Editorial — Too Cautious!

THE Budget has evoked the customary blasts of criticism from the Press and most sections of the community. But, in the light of experience over the past ten years, one wonders whether the criticisms have any more effect on the Government than the shape of the Rock of Gibraltar is affected by the strong winds which rage around its summit. On the contrary, in Canberra’s present state of mind, these attacks appear merely to harden the Government’s attitude, to cause it to retire still more into the comfortable mental remoteness of the capital, to encourage it to persist in the courses it is pursuing, and even to cast around for more and more reasons to justify these courses. If the numerous critics of the Government are really hoping to achieve any of the concessions which they demand year after year (so far without much success) perhaps they might get further by observing the old adage—“Walkee softly, catchee monkey”.

This doesn’t mean that Government policy should not be criticised. Indeed, at the present time, when there is no effective political opposition, criticism from the Press, business organizations and the public has a role of special importance to perform. But the critic should be fair and the strictures which he may feel compelled to make on Government policies should be kept within the bounds of a decent moderation and with a sincere desire to help rather than hinder. The responsible critic should not be concerned with scoring petty debating points or with discomforting the Government just for the sheer hell of it.

What, then, can one fairly say about the 1961/62 Budget? It it not a bad budget; but, then, neither is it a specially good one. It lacks a sense of urgency. There is little to suggest that the imaginative faculties of West Block have been over-active in the course of its preparation. The Budget follows paths that have been
well trodden, perhaps too well. It con-
tains nothing of even a mildly exhilarat-
ing character. The general impression it
leaves, coming on top of other budgets
of recent years is that Canberra has got
into a bit of a rut in its thinking. A little
freshness or novelty now and then might
have a surprisingly stimulating effect.

The Budget might be accurately de-
scribed as very mildly expansionary, with
the emphasis on "very mildly". It con-
templates a deficit, but an overall budget
deficit of £16m. in total national expendi-
ture of £7,000 million is so tiny as to be
barely worth consideration. The Treas-
urer's speech makes much more of the
expansionary character of the Budget
than it really warrants. The insignificant
size of the deficit suggests that the Gov-
ernment is fearful of over-stimulating the
economy and thus of promoting a return
to the boom conditions of a year or so
ago. The Government clearly does not
want to undo the effects of its 1960
measures in cracking the boom, even
though these measures have produced
much stronger results than were antici-
pated. Some caution in the Government's
approach is, therefore, understandable.

BUT has the Government been over-
cautious? Unemployment at 2.7%
over the whole economy is admittedly
not high, but probably more than is feas-
ible if the Government's targets for de-
velopment and migration are to be rea-
ised. In his speech the Treasurer was at
pains to emphasise the desire of the
Government to achieve some improve-
ment in employment as rapidly as pos-
sible. But in the light of the general lack
of tone in economic conditions and of
confidence in the business community,
it is doubtful whether the Budget in itself
will make much contribution towards that
end. No one wants to see a return to the
over-exuberant confidence of last year,
but the Budget could have made some
concession to the depressed psychology
at present prevailing in many quarters
without over-stepping the bounds of rea-
snable caution. After all, the Budget
Speech did say that— "The main impetus
to expansion must, of course, come from
the buying public on the one hand and
from business firms on the other". Would
it not, then, have been desirable to give
a little more direct assistance, in the way
of modest tax reductions, to the public
or to business—or even to both? Massive
tax concessions at the present juncture
would certainly have been wrong and,
from this point of view, we find ourselves
on the side of the Government rather
than that of some of its critics. But some
moderate concessions might have assisted
the more rapid return to the conditions
which the Government itself apparently
wants. The Government would not have
been over-reckless if it had reduced Com-
pany Tax by say, 6d. in the £. or, alter-
atively, if it had restored the 5% rebate
of tax on personal incomes made in its
1959 Budget. Such measures would,
naturally, have meant a budget deficit
greater than the Government has appar-
tently been prepared to countenance. But
a deficit of the order of say, £30 or £40m.
could hardly have had catastrophic
boom-provoking consequences — if it
were found the economy had been over-
stimulated, then the brakes could be
applied.

The increase in estimated expenditure
of £128m. over the previous year has
been severely criticised, but with prices
rising at the rate of 3% to 4% a year
and population increasing at around 2%,
annual increases of close to £100m. a
year seem to be more or less unavoidable.
In previous years, the increases in Com-
monwealth expenditure were as fol-
lows:—

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Of the £128m. increase in the current year, £28m. is accounted for by a rise in Social Services expenditure, £32m. by payments to the States, £21m. by Public Works and Housing, £13m. by a rise in subsidies (almost all of which comprise payments to wheatgrowers—unavoidable now that the Wheat Stabilisation Fund has been exhausted). So the main point of criticism devolves on the failure to make other than trifling tax concessions at a time when the Government itself concedes the desirability of an expansionary fiscal policy. Perhaps the weakness of Canberra's thinking on fiscal policy is to be found in its deeply ingrained reluctance ever to reduce taxes, contrasted with its ready willingness to increase them.

The balance-of-payments position is, of course, crucial in any assessment of future prospects, but the Treasurer was content to give this the most general treatment in the Budget Speech. Indeed he seemed intent on throwing the rosier possible glow over the external payments position which has been causing bewilderment, mixed with concern, throughout the community.

Not much more than 6-months ago, most people, including the Government's advisers themselves, expected our external financial reserves at the present time to be around £300m. But the Treasurer in his Budget Speech now tells us that our total external resources stand at £700m. By what miracle has this extraordinary change for the better, in so short a space, been accomplished? Can it be as good as it looks on the surface?

It is true that exports turned out to be somewhat higher than anyone anticipated earlier in the year, largely because of windfall wheat sales to famine-stricken China. It is true also that imports for 1960/61 at £1084m. were a little below estimates because of the sharp drop in the closing months of the year. But these two factors don't go far to explain the truly staggering change of some £400m. which represents the gap between expectation and realisation. What, then, is the explanation?

To obtain his figure of £700m. of "total external resources" the Treasurer includes the borrowing from the International Monetary Fund last April (the loan of £78m. and the £45m. stand-by credit*). In the accounts of the private individual or company, borrowings are not usually regarded as an addition to assets, but apparently nations are different. The catch about the I.M.F. loan is that it has to be paid back to the Fund, along with interest, within five (5) years at the most. But even bringing this sum into the total of our external resources, as the Treasurer has done, there is a large difference still to be explained. This is accounted for by the unexpectedly heavy inflow of capital in the last half of the year which brought the total capital influx for 1960/61 to £330m. — an amount far surpassing that obtained in any previous year. (In 1959/60 it was £215m.). But quite a part of this flood of capital does not represent direct capital investment from abroad in Australian industries; it is a result of abnormally heavy imports on a consignment basis which have still to be paid for. This amount has been variously estimated at between £50m. and £100m.

The really disturbing feature of the Australian balance of payments is the enormous current account deficit which in 1960/61 reached £369m.—far greater than the large deficit of £219m. in the previous year. The Government gives the impression of viewing the deficits on current account with equanimity, but in taking that posture it would be pretty much alone among the Governments of the responsible industrialised countries of the world. We should never cease to bear in mind that the continued

* The stand-by credit has since been cancelled.
inflow of "capital" on a truly enormous scale is the prop on which the Australian economy is at present resting. How secure that is remains to be seen. But it should be pointed out that it only needs a sizeable slackening in the rate of inflow to plunge the economy into serious straits indeed. It is as well to face this position frankly, rather than shut our eyes to it.

The Government itself must realise the crucial importance of a continued strong inflow of capital, but it has not been prepared to say as much to the public. In his statement on migration, the Treasurer, after first giving the impression that the migrant intake would be quite substantially reduced during the current financial year, proceeded to say—"We would in fact regard it as a basic mistake to cut back the standing target of net migration at the rate of 1% of population per year". In making this statement, could he have had at the back of his mind the likely effect on capital inflow of any suggestion of a "colder" attitude toward migration on the part of the Government?

The budget is, of course not the product of one mind. Many people have an influence in moulding its final shape. The Treasurer, however, has to take the full responsibility for it, and consequently when criticism is directed at the budget, it is he who tends to bear the full brunt. Whether or not the budget is a good one, or a bad one, in the context of Australia's present situation, must, in the end be a matter of judgment rather than analysis. Our belief that it does not go far enough in stimulating business to expand employment rapidly, and that, in its detail, it tends to be unimaginative. But the Treasurer himself, must, we think, have won some measure of commendation for the considerable grasp of financial detail he has displayed in his endeavours to answer the critics.

The Budget hardly justifies the assaults which have been made upon it. On the other hand one would have liked to see a more enterprising use of fiscal policy, and a more imaginative approach to the whole problem of budget-making.
An Overseas Comment — I

The Director of the Institute, Mr. C. D. Kemp, returned to Australia on July 28 from an overseas trip of sixteen weeks' duration. He visited the United States, Canada, England, Denmark, Sweden, Norway, France, Western Germany and Berlin (including the Russian Sector), Switzerland, Austria and Italy. All his travel was done by air, in order to give him the maximum time to gain impressions of economic and political conditions in the countries he visited. He had talks with people from many walks of life — industrialists, bankers, politicians, government officials, economists, journalists and others. In this article, the first of two, Mr. Kemp records some of his impressions.

Australians don't need to be told (they know from looking at the news' sessions on their TV sets) what a troubled world we live in. But I don't think anyone can fully appreciate how troubled the world is, unless they travel abroad. Australians are, in a sense, fortunate in that they can give virtually undivided attention to the domestic problems of their own country. This is certainly not so of the other countries I visited. Even the Scandinavian countries and Switzerland seem to be caught up in the powerful currents of world happenings and world thought to a much greater extent than Australia.

My chief interest, of course, is economics and I went abroad mainly to study the economics of the countries on my itinerary, but I found the people of these countries frequently more concerned with the great issues of world politics than with their internal economic problems. As a result, when I went to interview somebody, say about unemployment in the United States, I found that it was not long before we were talking about Cuba.
or the first American space-man. In London the great topic of conversation was the Common Market. In Ottawa, I found the Canadians seriously worried about the increasing American ownership of their industries and productive resources. It was very much on their minds. The crisis surrounding the Governor of the Bank of Canada, Mr. Coyne (whom I had the good fortune to interview) was clearly coming rapidly to a head. In Paris, the French wanted to talk about the Common Market and all that it portended— that, and Algeria. Just before I went there, Khruschev was focusing belligerent attention upon Berlin which had become the central “trouble spot” of the world. Berliners naturally found it hard to think of very much else. On my last night in Berlin, while sitting in my hotel room, the news came over the radio that the West Berlin Templehof Airport had been “buzzed” by a Soviet plane, which had flown in a manner dangerous to other aircraft.

It was not, therefore, surprising that, in the main, economics tended to take a back seat to the great issues of international relationships. If it were possible to reduce tensions and to achieve some measure of political stability, the economic prospects before the world, or a good part of the world, would be little short of magnificent. By all the standards of the past, all the nations I visited were wonderfully prosperous. Of course all countries have their domestic economic problems; in some they are more serious than in others. But the word “crisis” is, to my mind, used much too freely when applied to these problems. It is silly and dangerous to scare people unnecessarily (there is quite enough in the world to scare them anyhow) and we should be careful of using language that vastly exaggerates the true character of the economic difficulties that must arise from time to time.

As the United States was my first port of call, I will begin there. The Cuban failure (which occurred while I was in New York) was a shattering blow to American confidence and self-esteem. When it occurred, there was a natural reaction to hit out wildly in retaliation. Many times I heard the phrase: “We are going to have to move in there,” or, “We will have to send the Marines in there”. But, in the end, other counsels prevailed and the nation steadied. Nevertheless, Cuba was painful
for the Americans to take. They felt they had been let down and humiliated.

Strangely enough, the Cuban fiasco hardly made a dent in the prestige of the new President. Blame was heaped upon those who were believed to have advised him to undertake what proved to be a foolish and dangerous misadventure.

When I was in the United States, President Kennedy's prestige was amazingly high. Everywhere I heard praise of him, even among those who, as Republicans, would be opposed to him politically. I had the impression that the Americans were excited by the novelty of having such a young man in the White House. Someone said to me that Kennedy had opened the windows and let in the fresh air. Obviously great hopes were held for the President — for his youth, vigour and enterprise. But I was in the United States during what many called "the honeymoon period" of the new President. That period must now be ending, and from now on the Americans themselves will be applying more exacting standards to assess the performance of the man at the White House.

The Americans to-day are a very serious people — one of the most serious in the world. This is not altogether surprising. After all, they have only recently succeeded to world leadership. The path of leadership is never easy and to-day it is honeycombed with frightful pitfalls. Through them all America must try to find a way — a mis-step could have awful consequences, not merely for themselves, but for all the peoples of the world who are depending upon them. Small wonder that they are worried people and that they are showing signs of their worry. They are bearing a staggering burden of responsibility, and they deserve our sympathy and support in their endeavours to find a way through. As their friends, we should be careful of criticising, and if we do, we should exercise a decent restraint. They are getting far more than their fair share of criticism anyway.

One thing that always struck me about the American people is the manifest sincerity and honesty of their intentions. Perhaps no nation has such a strong strain of idealism. This is a tremendous force for good in the world, which we should never under-estimate.
The Americans will make mistakes — what nation in their position wouldn't in the troubled seas of the world to-day? — but they will always be striving to do what they believe to be right and in the best interests of stability and peace. Wherever one travels, one sees evidence of their generosity, and their great wealth has been used to buttress the economic foundations of the world at whatever point they appear to be in danger of crumbling.

There are, it is true, some disturbing aspects in American life to-day. To some extent these derive from their abundant riches. There is, I think, in some parts of the United States, mainly in the big cities, a tendency to too much conformism, and consequently to lack of individual self-expression. Another thing is that life tends to be made too easy for children and teen-agers by over-indulgent parents. (Are we entirely free of this in Australia?) I happened to visit Washington's historic home at Mount Vernon on the majestic Potomac River on a day when it was over-run with school-boys and school-girls of ages around 10 to 15. I could not help noticing that far too many of the boys seemed to be over-plump, as if they had too little exercise. There was an interesting sequel to this two months later when I was in Lucerne in Switzerland. An item appeared on the front-page of one of the English papers reporting that President Kennedy had said that he was disturbed by the lack of physical fitness among American school-children and had appealed to all schools to institute fifteen minutes a day of compulsory hard physical training. I would say Australian boys and girls are physically fitter than their American opposites. Probably, this is because sport is almost a religion in our country — there is no doubt that Australians have a greater love of sport than any other people in the world. No organised sport — in any city — has the extraordinary hold on its inhabitants that Australian Rules Football exercises in Melbourne during the winter months.

The Americans themselves are well aware of their failings. Indeed, they are their own sternest judges. There is an immense amount of self-questioning in American life. This is a good thing if it is not carried too far. Taken to extremes, it
can give rise to inner uncertainties and to self-doubting. Too much introspection is not good for anyone.

The great free-ways and elevated highways in the United States are something to marvel at. Staggering sums of money have been spent in an endeavour to keep their traffic mobile. Even so, the Americans are a long way from solving their traffic problems — at least round the city areas. Coming from Idlewild to New York at the end of the day, I noticed that the freeway leading out of New York to Long Island was jam-packed with cars, bumper to bumper; frequently the traffic was banked up and had come to a full stop. One thing is certain: you can't think of a motor car civilisation without allocating a high percentage of national income to road expenditure, and if Australia keeps on the way it is going, it may be running into a problem, the dimensions of which we are at present only dimly aware. If we want to enjoy our cars, or even if we want to make them move with reasonable comfort and mobility, somehow we will have to devote far greater sums of money to road building and maintenance. Until I got to Italy, which was the last country I visited, I never saw a bad road. But soon after leaving the airport at Essendon for my home, the car was bumping over ruts and pot-holes. The average American driver adheres rigidly to the numerous traffic laws and speed limits and Americans, I think, would be shocked by the suicidal characteristics and lack of road courtesy of the Australian motorist.

When I was in the United States in May, American businessmen and economists were confident that the recession had struck bottom and that the economy was about to turn up. At the same time it was felt that recovery would be gradual and that any improvement in the employment position would be very slow. The official unemployment percentage was around 7%. (Today, three months later, it is still about that figure.) At the same time we should be careful not to exaggerate the gravity of unemployment in the United States. I was told many times by highly-placed experts that while unemployment was too high, it was not of really serious proportions.

The way the unemployment statistics are compiled in the United States gives the worst possible picture of the position. Apparently everthing is lumped into the unemployment fig-
ures; they include, for instance, elderly retired people who would take jobs if there were suitable ones available. I was told by a leading economist that if American employment statistics were made up in the same way as our statistics in Australia, the unemployment percentage would be about 41%. There is a "hard core" structural problem of unemployment which has nothing to do with cyclical influences, but which arises from technological change and the advance of automation. After each recovery from the recessions which have beset the American economy fairly frequently through the 'fifties' unemployment has levelled off at a higher figure. Also unemployment tends to be concentrated in localities or regions such as Pennsylvania and West Virginia, where coal has been heavily hit by oil. Employment in coal mining is 65% below the level in 1947. Employment in the railroads has also dropped sharply, as rail transport has been affected by competition from other forms of transport. Unemployment is almost entirely concentrated among unskilled workers; the rate of unemployment among the coloured population is almost twice the rate among the white population. A major reason why the employment problem might prove to be difficult is the tremendous number of new job-seekers expected to come on the labour market during the next twelve months.

Inflation is not regarded as a pressing problem in the United States at the moment, although some authorities feel that the level of costs is a strong contributory factor in the balance-of-payments difficulties which the economy has been encountering. I was told by a top official in the Federal Reserve System that American prices would rise little, if at all, over the next two or three years. One reason given was that basic commodities are likely to remain in over-supply throughout the world for some time.

I think that, by and large, Americans tend to take an over-serious view of their external payments difficulties. This is because deficits in their external accounts are something rather novel in American experience. In Australia we probably go to the other extreme. Here we are used to living with wide fluctuations in our balance of payments and the appearance in some years of frighteningly large deficits. Of course, the United
States would have no balance-of-payments troubles at all, were it not for her huge military expenditures abroad and the massive financial aid she is extending to other countries. However, it is hard to see any relief from this direction at the moment, particularly in view of the immense additional commitments the United States is assuming in Latin America.

In spite of the problems which the American economy is encountering, its basic strength is well founded in its high productivity and its almost unlimited productive power. Many economists think that the “growth rate” is much too slow. (This is the attitude taken by the President’s Council of Economic Advisers.) But I wonder whether this view is not based on over-theoretical grounds. It is much harder to maintain a rapid rate of growth in a highly developed economy, such as the United States, than in other less developed economies. Also there may be intractable technical factors which those obsessed with statistical aggregates tend to ignore. One at the moment is the severe shortage of skilled labour with which to man modern, highly automated plants. Another is that when an economy reaches a mature state of development, emphasis turns more to the service industries by comparison with the high-productivity manufacturing industries.

There is no doubt that the United States is passing through a difficult and worrying period in its history. As I have said, some aspects of its own domestic affairs, both economic and social, are giving rise to concern. There are crises or threatened crises all over the world, in practically all of which the United States is critically involved. There is grave danger of the spread of Communism right on its door-step in Latin America. There is Cuba and Laos and South Vietnam and Berlin and the new emerging Africa. There is the competition with Soviet Russia in the realm of space. And, of course, there is the continuing “cold” war and the constant endeavours to prevent it from becoming “hot”. And finally, on top of it all, there is unemployment and balance-of-payments difficulties to wrestle with at home. No wonder that there is some uncertainty and that the burdens of responsibility at times appear hard to carry.

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I had only three days in Canada, two of which I spent with officials at the central bank — the Bank of Canada. This is clearly insufficient time to gain other than the most general impressions.

Canada, too, seems to be going through a critical period in its history. The tremendous expansion and development of the post-war years has, for the time being, slowed almost to a halt. Unemployment at over 10%* is the highest of any Western country and immigration has come to a standstill. The deficit in the balance of payments on current account is huge, notwithstanding the depressed state of the economy. The change has been abrupt and painful and the Canadians, naturally enough, are disturbed and worried. But a deeper cause of disturbance in Canada at the moment is the growing ownership and control of their industries and resources by American capital. This was certainly uppermost in the minds of the Canadians with whom I talked.

About 60% of Canada's manufacturing industry is now owned by foreign capital, mainly American. In addition, American capital controls some of the major primary resources of Canada. Moreover, something like 50-60% of Canada's exports go to the United States. All this makes Canadians wonder whether the big decisions affecting their economy are now being made in Ottawa, Toronto and Montreal or at Washington, New York and Chicago.

Many thinking Canadians, however, see the danger of an even deeper threat — a threat to Canadian national culture and to Canada's aspirations to develop its own distinctive way of life. They fear, in other words, the "Americanization" of Canada.

There is, of course, no malign intention on the part of the Americans in all this. In fact, in past years, Canadians have warmly welcomed American capital and "know how", which have been indispensable to their development. But it is hard to live next door to a giant, particularly one of the tremendous economic thrust and power of the United States, and not stand in danger of coming under its domination. Fears of American dominance in Canada are, admittedly, nothing new; they have recurred from time to time in Canadian history. But to-day they seem to have a firmer basis than at any time in the past.

*When I was there in May.
It is hard not to feel some sympathy with those staunch Canadians who wish Canada to retain its right to run its own affairs in its own way and to preserve its cultural independence. The former Governor of the Bank of Canada, Mr. Coyne, with whom I had a long talk was one of these. Indeed, Mr. Coyne was the central figure in the controversy that was raging when I was there.

It is difficult to see (and certainly the Canadians that I talked with were unable to see) what is going to be the outcome of it all. The Canadians, after all, want the immense economic benefits that go with American capital just as much as they want to preserve their own independence of decision. They are thus caught on the horns of a dilemma.

As in Australia, United States' companies have shown no disposition to make provision for Canadian participation in the ownership of the enterprises which they have initiated. Moreover, American enterprises do not have to publish accounts of the sales and earnings of their Canadian operations. Canadians feel that many of the most vital activities in management and research are retained by parent American companies and that Canadians are consequently denied the opportunities which should go along with the industrial development of their country.

Thus the future relationships of Canada and the United States form a delicate question. Perhaps eventually some accommodations will be reached which will meet the Canadian wish to maintain the reality of national independence.

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The outstanding single impression I gained from my four months' trip was the tremendous and rapidly advancing prosperity in Western Europe — particularly in France, Germany and the Scandinavian countries. Nor would I exclude Britain from this, in spite of the serious difficulties she is at present experiencing with her balance of payments. The change for the better in Britain since I was there ten years ago is great enough to be described as a transformation. It is a heartening and, indeed, wonderful thing. I intend to write about Western Europe in the December "Review", but I will conclude this article with some observations on the Common Market, as this is so topical at the moment.
I hardly heard the words "Common Market" mentioned until I arrived in England on May 17. From then on, I heard of little else. It was clear that something big was brewing. On my second day in London at a lunch with the Editor, Donald Tyerman, and senior editorial staff of "The Economist", I was told that Britain's entry into the Common Market was a near-certainty and that it was not likely to be long delayed. Wherever I went, with only one or two exceptions, I got the same response, namely, that Britain's entry into the Market was only a matter of time. One could not be in London in May and June of this year without sensing a feeling of urgency that Britain should get into the Market as soon as possible.

I was naturally asked repeatedly what I thought Australia's reaction would be if Britain decided to enter the Market. I said there would be some apprehension on immediate economic grounds arising from the threat to our exports of primary products, and perhaps even greater apprehension arising from the possible weakening of Commonwealth ties and the fear that it might mean the beginning of the end of the Commonwealth conception. Three days after my return to Australia, the British Prime Minister announced Britain's intention to apply for membership of the Common Market.

The development of the Common Market in Europe represents, to my mind, the most momentous political event in modern history. I think we in Australia should be quite clear in our minds what it really means. The important thing to grasp, I think, is that the Market belies its name — it is not, by any means, only an economic conception; rather, in essence, it is a political conception. It has sprung up out of the terrible history of Europe in this century and the feeling, deep-rooted in the thoughts of Europeans, that things could not go on as they have in the past, and that somehow or other a new Europe had to be created. I was told in Paris that to have returned to the old Europe of rigid national sovereignties, national rivalries, and worse, national hatreds, would have meant the end of everything; that the peoples of Europe must learn to live together and work together or there could be no future for Europe, or indeed for the world. In all this, fear of a strong, resurgent Germany has played a dominant part.

It is, thus, important to understand that the Common Market is not an end in itself, but a means to an end, and that end is
nothing less than the union of Europe on a federal, or at least a confederate, basis. The Common Market is not just a matter of the countries of Western Europe getting together to obtain for themselves certain economic advantages. It is a matter of these countries getting together to protect themselves against themselves, to speak, and thus for the future political stability of Europe.

Where it will all eventually lead, nobody can say. There are some who see the final destination as a “United States of Europe”. That may or may not be the outcome. But, for the time being, the European peoples are working together and sinking their old national prejudices to an extent that has probably never been achieved before. It is a remarkable and heartening thing, for instance, that the Germans and the French are co-operating amicably and constructively in the tasks that the Common Market presents. One leading London newspaper described this co-operation between Teuton and Gaul as the outstanding political fact since World War II.

The great stumbling block, which, until a few weeks ago, stood in the way of Britain’s entry into the Market, was the understandable reluctance of the British people to sacrifice any substantial degree of their national sovereignty. Britain wants the economic advantages of being a member of the Market but, until recently at any rate, has not been willing to fully accept the deeper political implications involved in becoming a member. Of course, Britain has still to become a member. The decision so far is to do no more than to enter into negotiations with a view to membership. But there is not the slightest doubt in my own mind that Britain will join the Market, because she really has no alternative. If she persisted in doing otherwise, she would be swimming against the tides of history, which in this case seem to be irresistible.

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It is impossible, at this juncture, to say how Australia will come out of all this. But if our preferences on the British market are eventually to disappear entirely, as seems possible, even probable, I feel sure that we will be given reasonable time to adjust the pattern of our trade to the new situation with which we will be confronted. This is the very least we are entitled to expect, and I don’t think we will be disappointed. It
would be against the fundamental principles of the Treaty of Rome itself, for the Common Market countries to insist on a course of action which would involve serious damage to our great primary industries overnight. If that happened, they would be applying a form of treatment to the industries of the Commonwealth countries, which they have not been prepared to apply to their own industries, where ample time for adjustment has been the essence of the contract. Australia cannot help but be deeply concerned about the possible impact on our exports of primary products of Britain's impending entry into the Common Market. It is entirely right that we should be preparing to state our case with all the force of reasoned and reasonable argument. But there is no need for panic or for exaggerated fears.

I have a feeling — I may be wrong — that, somehow or other, Australia will come out of it all without serious or irreparable damage being inflicted on its economy. I would be surprised if the Common Market countries unheedingly turned their backs on Australia, and, for that matter, on all the other overseas countries affected, when they come to frame a common agricultural policy for Western Europe.

There is no doubt that the European Economic Community wants Britain in, as a member, and it well knows that Britain could hardly enter on terms which meant the grave disruption of the economies of the Commonwealth countries.
1. THE AIMS

THE AIM of the European Economic Community is to eliminate the traditional system of economic frontiers between national States in Europe. The final target is not precisely defined. The Treaty of Rome merely talks of establishing "an ever closer union" among the States of Europe — but if the Community is effective in creating common economic policies, that will involve making many political decisions in common too.

The kind of European union to which members of the Common Market commit themselves is an open-ended affair: there are no limits set to the process of integration. On the other hand there is no commitment to join a Federation of Europe. What is specifically promised is:—

(a) EQUALITY of economic opportunity for everyone throughout the Community. By the time it is fully established an Italian will have the right to set up a shop anywhere in Germany; a German worker will be free to displace a Frenchman in a French factory if he is better qualified for the job; and the French worker will have the same rights in Germany. Meanwhile goods, as well as people, will move freely, unimpeled by any form of national protection, throughout the area.

(b) Member-States commit themselves to a COMMON policy on a number of issues — notably trade relations towards the rest of the world (i.e., abolition of separate trade treaties), agriculture and transport. For other purposes, there will be co-ordination of national policies, i.e., although national policies of members will not be identical, they will have to be designed to take account of the needs of the rest of the Community.

2. THE COMMON MARKET'S TIMETABLE

The European Economic Community comes into full operation in three stages, each of which is to be four years' long. The end of the first stage is due at the end of December, 1962. The Common
Market will be in full operation not later than 1973; but, if no delay takes place, full operation will be by 1970.

Tariff Changes

Already, the members have cut internal tariffs by 40% and they may be cut by a further 10% next year. All remaining internal tariffs must be removed by 1973 at the very latest.

Common External Tariff

The first moves have already been made towards a common external tariff, by raising or lowering national tariffs towards the eventual common level.

Agriculture

By 1970-73 at the latest, member States will establish a common agricultural policy designed to protect farmers within the Community against the full force of outside competition (generally by duties or levies on imports).

Freedom of Labour Movement

FREE MOVEMENT of workers is to be ensured by 1970-73. This must include the right of workers to “accept offers of employment actually made” by an employer in another country.

Professional men and business men will be free to work in any country in the Community.

Transport

There will be a common transport policy, including common rules applicable to international transport and limited permission for one member country to operate transport services within another.

The Community’s General Policy

The drafters of the Treaty did not consider that a simple removal of trade restrictions and restrictions on labour movement would, in themselves, lead to a sufficient degree of equality of economic opportunity or of co-ordination of national economic policies. Provision was therefore made for rules to establish and maintain fair competition and to co-ordinate economic and social policy.

Economic Policy

NATIONAL economic policies are to be a matter of common interest and consultation. The aims are stated to be to maintain balance-of-payments equilibrium, a high level of employment, and price stability. Exchange rate policy is to be a matter of “common interest” (though Germany did not consult her partners before revaluing the mark this year). Action to deal with balance-of-payment difficulties is to be taken after consultation with the Commission.

The Treaty does not provide for or envisage the need for common budgetary policies. Monetary policies are to be co-ordinated by a Monetary Committee with consultative status. In practice, close consultation on overall economic policy between governments will prove necessary if the Common Market is to work satisfactorily.

Social Policies

By 1962, there must be equal pay for equal work by men and women workers. There shall also be “close collaboration” between members in matters of labour legislation and social security.

3. INSTITUTIONS OF THE EUROPEAN COMMUNITY

The main centres of power lie in the international bureaucracy, which is independent of national Governments, and in the Council of Ministers, which represents the Governments. In addition, there is a European Parliamentary Assembly and a Court of Justice.
The bureaucracy has three branches for the three organisations of the Community:

1. The Common Market Commission—nine members.

2. The High Authority of the Coal and Steel Community—9 members. Set up to pool the member countries' resources of coal, iron and steel, in a single market without frontier barriers.

3. The Euratom Commission—five members. Set up to give the Community a powerful nuclear industry for peaceful uses.

The Common Market Commission has the power to issue certain directives to member Governments. These directives generally cover minor matters, but include certain more important matters, notably the power to grant tariff quotas to member countries on foodstuffs and on certain raw materials, and to permit action to prevent dumping.

On other major matters, the Commission can only make proposals to the Council of Ministers. The Commission is essentially a European civil service not a federal Government: while it can propose, national Governments in the Council of Ministers have the power to dispose, and are responsible for the implementation of decisions.

The Commission also administers the EUROPEAN SOCIAL FUND, which can make retraining and resettlement grants and temporary unemployment grants to workers displaced by competition in the Common Market.

The EUROPEAN INVESTMENT BANK, which makes development loans, is administered by a Board of Governors composed of Ministers appointed by member States.

THE PARLIAMENTARY ASSEMBLY of 142 members is currently elected by and from national Parliaments, but will eventually be elected by direct suffrage. Its duties are primarily to discuss the work of the bureaucracies of the three organisations of the Community and it has the power to question the bureaucrats.

THE COURT OF JUSTICE is also common to all three organisations of the Community. It consists of seven judges to "ensure observance of law and justice in the interpretation and application of the Treaty".

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AUSTRALIA'S OVERSEAS TRADE WITH U.K. AND COMMON MARKET COUNTRIES

TABLE I. MERCHANDISE IMPORTS AND EXPORTS 1960/61

<table>
<thead>
<tr>
<th></th>
<th>IMPORTS £ million</th>
<th>EXPORTS £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium-Luxembourg</td>
<td>11.2</td>
<td>22.8</td>
</tr>
<tr>
<td>France</td>
<td>16.7</td>
<td>51.1</td>
</tr>
<tr>
<td>West Germany</td>
<td>66.2</td>
<td>26.6</td>
</tr>
<tr>
<td>Italy</td>
<td>15.8</td>
<td>47.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>17.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Total Common Market</td>
<td>126.9</td>
<td>154.1</td>
</tr>
<tr>
<td>U.K.</td>
<td>304.6</td>
<td>200.1</td>
</tr>
<tr>
<td>All Other</td>
<td>653.9</td>
<td>574.8</td>
</tr>
<tr>
<td>Total</td>
<td>1085.4</td>
<td>929.0</td>
</tr>
</tbody>
</table>

TABLE II. PRINCIPAL EXPORTS 1960/61

<table>
<thead>
<tr>
<th></th>
<th>U.K. £ million</th>
<th>COMMON MARKET £ million</th>
<th>ALL OTHER £ million</th>
<th>TOTAL £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>11.1</td>
<td>0.4</td>
<td>30.7</td>
<td>42.2</td>
</tr>
<tr>
<td>Mutton and Lamb</td>
<td>6.1</td>
<td>0.1</td>
<td>8.1</td>
<td>14.3</td>
</tr>
<tr>
<td>Canned Meat</td>
<td>6.0</td>
<td>0.1</td>
<td>3.5</td>
<td>9.6</td>
</tr>
<tr>
<td>Butter</td>
<td>15.6</td>
<td>-</td>
<td>4.0</td>
<td>19.6</td>
</tr>
<tr>
<td>Wheat</td>
<td>18.5</td>
<td>14.6</td>
<td>69.3</td>
<td>102.4</td>
</tr>
<tr>
<td>Barley &amp; Oats</td>
<td>4.1</td>
<td>9.1</td>
<td>8.0</td>
<td>21.2</td>
</tr>
<tr>
<td>Apples &amp; Pears</td>
<td>5.8</td>
<td>1.4</td>
<td>2.2</td>
<td>9.4</td>
</tr>
<tr>
<td>Dried Fruit</td>
<td>4.7</td>
<td>0.6</td>
<td>3.8</td>
<td>9.1</td>
</tr>
<tr>
<td>Canned Fruit</td>
<td>8.9</td>
<td>-</td>
<td>4.2</td>
<td>13.1</td>
</tr>
<tr>
<td>Sugar</td>
<td>17.7</td>
<td>-</td>
<td>17.4</td>
<td>35.1</td>
</tr>
<tr>
<td>All other Foods</td>
<td>12.4</td>
<td>2.0</td>
<td>47.5</td>
<td>61.9</td>
</tr>
<tr>
<td>Total Foods</td>
<td>110.9</td>
<td>28.3</td>
<td>198.7</td>
<td>337.9</td>
</tr>
<tr>
<td>Wool &amp; Sheepskins</td>
<td>57.3</td>
<td>116.1</td>
<td>183.3</td>
<td>356.7</td>
</tr>
<tr>
<td>Lead &amp; Zinc</td>
<td>14.5</td>
<td>1.8</td>
<td>14.5</td>
<td>30.8</td>
</tr>
<tr>
<td>Other Metals</td>
<td>6.2</td>
<td>3.4</td>
<td>92.1</td>
<td>101.7</td>
</tr>
<tr>
<td>All Other</td>
<td>11.2</td>
<td>4.5</td>
<td>86.2</td>
<td>101.9</td>
</tr>
<tr>
<td>Total</td>
<td>200.1</td>
<td>154.1</td>
<td>574.8</td>
<td>929.0</td>
</tr>
</tbody>
</table>

Source: Commonwealth Statistician; Preliminary Bulletin—Overseas Trade.
Commodity Prices

Australia depends for its foreign exchange very largely on the export of commodities. This article surveys the trend of commodity prices over the past decade and prospects for the future.

In contrast with the sellers' market of only a decade ago, when world commodity prices were fantastically high, the position has now changed markedly in favour of buyers. At the end of 1960, prices of raw materials were at their lowest point since the outbreak of the Korean war in June, 1950. A slight recovery took place in the earlier months of this year, only to peter out in May. They are now reviving again apparently in part, due to the Berlin crisis. Broadly speaking, it would appear that the causes of this great change are that, with the end of post-war reconstruction and cold war stock-piling of raw materials, production has caught up with consumption, and even outpaced it. Yesterday the problem was increased production, today it is distribution and consumption.

The falling trend in commodity prices first became apparent in 1954 and, although temporarily interrupted by the Suez Crisis, the decline gained momentum during the two recessions of the last five years in the United States. In the meanwhile, however, prices of manufactured goods have been steadily rising because of creeping inflation, with the result that most primary producing countries have suffered a sharp deterioration in their terms of trade. This development comes as something of a shock after reassuring forecasts by Mr. Colin Clark and others that the primary producing countries would be "holding the whip-hand" in the sixties. These forecasts seem to have assumed that the appetite of the United States and of other industrial countries for raw materials would increase proportionately to their overall economic growth. But this has not happened. Much of the growth in the Western World has been in the service industries, and in the production of durable goods which require a greater degree of processing and a smaller proportion of raw materials expenditure, than do the simpler, nondurable consumer goods. In addition, there has been a constant drive among manufacturers to introduce labour-saving machinery, to economise in the use of traditional materials by reducing waste, by re-processing scrap, and, most importantly, by substituting cheaper synthetics.

The National Institute of Economic and Social Research in Britain has calculated that the value of 16 major raw materials (excluding oil) consumed by the industrial countries (North America, Western Europe and Japan) increased by 38% between 1950-52 and 1955-57. But, over the same period the value of exports of these materials from the main primary producing countries increased by only 1%. Whereas wool consumption increased by 12% and cotton's by 7%, consumption of the new synthetic fibres jumped by 211%. Use of plastic materials rose by 96%, but consumption of tin increased by only 5%, of lead by 10%, of zinc by 16% and of copper by 20%. Consumption of synthetic rubber increased by 44% but of natural rubber by only 15%. It seems highly significant that whereas world trade in oil (the raw
material for most synthetics) has trebled over the last decade, trade in primary products has risen by only 25%.

This general weakening in the position of commodities has not been confined merely to materials and metals; a number of foodstuffs, such as wheat, coffee and cocoa, are currently in a position of oversupply. Here, the main factor is the extension of productive capacity to meet shortages during the war and immediately after. Many countries have attempted to maintain that capacity through subsidies, tariffs and price supports, even though the original shortages have now been overcome. Technical progress has also played a part, examples being the achievement of much higher yields in wheat and cocoa crops. Although a large proportion of the world's population is still under-fed, no way has yet been found of selling to these people on commercial terms.

Basic commodities are particularly vulnerable to short-term changes in supply and demand, arising from interruptions to production and the fluctuating tempo of economic activity in the major industrial countries. Short-term price movements over the last 10 years in commodities such as rubber, base metals, wool, cotton, sugar, coffee and cocoa have been very large. When business declines commodity prices tend to fall severely; when conditions improve they rise relatively higher and more rapidly than do other prices.

Many of the primary producing countries suffer acutely from these wide price swings because of their dependence on one or two commodities for the bulk of their export income. Of 56 countries whose annual trading is reported by the International Monetary Fund, only two commodities made up 90% of the total exports of 7 countries, and over 50% of the exports of 32 countries.

Of all the types of aid that could be given to under-developed countries, the most important is surely to endeavour to find some means of ironing out these violent price fluctuations and of achieving a measure of stability in the prices of the commodities they produce. Along these lines lie economic stability and consequently political stability of the primary producing countries. What good is achieved by lending money to under-developed countries for developmental purposes, if it is in effect, wiped out by reduced prices of the commodities they produce? The World Bank estimates that the sharp break in commodity prices in the 1957/8 recession reduced export earnings by an amount equal to the whole of the Bank's lending to under-developed countries in the preceding 6 years.

Mr. Per Jacobsson, Managing Director of the International Monetary Fund, recently called on industrial countries to take more positive steps to mitigate sharp fluctuations in their demands for raw materials. He warned that under-developed countries wanted trade not aid, and without trade, aid would be ineffective. This challenge was accepted on behalf of the United States by President Kennedy shortly after his accession to office. Mr. Kennedy said that the United States would take the lead in harmonizing the financial and economic policies of the industrialized countries in the interests of the world economy, and the trend of international payments.

A recent United Nations report on "Commodity Trade and Economic Development" rejects the view that the current over-supply in commodities must eventually right itself because of the pressure of world population on limited resources. But the report does not feel that the position need worsen because of forces inherent in the nature of primary industries which lead to over-production. For example, the United Nations Economic & Social Council has been able to bring
about more orderly marketing of certain primary products. Multilateral agreements have been arranged covering sugar, wheat and tin, and international study groups are investigating the marketing difficulties of such commodities as lead and zinc, rubber, coffee and cocoa. There are three international commodity agreements at present in operation, each relying on a different stabilisation principle — sugar on export quotas, wheat on long-term contracts and tin on a buffer stock (plus production quotas imposed by a controlling council).

Smooth operation of the International Sugar Agreement, which runs until 1963, has been jeopardised by recent events in Cuba. Cuba accounts for two-thirds of all world trade in sugar, the bulk of which formerly went to United States (under a special buying arrangement outside the Sugar Agreement). With the termination of this arrangement, the Soviet bloc have agreed to absorb Cuba's sugar surplus, but whether portion will eventually find its way into world markets remains to be seen. Over the last five years, sugar production has been increasing at the rate of 10% a year compared with an increase of 2½% in consumption. A calamitous fall in sugar prices has been avoided only by the strict control exercised through the special buying arrangements covering the American and British Commonwealth markets and the International Sugar Agreement export quotas. Even so, the current "free-market" price of 3½d. a pound is barely profitable, even to low-cost producers such as Cuba and other Latin-American countries. About half of Australia's export sugar is sold at 6d. a pound under the Commonwealth Sugar Agreement (which expires in 1968) and the remaining half under the International Sugar Agreement at less favourable prices.

The current International Wheat Agreement, which expires next year, requires the major importing countries (now including the United Kingdom) to purchase 500 million bushels of wheat a year (about one half of the total trade of the four major exporters — Australia, Canada, United States and Argentina) at a minimum price of 13/6 (Australian) a bushel, and the major exporters to supply that quantity at not more than 17/- a bushel. No production controls are imposed, though the United States farm support programme has a partial effect in limiting American production. Stocks of wheat have more than quadrupled since 1952, mainly because of the enormous production of North America. It is estimated that these stocks are sufficient to meet world wheat requirements for the next two years. Recent heavy Chinese buying has helped relieve the position of Canada and Australia, but disequilibrium in the supply-demand position for wheat seems likely to persist unless more stringent production cut-backs are imposed.

The provisions of the International Tin Agreement are now in abeyance because of the recent strengthening of the previously weak supply-demand position of tin. The International Tin Council had been supporting prices by buffer stock buying at a floor price of £912 a ton and by limiting exports of its member countries. But with the working out of richer deposits in Malaya and elsewhere, and political troubles in the Congo, tin is one of the few metals where consumption is running ahead of production. For the first time since Suez, the Tin Buffer Stock Manager began selling last April — under the Tin Agreement he must sell at £1,100 a ton. Stocks were soon exhausted, and the current price of £1,170 a ton is still well above the buying price range of £912 to £975. (The stipulated buffer stock is 20,000 tons or about 10% of annual world sales).

Inaugurated in 1959, the United Nation's Lead-Zinc Study Group has achieved some success in persuading
major producers to restrict output in the interests of greater price stability. With improving demand, zinc curbs have been removed, but the outlook for lead still remains uncertain because of the decisive influence of United States, both as a major producer and consumer. On the one hand, America is persisting with its policy of protecting high-cost local production of lead through subsidies and import quotas, but, on the other, it recently agreed to acquire surplus lead for its strategic stock-pile from domestic and overseas producers, funds being provided by the sale of surplus agricultural commodities on world markets. Australia is currently selling lead to United States under these arrangements. Lead has suffered more severely from competition by substitutes, than other metals. Thus, lead production has risen by only 20% since pre-war, compared with a rise of 60% for zinc and copper.

Copper producers in United States, Canada, Chile, Rhodesia and the Congo early this year agreed to curtail production to about 90% of capacity in an endeavour to clear surplus stocks. Copper prices, though firming, are still below 12 months ago. Increased electrification and industrialization, particularly in the under-developed countries, should assure a growing market for copper and current difficulties seem purely temporary.

The rubber producing countries have still not evolved a scheme to overcome the precipitous rises and falls in the price of natural rubber, which occur from time to time, in response to the changing demand of the motor vehicle industry and other large users. Synthetic rubber is fast becoming the dominant factor in the rubber position. It already accounts for 3/4 of American rubber usage and 1/3 of that of the rest of the world. In contrast with the rapid gyrations in the price of natural rubber in recent years, the price of synthetic rubber has remained practically constant. The International Rubber Study Group believes that synthetic rubber will eventually exercise an important stabilising influence on natural rubber prices, at competitive levels.

Key textile fibres such as wool and cotton are now facing much the same possibility — namely, that synthetics will reduce the extent of their price fluctuations by setting a price ceiling. The American farm support programme has given some stability to cotton marketing, but the wool stabilisation scheme inaugurated by New Zealand and South Africa still awaits Australian participation. However, in neither commodity is chronic over-supply envisaged, and stabilisation schemes might do more harm than good, particularly if they merely encouraged synthetics competition.

Coffee production has increased by over 50% in the last five years and stocks in hand are enough to cover world consumption for at least a year. In an attempt to bring about a better balance between demand and supply, Latin-American countries are now parties to an agreement under which the major producer, Brazil, retains 40% of its exportable surplus, and other producers retain 10% to 15%. Cocoa is in much the same position of over-supply as coffee and is facing a crisis which, it would seem, can only be overcome by a producers' agreement. The major producer, Ghana, has increased output by 60% since 1953.

Two commodities in which Australia has a particular interest are butter and meat. Meat is one of the few foodstuffs to have improved in price over the past decade and few problems are likely to arise with its marketing. Traditional markets should grow, and new markets may be opened up in Asian countries as living standards rise. Butter is quite another matter. Butter is the only major foodstuff in which world trade has not regained pre-war levels. Competition from
margarine, and dumping of butter by a number of countries, has forced the price down to levels quite uneconomic to producers. New Zealand, a major producer, has justifiably complained about unfair trading practices, but so far has received little satisfaction. Medical research has undoubtedly been a factor limiting the consumption of butter, because it has tended to blame excess animal fats in the diet for coronary disease.

Save for occasional disturbances to the normal pattern of demand and supply, commodity markets seem to be entering a new era of stability marked by the absence of wide upward and downward swings in prices. Prospects are that international control schemes will set a "floor" and synthetic substitutes a "ceiling" to prices. The new United States administration is also showing determination in efforts to promote a high rate of economic expansion and to assist the Latin-American and other under-developed countries. Above all, it will endeavour to avoid those past relapses in activity which have had such serious effects on primary producers who supply a large proportion of America's total imports. The efforts of the industrial countries to maintain a high level of commodity imports from under-developed countries may be a logical extension of cold war strategy to keep them out of the Communist camp. The likely economic benefits to Africa and South America, to our nearby Asian neighbours and to ourselves, could be considerable.
The Exporting of Manufactured Goods

by

GILBERT L. MACDONELL

The author of this article — Mr. Gilbert L. Macdonell — is a Senior Consultant in Australia with Personnel Administration, one of the world's leading management consulting organisations. While employed in the Victorian Public Service, Mr. Macdonell had a brilliant record at the University of Melbourne, and completed the Bachelor of Commerce Degree. His subsequent experience includes the Commonwealth Public Service, top executive positions with Davies Coop and Co. Ltd., International Tobacco Co. Pty. Ltd., and ten (10) years as a Consultant to many companies in Australia and abroad. Mr. Macdonell was a member of the I.P.A. Staff for about ten (10) months in 1949.

In Singapore, today, you can see a local businessman driving an Australian motor-car; in Djakarta, you can see an Indonesian wearing an Australian shirt; in Birmingham, you can see an Englishman using an Australian screwdriver.

Not so many years ago, these facts were beyond the realms of possibility, and, even today, there are few of us who do not find them slightly surprising. We have been all too ready to assume that we could not compete with overseas manufacturers in foreign markets.

In these circumstances, all the more credit is due to those manufacturers who have pioneered in the work of developing export markets for Australian products, and whose vision, courage and energy have contributed so much to what we all now recognise as a vital, national objective.

It is unfortunate that reference cannot be made to all those Companies which have shared in this work, but their achievements may, perhaps, be illustrated by recounting the export stories of two of them; namely, Turner Industries Limited and Ansell Rubber Co. Pty. Ltd.

The Turner Story

The first country to which Turner products were exported was New Zealand. The general similarity of living
conditions, the possession of a common language and culture and the relative proximity of New Zealand make it a natural first step for many Australian exporters. Among other countries to which exports were made, at an early stage, was the United Kingdom, which can hardly be regarded as a natural market for Australian hardware and tools. The Turner export march has continued, and shows no sign of flagging, with the result that the Company's products are now exported to thirty countries, and the value of its export sales last year was almost 50% in excess of the figure for the previous year. The manufacture of goods for export now absorbs 12% of the Company's total production.

The Turner policy is to develop one export market at a time and the Company is thus able to concentrate its thinking and energy on a single objective. Once a potential export market is selected, a “desk survey” is made of the area under consideration. By this means, the marketing executive is able to collect a lot of the information regarding a market without departing from his office.

If the “desk survey” gives a favourable indication, then the market is visited and investigated in detail.

There would appear to be two essential ingredients in the Turner success story:—

1. **A realisation that marketing success is the key to business success.**

   The Company's costs of production are frequently higher than those of some of its overseas competitors, but costs are only one factor in the profit picture. If a higher return can be obtained by means of effective marketing, then a cost disadvantage can often be overcome. The Turner marketing organisation is very effective. It is characterised by imagination, flexibility, vigour and sound common sense.

2. **A determination to ensure that every aspect of their business is efficiently conducted.**

   The drive for marketing efficiency does not result in the neglect of other aspects of the business. On the contrary, every opportunity to reduce the costs of production by means of efficient equipment and machinery, and the proper employment of labour, is fully utilised.

   The Turner Company has demonstrated that, while the task of developing an export market is unlikely to be easy, it is one which can be accomplished, provided management has the right attitude of mind, and the problem is attacked in a determined and realistic manner.

**The Ansell Story**

The Ansell Rubber Company recognised at the outset that exports were a likely means of increasing profits. This recognition was based on three main factors:—

1. They were able to purchase their raw material just as cheaply as their overseas competitors.

2. Their labour costs were only a small percentage of their total costs of production.

3. Their production process was highly mechanised and additional sales volume would at least contribute to the recovery of fixed costs.

   An executive was therefore assigned to the task of developing an export trade. He decided that the policy of his Company should be to sell through agents, at least in the initial stages. From the English Rubber Trade Directory he obtained a list of agents of British rubber manufacturers in various countries throughout the world. From this list, he extracted the agents of those rubber companies whose products were known to enjoy a high reputation for quality. He obtained further information regarding
these agents from the Department of Trade and its Trade Commissioners overseas, and finally wrote to a number of them, offering rights to the distribution of Ansell products.

The Ansell Rubber Company now exports to fifteen countries, including the U.S.A., West Germany, Canada, Italy and Sweden. Exports, which now absorb 10% of the Company's total production, increased by over 30% last year as compared with the previous year, and this rate of growth is expected to continue during the current year.

In addition to the selection of suitable agents, the Company owes much of its export success to the presentation of its products, to ensuring that adequate stocks are maintained on export markets and to its general policy of striving for maximum efficiency in every aspect of its activities. It is also worthy of note that the Company has, in some cases, been able to obtain higher prices for its products overseas than can be obtained on the local market.

The Ansell Rubber Company has demonstrated that establishment of an export trade is not necessarily an expensive process, particularly if the facilities of the Department of Trade are fully utilised.

The Role of the Individual Manufacturer

Success in the export field is primarily due to the initiative, energy and determination of individual manufacturers. If Australia is to achieve its objective of increasing its exports by £250 million by 1965, a substantial part of this increase must come from exports of manufactured goods, and it will only come if a vigorous effort is made by the individual manufacturer.

This effort will only be forthcoming if the manufacturer has the right attitude of mind. This is the core of the problem.

Mr. Walter Killough, former Chairman of the International Harvester Company of Australia, itself a major exporter, stressed the importance of this in a recent address on "Management's Attitude to Exporting" when he said:

"It is my very strong opinion that, in four words — Management's Attitude to Exporting — we probably have the key to the success or otherwise of this country of ours in the exporting business in the years ahead".

The right management attitude will be developed as more and more manufacturers realise that exporting can be an attractive financial proposition.

Exporting can enhance profits because:

1. Markets many times the size of the Australian market are available and only a small share of them is required to give a relatively large increase in sales volume. Sometimes, simply the novelty of goods made in Australia can be sufficient to secure this small share.

2. The Government incentives to export are strong, and are of specific help to industries where the labour content is high or whose goods involve heavy promotional expenditure.

3. Participation in several markets, rather than one, spreads the risk of marketing failures due to economic setbacks.

4. The prestige gained from marketing products internationally helps sales on the home market.

5. The experience of competing in world markets leads to greater efficiency within an organisation and more profitable trading at home.

Up to date, some manufacturers have not regarded exporting as a profitable venture, and quite a number of them have been right. But what of the others?
Quite a few have been deterred by some annoying but persistent myths, of which the following are typical:

1. A large, assured home market is an essential prerequisite to profitable export trading.
   This is simply not so. For example, Volvo, a Swedish motor company, exports 50% of its production. Yet Volvo is one of three motor manufacturers in Sweden, which has only 7 million people.

2. The Australian level of wages and standard of living makes any notable increase in exports of manufactured goods unlikely.
   One cannot deny that there are some industries where the relationship of Australian wages to those in some foreign countries is such a significant factor as to give the local manufacturer little prospect of entering the export trade. There are many other industries, however, where a labour cost disadvantage can be overcome by the use of efficient marketing techniques to enable a higher selling price to be charged. It should also be borne in mind that there is tremendous scope for labour cost reduction in Australia, without reduction in wage rates, and that the overall effect of the recently introduced Payroll Tax rebate is that the Government pays 30% of the labour content of any additional export sales.

There can be no doubt that Australia's exports of manufactured goods can be substantially increased, provided the right determination, initiative and energy are shown by those individual manufacturers who have the potential ability to export.

Who Should Export?

The manufacturer who can be expected to increase exports significantly is the one whose ability to cope with overseas competition is not mainly due to tariff protection or the general nature of the goods he produces, but whose real success arises from some or all of the following factors:

1. His marketing ability,
2. His ability to design,
3. His ability to produce efficiently.

All those manufacturers who believe they belong to this group should now be contemplating the export trade, if they have not already done so. All those who are not yet members of this select club should be endeavouring to join it, and the qualification they can be most certain of obtaining lies in the field of cost reduction.

The scope for cost reduction, in Australia, is immense. Few can doubt that the following statement, made in reference to America, would be even more valid in regard to Australia:

"Some years ago, it was most carefully calculated in the U.S.A. that, if the level of management and equipment in all organisations in a number of industries were raised to the level of efficiency operating in the most efficient of those organisations, productivity in the U.S.A. would be raised by 75%".

Experience in Australia and overseas suggests the following conclusions:

1. It is an exceptional business in Australia where the productivity of labour cannot be raised at least by 30%.
2. Too little attention has been paid in Australia to material utilisation and packaging design. All too frequently, components are capable of withstanding far greater stress than that to which they are likely to be subjected. Many product designers are not sufficiently cost-conscious.
3. Overhead costs in Australia are excessive and, in this regard, Australian practice is much closer to the U.S.A.
than Europe. European superiority with regard to overheads is one of the reasons they are making big inroads into overseas markets.

The experience of one Australian company is most interesting. It set as its objective the export of certain of its products to England, despite the fact that England is one of the largest exporters of this particular item. At the outset, its prices were not competitive, and it calculated the extent to which its costs would have to be reduced if it were to become competitive. It set these costs as its targets, achieved them and now exports to England.

I have no doubt that, if other companies adopted a similar approach, they would find the resulting cost reductions most gratifying.

What Should the Potential Exporter Do?

Every Australian manufacturer, including the potential exporter, should strive to reduce his costs. Whether he is trying to reduce his golf handicap, to run a four-minute mile or to reduce the costs of his department, the individual always seems to give of his best when he has a target to aim at. So it is up to management to analyse its costs of production, determine who the people are who can influence them and set targets, in collaboration with these people, for each individual executive in regard to cost reduction. Having set the targets, management must systematically and regularly review the progress made in achieving them.

The other thing management must do, in the export field, is to make a preliminary appraisal of export possibilities, and select the best potential export market.

This unfortunately, is not just a matter of arithmetic, for we do not know whether any overseas market is now being developed to best advantage.

There is a strong tendency in some exporting countries, and especially in Australia, to believe that price is the main factor in the development of export markets. This leads to severe price competition and the establishment of market norms which ignore the possibility that substantial quantities could have been sold at very much higher prices had the articles under consideration been well promoted.

It is frequently easier and more profitable to sell goods at a high price, rather than to reduce prices in order to achieve maximum sales volume. With this fact in mind, companies should look, in their preliminary appraisals, mainly at markets in which the standard of living is high, and in which the percentage of income spent on manufactured goods, holidays and other amenities is high in relation to that required for subsistence needs.

With regard to the development of export markets by any individual manufacturer it would seem that there are three basic requirements:

1. Responsibility for developing an export programme must be given to one man in the company.
2. He must ensure that a preliminary appraisal or "desk survey" of possible export markets is carried out.
3. Some executive must normally be despatched to the most promising market to verify the "desk survey" at first hand and to make the necessary arrangements for the actual export marketing of goods.

Some potential exporters may find these requirements beyond their individual capabilities, and this applies particularly to the relatively small manufacturer. This raises the question as to whether a burden which is too heavy to bear individually can perhaps be borne collectively.
The Case for Collective Action

Two possibilities with regard to collective action which come to mind are through an association of manufacturers of the same type of product and also of those who produce complementary products. Suppose, for example, that Australia is potentially a large exporter of boots and shoes, and that no single boot manufacturer feels inclined to shoulder the burden of preliminary expense himself. It would seem logical that he should contact other boot manufacturers and the tanners who supply them, and arrange that market developmental costs should be shared. There are a number of organisations which are competent to undertake the preliminary work on their behalf and, when one takes into account the taxation rebates provided by the Government for such purposes, it can be seen that the cost in which the individual manufacturer would be involved is very small indeed.

Then again, manufacturers are organised through their Chambers of Manufactures into industry sections which in the past have appointed sub-committees to deal with matters of general interest, such as wages, tariffs and costing procedures. There appears to be no good reason why such sub-committees should not be set up to provide advice and guidance regarding possible export markets. Indeed, one can envisage the possibility of a Chamber of Manufactures setting up its own Export Advisory Service (for manufacturers not already in the Export business), staffed by people of recognised ability in export research and procedures, and making this service available to its members.

The Role of Government

The main agency through which the Government promotes the export of manufactured goods is the Department of Trade, and the main link between private enterprise and the Department are its Regional Offices, which are equipped to assist with information on both export and industry matters.

The manufacturer can also obtain assistance from the Australian Trade Commissioner Service which is one of the most extensive in the world. It operates through 34 Trade Commissioners and 6 Trade Correspondents scattered over the globe. These officers are only too willing to handle trade inquiries from private businesses, to report specific trade particulars and provide market information.

In addition, the Department of Trade engages in overseas publicity. Its objective is to provide a general trade promotional background against which Australian firms and exporters can attempt to sell their goods. It is also used to provide a nucleus about which Australian firms can gather and create a major impact in a given area or at a given time.

One is inclined to ask “What more can the Government do to stimulate exports?” Is it too much to expect that the Department of Trade should study the pattern of Australian industry, determine the actual companies which are not making the most of their export opportunities, and stimulate their interest by a direct approach? Which are the industries for whose manufactured goods there is a large export demand, and which are at only a relatively small disadvantage, if any, with regard to raw material and labour costs? Australian steel, for example, is produced at a relatively low cost, but are we taking full advantage of this in developing our exports? If exports can be increased by greater mechanisation and further reduction of the labour element in costs, should the Government be encouraging further investment in plant and machinery by means of special taxation allowances?

The Government might also take steps to improve the quality of the Trade Commissioner Service. The salaries and other inducements now offered to Trade
Commissioners are frequently insufficient to attract the right men into this profession. It follows that there is ample scope for improving the standard rather than the size of this service.

The Role of the Trade Unions

The great majority of Australians are wage-earners, and a high proportion of these are trade-unionists. It follows that, in promoting our export trade, the Trade Union movement will be rendering a very important service to a very large number of Australian workers.

The question, therefore, arises as to what the Trade Unions can do to increase our capacity to export. It is clear that, in some way, they must assist in the reduction of labour cost. But if wage levels are to be maintained or increased, and labour costs reduced, output per man-hour must be increased, and the Unions can contribute to this objective by supporting a system of payment by results, or control of output per man in relation to properly determined standards. Techniques are now available whereby a "fair day's work" can be objectively determined, and if some unions oppose the use of such techniques, it would seem that they object to their members giving a "fair day's work". The Unions have an obligation to support payment in relation to work done, and should insist that the work content of any particular job should be determined by science rather than argument.

Both management and labour should ponder the philosophy expressed by Dr. Erhard, the West German Economics Minister — "Let us concentrate on making the pie bigger, rather than on wrangling about who gets how big a share of it".

Conclusion

Australia is now at perhaps the most interesting point in her history. Gone is the time when she could confidently rely on her primary produce to support her growth. Changes in world trade, including Britain's likely joining of the Common Market, present us with a host of new problems. On the other hand, our achievements as a manufacturer are impressive, and give every indication that we are on the threshold of a new era of industrial progress.

Few can doubt that, in years to come, Australia will be an important exporter of manufactured goods. But better sooner than later! And if it is going to be sooner, a sense of urgency and determination must be shown by the individual manufacturer, and a sense of full co-operation by Government and Trade Unions.

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