entails great waste, public and private.
losses, bitter disappointment and social upheaval. Yet in the nature of things this is the kind of experience to which Australia, in degree at any rate, is particularly susceptible.

Why so? First, because of the exceptional pace of development that has been generated—a momentum perhaps best symbolized by the growth of population by about one-eighth in five years, accounted for almost as much by immigration as by natural increase. Secondly, because of the composition of Australia’s export trade, which subjects her external income to violent fluctuations as the result of forces almost wholly beyond her control. Thirdly, because of the vagaries and hazards of nature—flood, drought, humidity, animal and plant diseases and pests—which seem to be present in special force and variety on the Australian continent. Fourthly, because of the impact of these conditions on the character of the people—energetic, self-reliant, bold and resourceful, but correspondingly unattracted by the steadying disciplines of a well-ordered society conscious of its essential unity. And finally, because of the inadequacy of existing instruments of corrective, restraining or stimulating action upon the national economy.

It is this last factor that most concerns me here, since there is not a lot that can be done, or done quickly, about the other factors mentioned. Consider them. Australia is irrevocably committed to a high rate of development. Long-range capital plans are bound to prove excessively costly unless properly phased and carried through in conformity with a pre-arranged time schedule. Large variations in the flow of immigrants are inimical to the attraction of the best types of prospective citizen. Thus there is everything to be said for resisting frequent, unforeseen changes of programme under pressure of variations in current circumstances. As for the second factor, Australia’s exports must for long continue to be dominated by primary commodities. And the world shows little sign of readiness to enter into concerted plans for imparting a greater degree of steadiness to prices of agricultural, pastoral and mineral products which are traded in internationally on a large scale. The third factor is intractable, but no visitor can fail to be impressed by the remarkable achievements recorded in overcoming adverse natural conditions. Great public works have gone alongside private effort, stimulated and directed by scientific research, the spread of information and the demonstrable results of systematic experiment.

The fourth factor is especially significant in relation to the fifth, for it is difficult to see how any effective steadying instruments can be evolved except by the pressure of intelligent opinion sustained by recognition of the common concerns that underlie sectional interests. Australians, as I see them, do not take kindly to authoritarian restraints, however democratically controlled and dispassionately exercised they may be. Can it be that Australia suffers from a surfeit of parliaments and governments—or, to personalise, too many politicians too close to their electorates? Whatever the reasons may be, the working out and pursuit of a truly national economic policy for Australia—underline “Australia”—is, I suspect, hampered by a tendency to over-emphasise sectional interests at the expense of fundamental unities. One has only to cite for illu-
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stration the different attitudes, unequivocally expressed, of graziers', manufacturers' and traders' organizations towards the recent stiffening of direct import controls.

It is these fundamental unities that are at stake when we consider the inadequacy of corrective, steadying instruments of economic policy. No sectional interest can be served indefinitely by measures that diverge from those required to provide soundly based development, steadily accomplished. What, then, are these steadying instruments; widely employed elsewhere, and how far are they available for use in Australia?

One of them is monetary policy. True, the monetary system in Australia is automatically responsive, up to a point, to changes in trade conditions, particularly the swings of export income. But deliberate monetary pressure or relaxation, brought about on the initiative of the central authority, is hampered by defects and complexities in the structure of the banking system, which should be plain enough to a disinterested observer. It must be admitted, moreover, that monetary policy, in the particular circumstances of Australia, might easily outrun in its effects the needs of the immediate occasion for its use, and might therefore turn out to be damaging to the long-run development of the country. Monetary policy is an instrument that requires delicate handling and a high degree of mutual understanding and confidence between central bank and trading banks, and between the banking system and other organs of finance. And certainly monetary policy cannot be relied upon to do by itself whatever the immediate situation may require.

One reason for making this observation is the fact that in Australia the cost structure contains strong elements of inflexibility—inflexibility arising largely from the processes of wage determination, the pressures generated in course of tariff fixing and other means of support for industry, and the repetitive resort to import restrictions on a quota basis. But one feature of monetary practice itself contributes to the ineffectiveness of monetary policy; namely, inability or unwillingness to take or accept measures designed to enlarge or diminish, as circumstances may require, the volume of private saving or spending. The Commonwealth Government for example, seems powerless of itself to put any check upon a temporary over-expansion of installment selling. Further, there is no effective brake on the supply of finance made available for the purpose, even though banks themselves, as one source of such credit, may exercise due restraint. The regulation of capital issues is ruled out. Then again, interest rates show marked rigidity, and there is barely scope for any differentiation of interest charges according to the nature and purpose of the particular borrowing transaction. In such circumstances monetary policy, which needs to be exercised in a flexible, selective manner, is hamstring from the very outset.

Quite apart from monetary policy as ordinarily understood, the system of public finance in Australia is ill-adapted to the purpose of exerting a steadying influence by counter-balancing any forces of disturbance that may be generated within the economy. Partly this is an incident of a federal structure and certain provisions in the Constitution itself (and judicial interpretation thereof) as to the financial relations between Commonwealth and States. Further,
the annual attempts to co-ordinate the capital plans and borrowing operations of Commonwealth and State governments seem to breathe the spirit of bargaining rather than collaboration, whereas a fully effective and continuously operating Loan Council, besides bringing a degree of order into governmental appeals to the bond market, might exercise as needed a powerful equilibrating influence on the economy.

As for taxation, public reaction to the unjustly named "horror budget" of 1951 (which anyway may have come too late to exert a full counter-inflationary effect) dealt a setback to the development of a progressive fiscal policy. This disappointing experience may have accounted for the opportunity lost in 1954 of imposing restraints on private spending by withholding tax reliefs that were nevertheless fully justified on the basis of the foreseeable revenue surplus. Partly, no doubt, the reaction was the Australian expression of the general reluctance to entrust government authorities with a larger share of the community's income than is needed for the most economical performance of its fully approved spending functions—of the fear, in other words, that revenue surpluses may relax the restraints of economy and encourage a widening of the activities of government.

Yet here again, I suspect, Australian opinion was showing characteristic mistrust of super-imposed restraints conceived in the long-run general interest. In the Australian temperament there is a very evident disposition to enjoy good times uninhibited by anything more than a minimum of fore-thought as to any difficulties and dangers that may lurk ahead. There is, then, some ground for the conclusion that anything done by way of fiscal action to exert a stabilizing effect on the economy must be done by stealth rather than by openly stated fiscal policy shaped to explicit ends.

An outsider must find it difficult to judge how far the inadequacy of economic policy in Australia is due to the national temperament and how far to the particular form of federalism on which the Commonwealth was founded. It is true that, quite apart from the Loan Council, useful attempts have been made to co-ordinate Federal and State activities, as in the fields of assistance and guidance to primary industries, land settlement, housing and transport. But in important sectors of economic policy, particularly where equilibrating action is called for, there seems to be a tendency to fall back upon constitutional obstacles or electoral risks as justifications of inactivity. In particular, the central Government seems to lack any explicit, coherent economic policy, adaptable to changing current conditions, while its actions seem to be limited to improvisation.

This is the only explanation that appears of the lack of authoritative presentation and interpretation of facts, designed to inform the public and provide the basis for objective analysis and criticism. Admittedly, plenty of bare statistics are offered. But there is no annual economic survey, such as is issued by official bodies in New Zealand, the Netherlands, the United States, the United Kingdom and elsewhere. The public accounts for both Commonwealth and States are complex and obscure. They defy prompt and assured analysis aimed at tracing and projecting, over the short run at least, the impact of Government finance on the monetary situation. The returns, and perhaps the structure of the accounts themselves, stand
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sorely in need of review and reform. The Government appears to be shy of receiving unofficial advice or establishing channels of regular consultation, such as has proved of value elsewhere both in shaping official policy itself and in cultivating a sense of partnership with industrial, agricultural, labour and other organizations and with individual experts of special competence. And this very attitude is discouraging to organizations and individuals whose advice, freely offered, might be of practical value. There is insufficient mutual confidence to be sensed in the climate of relations between governmental agencies and private bodies and individuals.

In the light of these shortcomings it is not so surprising as at first sight to find how inadequate for a growing, progressive, democratic country like Australia are the facilities available for public discussion of issues of economic policy. In this field individual banks are performing an important public service; but there is little scope—apart from such organs as the Australian Quarterly and the Review of the Institute of Public Affairs (Victoria) for the presentation of considered views or the conduct of dispassionate debate by academic and other experts. Larger opportunities are required of ready interchange of views from which two benefits might be expected to result: on the one hand, more positive formulation and exposition of Government policy; on the other, a broadening of public understanding of the problems underlying policy. And out of all this might develop a livelier recognition of common concern in matters which are of far more than sectional interest.

I am told that, on a business basis, little or no demand exists for the kind of publication that seems so seriously lacking. That may well be so—at present. It is, however, a part of the educative process in political economy to create and stimulate such a demand. The time is ripe, it may be suggested, for public-spirited individuals and business undertakings to act in advance of market demand and thus to contribute towards the longterm process of improving the instruments of policy, enlarging the public interest in basic economic issues, and developing a widely-spread critical faculty capable of exercising judgment untainted by partisanship.

Action along this line, however, would in no way detract from the responsibility of government for exerting leadership in the field of economic policy. The first step might well be a comprehensive survey of the national economy, its structure and its potentiality for expansion, and its capabilities by way of response to changing natural and external circumstances. An immediate object should be to ensure that within the organism shall be found the means, ready to hand in case of need, of exercising due restraint or providing needed stimulus as occasion may require. On such a foundation could proceed the development of a practice of continuous exposition of Government policy, supported by objective presentation of current fact and deriving the fullest benefit from active public discussion. No Government can expect to be trusted so long as it displays conspicuous reluctance to state its policy, to define the grounds on which its policy is based, and to take all measures within its proper competence to carry out that policy.