Reflections on the Budget

The 1963/4 Budget came as a considerable surprise to most sections of the community. In the weeks preceding the Budget, the impression had taken root that this year was one in which fairly solid, general reductions in taxation would be made. Listening to the Budget Speech over the radio was rather like waking up on Christmas morning and finding that the stocking, which one had put up with such confident expectations the night before, was still hanging limply on the end of the bed.

These remarks, in themselves, imply no criticism of the intrinsic merits of the Budget. They are merely a fair assessment of the public reaction to it as indicated by discussions among a cross-section of the community.

The high hopes of tax reductions seemed to have a substantial basis. In the first place, the Treasury, as a consequence of the record loan receipts of 1962/3, was unexpectedly flush with funds. The deficit of £118 million, which had been projected in the Budget for that year had, in the outcome, turned into a surplus of £16 million. The cash position therefore seemed adequate to support a cut in tax rates should it be deemed advisable on wider economic grounds.

Secondly, the continuing existence of unused resources in the form of labour and productive plant, notwithstanding the steady economic recovery under way, suggested that the
Government might be disposed to offer some encouragement in the way of tax relief to the private sector of the economy. Many felt also that the rather subdued state of business psychology would benefit from the injection of a stimulant.

Thirdly, the impression had gained ground that the Government, because of its paper-thin majority, would seize the opportunity to bring down a Budget calculated to have widespread popular appeal.

Experienced political correspondents with their ears close to the ground at Canberra, in the weeks preceding the Budget had confirmed and strengthened the expectations of general tax reductions by their reports in practically all the main daily newspapers in Australia. It is hardly surprising then, in light of all the circumstances, that the failure to provide the expected tax reductions came as a profound disappointment to large numbers of people.

No doubt it is possible to muster quite a convincing case against tax reductions. The argument would no doubt run along these lines: the economy is in a sound, and, indeed, healthy condition. Steady progress is evident in practically all sectors. Month by month the indicators of production, sales, and employment have been rising consistently. With everything going along so nicely, is not the best course to leave well alone? Why tamper with a situation that already promises so well? Why give the patient even the mildest stimulant when he is already approaching a condition of almost robust health? At the present time, it might be said, there would be risks, if not dangers, in general tax relief. Even though limited, as in any case it must be, it could prove to be the brick that could upset the fine balance of the economic see-saw and tip it over in an inflationary direction. This would be the ultimate folly. It would destroy at a blow the cost and price stability so arduously achieved over the last two or three years, and the maintenance of which could prove of inestimable economic benefit in years ahead. It might, too, slowly undermine the balance-of-payments position which, although far short of the ideal, is probably the strongest that has been achieved for over a decade.
This argument cannot be lightly brushed aside. But there is nothing automatic about the process of budget-making. Budgets are not the result of precise, irrefutable, mathematical calculation, and their final shape remains a matter of personal judgment, intuition and political disposition. The argument that, in present circumstances, general tax reductions would be dangerous might be applied with equal force to increases in government spending above those made unavoidable by the growth of the economy and by special circumstances.

Indeed, the outstanding single fact of the 1963/4 Budget is the huge increase in Commonwealth spending of nearly £200 million over the previous year. This brings the projected grand total of Commonwealth Government expenditure for the current year to £2,294 million, that is, to roughly one-quarter of total national expenditure of all kinds. If we had not already entered the era of “Big Government”, we have certainly done so now.

For various reasons, including changes in the presentation of government accounts and complications arising from transfers between various government funds, it is not easy to ascertain from the Budget papers precisely comparable figures of increases in Commonwealth expenditure in different years. But the contemplated rise of £197 million for the financial year seems to far surpass that recorded in any previous year (excluding war-time). Moreover, it has come at a period of relatively stable prices and costs, whereas increased expenditures in many years have been partly an inescapable response to sharply rising prices and costs.

Admittedly, in the current year the Government rightly felt compelled to provide for a large increase—£37 million—in expenditure on defence. In previous periods, the compulsion to increase defence spending was not so strong, and indeed, this item had been stabilised at around £200 million for some years. But when that contribution to the total increase is allowed for, the rise in Commonwealth expenditure still achieves a figure of £160 million, probably the second largest ever.

In comments on previous Budgets, the I.P.A. has pointed out that a yearly rise in government spending of something of the order of £100 million is not easy to avoid in the context
of creeping inflation and the rapidly developing Australian economy. The growth in population alone demands an expansion of government services of all kinds. There is, too, a natural disposition for governments to increase the scale of social service cash benefits whenever opportunity permits. (This year the rise in social service benefits—mainly in pensions—accounts for £32 million of the total increase of £197 million.)

In recent years there has been strong public support for special efforts designed to promote the development of Northern Australia. The increase in spending on these special projects in 1963/4 contributes another £5 million to the total increase. A further £5 million is the rise in expenditure for Papua-New Guinea—a decision which will be generally applauded.

But when all this is taken into account, it can hardly be denied that this year the Commonwealth Government has really let its head go on the expenditure side of the Budget. The details of the increase of £197 million are as follows:

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<td>Money for the States</td>
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<td>Departments</td>
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<td>War and Repatriation</td>
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<td>Special Appropriations and Sundry Increase</td>
<td>14</td>
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<tr>
<td><strong>TOTAL</strong></td>
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The increase in the cost of the Commonwealth Government departments of £27 million or nearly 20% in one year is, at first sight, staggering. Even when allowance is made for the large recent rises in public service salaries and for changes in accounting procedures (which account for nearly half of the £27 million) the increase is disturbingly large.

In light of the readiness of the Government to embrace these huge increases in spending, apparently without a qualm,
it is hard to comprehend the Treasurer's curt dismissal of the case for general tax relief in the Budget Speech. "We have reached two broad conclusions", he says, "—one that there is no present justification for sweeping tax concessions to stimulate spending or to encourage investment, the other that it would be courting later trouble if we were to cut drastically into the sources from which our main revenues are drawn."

No sensible person would, of course, want "sweeping tax concessions". (The very word "concession" seems to be indicative of a Canberra state of mind.) But that is not to say there could not have been moderate "reductions" of a general character. A less one-sided approach to the Budget would have provided for these reductions even at the cost of a smaller—but still exceptionally large—increase in Government spending of the order, say, of £180 million instead of the £197 million provided for in the Budget.

Taking a broad view it is hard to resist the suspicion that there is a certain coolness in Canberra circles towards the needs of the private sector. In a total Commonwealth expenditure of the massive proportions of nearly £2,300 million, the argument that scope does not exist for general tax concessions of a moderate amount in either personal income tax or company tax, and possibly in both, is not entirely convincing. A reduction of 6d. in the £ in company tax would cost the Treasury little over £15 million a year. A 5% reduction in personal income tax rates would cost £30 million.* But the increased activity that might follow from these incentives could reduce the real loss to the Treasury substantially below these figures.

* * * *

The very size of Commonwealth Government expenditure (now just on £2,300 million) and the rapidity with which it is expanding—year after year, must give rise to some anxiety.

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*The Budget Estimates provide for increased revenue from personal income tax of £65 m. and from company tax of £30 m.
How is this monster of apparently insatiable appetite to be controlled? Projects costing even millions of pounds begin to look more and more insignificant against the giant size of the total budget. This in itself could be conducive to a rather extravagant attitude to government spending. When the total is over £2,000 million what do a few additional millions for this or that matter? They won't be noticed anyway. An attitude such as this spread widely through government circles could have serious consequences. How, then, are the inevitable yearly increases in spending to be kept from getting out of hand? The matter is hardly within the province of the Auditor-General or even, for that matter, of the Parliamentary Public Accounts Committee.

Only a strong Cabinet properly aware of its responsibilities to the taxpayers, and a wide-awake public opinion, can keep the year-by-year expansion of spending within reasonable bounds. But, unfortunately, at the moment Cabinet itself appears to have become infected with the "government spending" virus and public opinion on this particular issue seems strangely quiescent, even indifferent.

* * * * *

One other matter calls for comment—that is the presentation of the Budget itself and the form of the Budget Speech. At 8 o'clock on the night of the Budget radios throughout Australia are turned on with a sense of anticipation and excitement. After a quarter of an hour or so the listeners find that a huge effort is needed to concentrate their minds on what the Treasurer is saying. It takes only that time for the Budget Speech to become bogged down in a mass of complicated technical detail much of which has little interest for most people and is anyway almost impossible to follow through the spoken word.

Each year the Budget Speech seems to be becoming less and less a stimulating account of the economic state of the nation and an interesting analysis of the reason for the broad
financial measures which the Government proposes to introduce; more and more it is becoming a catalogue of dry-as-dust, technical detail much of which is of interest only to people directly affected.

The listener almost gets the impression that the Treasurer himself, and certainly his fellow members in the House, are seized with a weariness of the spirit long before the address has run its full course. Surely it would be desirable for the Budget Speech to confine itself to a broad outline of the main financial measures proposed, leaving the details to be elaborated in supplementary statements. In any case—and this is the important thing—the public is entitled to have a much fuller explanation of the economic thinking behind the budgetary proposals than is given in the Budget Speech in its present form. Some means should be found of stimulating interest in a matter which is of profound national importance and of doing justice to a great parliamentary occasion.
Youth Today

YouTH is always of absorbing interest and generally of concern to its elders. Today this seems to be even more so than in the past. Present-day youth is fascinating because it seems to be more than usually different from the youth of the generations preceding it. Perhaps never has youth been so rich in promise. Yet seldom has it given rise to so much anxious bewilderment among the no-longer young.

What, then, is the youth of today like? How does it compare with the youth of the past? In what respects does it differ?

We can speak, of course, only of the youth of our own country; although youth all over the world exhibits similar tendencies, tastes and attitudes of mind.

Whether the young people of today are inferior to, as good as, or better than their predecessors is being debated endlessly. If the debate leads, in the end, to nowhere, that may be because there can be no definitive answer; but at least in the process the differences in the generations are more clearly revealed.

For a start the present generation look different from the one that preceded it. This difference in appearance is not wholly due to a rather spectacular change in clothing habits and haircuts—from the baggy-trousered generation of the 1930's to the close-fitting, stove-pipe trousers of the 1960's; from the "brushed-back" hair of the young men 20 or 30 years ago to the crew cuts or the "brushed-forward" hair of today. There is a marked disparity also in physique. Present-day youth is noticeably taller, noticeably bigger altogether. This gain in size is just as pronounced (possibly more so) with the girls as with the boys. Twenty or so years ago a girl of 5 feet 8 or 9 inches in a crowded street stood out like a black sheep in a paddock. Today she wouldn't be noticed—at least not for her height. A school football team would now average 2 or 3 inches taller and a stone or so heavier than the teams of other days.
Mere size, no doubt, has little importance in itself—a six-footer is not, because of his six feet, any better as a human being than a five-footer. But such a disparity in physique between two generations is not without significance. It signifies, in fact, the extraordinary change in the material circumstances of our society in the short space of twenty or thirty years. It is indicative both of an advance in general affluence and of the larger part that science and technology occupy in the "space age". Material prosperity means that the youth of today, considered overall, have from their infancy not only had much more food than previous generations, but much better food. The predominance of starches and carbohydrates in the diet has been replaced by green vegetables, fruits in all forms (fresh, canned, juices) and milk. A reasonably balanced diet has supplanted one that was woefully ill-balanced and "unscientific".

Each generation is the child of its times. Present-day youth is a product of the affluent society, not merely in physical development but also in its political and social postures and its view of the world around it. Its mental attitudes are shaped by the age of science, technology and space exploration; by the great political chasm between East and West and the over-hanging threat of nuclear annihilation; by the decline and fall of the old Empires, of colonialism, and the rise of the coloured races; by instant communications and the Boeing 707; by full employment and the Welfare State.

It must be conceded that today's youth is, on the whole, much broader in its interests, more curious about the world, than its predecessors. It has a voracious appetite for facts and knowledge. This shows up in its concern for education. Before the war only a tiny minority of those at school contemplated the possibility of going on to a university. In the first place, there was a strong doubt whether their parents could afford to send them any way. And second, the university was regarded, broadly speaking, as a place for the clever boys and girls, commonly called "the swots". Most were happy to have done with the grind of examinations and to begin the business of earning a living. That is far from the attitude today. A big proportion of those attending secondary schools at least think seriously about whether they should go
on, or try to go on, to the higher education offered by the university.

Admittedly, this attitude has been made possible by the advent of the affluent society. There is more time to think. There is not the same urgency today to begin "work" and to earn an income. Moreover, one doesn't have to be outstandingly clever to get a "free ride" at the university. There are many more scholarships, and the winning of one is well within the powers of the determined student of average talents. But this interest in, indeed this felt need for, advanced education is due to something more than mere affluence. The horizons of the present generation are infinitely wider than the last generation. The youth of twenty or thirty years ago was less sophisticated in its tastes, more taken up with its immediate interests and its everyday environment than that of today. By and large it knew little and cared little about the world beyond its field of vision. In the 1920's, Victorian boys almost regarded a cricket team from New South Wales as composed of strange beings from a foreign land. An English Test side was something from outer space that made occasional four-yearly visitations. An Asian student at a school or university would have been regarded almost as a curiosity. There was limited interest in international affairs; even Hitler seemed far away and few of us really understood, or cared, what he stood for. (World War II helped change all that.) Only the most adventurous harboured ideas of travelling abroad and seeing other lands; partly no doubt, but not wholly, because the majority never thought they would be able to afford it any way. Foreign travel was something generally outside of their scheme of things. It could be done without; there was plenty to do and think about right on their own doorstep.

That is not part of the cast of mind of the youth of today. It wants to travel, it wants to know at first-hand about other countries and the kind of people that inhabit them. Moreover, increasing affluence and the possibility of finding jobs in full-employment economies overseas has opened up something more than a faint possibility of doing so. The youth of today has a global, world perspective. That it seeks understanding, a rapprochement with the youth of other countries, seems to arise from some instinctive feeling
that this may be the only way to prevent an eventual world holocaust. It wants to travel, visit distant lands and peoples, not just out of curiosity or a spirit of adventure, not just for pleasure, but because, deep down, it aspires to a communion of peoples, a world community living in peace and in a spirit of mutual help and co-operation. The cynics may say that this is merely the instinct of self-preservation at work; but it would be wiser to attribute it to the idealism of youth, to its eternal quest for improvement, its eternal desire to leave the world a better place than it found it.

Does all this make the youth of today any better than youth of yesterday? Not necessarily! The youth of twenty or thirty years ago also had its share of idealism, its lofty ambitions. Unemployment and widespread poverty and economic insecurity were the things which distressed it, and the better educated turned their minds to securing some betterment in the lot of the less fortunate and underprivileged. These were the matters that occupied the stage of youth in the 1920’s and 1930’s, and it was over these things that the great debates and contentions raged in the universities. There were problems, threatening problems right here at home on our very doorstep to be solved. Is it surprising that the mind of the young was absorbed by what appeared to be the most urgent, most proximate things to the virtual exclusion of wider concerns?

The harder times affected not only the outlook on life of the preceding generation, but also left their mark on the character of those who composed it. Many found it difficult to get a job when they left school; consequently almost any job was regarded as a “good job”. One considered oneself fortunate to have a job at all. Moreover, pay for the beginner was extraordinarily low by modern standards; it did little more than finance the fares to and from work and the daily lunch. Even University graduates were paid little more (and sometimes less) than the basic wage for an unskilled labourer. Moreover, there was no certainty that graduates in such subjects as engineering and science could follow their chosen professions. Many moved into other fields of work, into teaching and even clerking jobs, for instance.

Then, it was anything but easy to rise up the ladder. Competition for the better-paid job was intense, and it was
generally necessary to display exceptional ability or an exceptional capacity for work in order to forge ahead. The going was tougher and these conditions produced in many a certain strength of character and of mind, a down-to-earthness, a hard realistic fibre, and a ready willingness to undergo discomforts and make sacrifices in order to get what they wanted.

This is not to say that the youth of today is "softer". Indeed it trains harder to prepare itself for its sports. It thinks nothing of undertaking arduous hikes and expeditions into rough country. But there is a difference. On the whole it likes doing these things, or if not the actual doing, then the sense of accomplishment and the outlet for self-expression which they afford. The youth of yesterday did not like doing many of the things it was compelled to do. It had to steel itself, to discipline itself, to a greater extent than the youth of today. Its experience was, at least in a narrow sense, character-forming and those who conquered their environment and eventually rose to positions of responsibility and influence evolved in themselves an exceptional mental toughness, a capacity for painstaking detail and a kind of realistic wisdom. But, against this, it was more subject to prejudices, narrower, more inhibited in many senses than the youth of today.

There are many other differences. One is to be found in the relationships between the old and the young, and particularly between children and their parents. There is now a franker, friendlier, more open relationship. Thirty years ago the distance between parents and children was much greater. There still remained a strong aroma of the Victorian days when the father was the feared master of the household. The new intimacy in the home has given youth a rather different attitude to age. Perhaps something of the old respect and courtesy has gone, at least on the surface. A small proportion of young people no doubt abuse the "new freedom", but it would be unjust to suggest that lack of respect for the aged is general.

Young people now seem to mature earlier. They are certainly prepared to accept the responsibility of marriage at a much younger age, no doubt assisted by the ease with which wives find jobs and service flats. Today 60% of all women between the ages of 20 and 24 are married. This is well above pre-war proportions and almost double those of two or three generations ago.
Modern youth is less ready to accept the prevailing conventions, standards, and ideas. It asks more questions. If it lives in an easier world in the physical sense, it is confronted with a much more complicated world in other respects. The youth of yesterday had a ready-made set of values and standards to guide it in its struggle toward maturity. Its disciplines were external, imposed by the Church, the home, and the State. Society was relatively set in its ways. Today the social order is fluid, tossed hither and thither by powerful waves of thought. The old sources of discipline have weakened and youth, thrown more on its own resources, is struggling to establish its own values and to a large extent must impose its own disciplines. The environment in which youth finds itself is one of tremendous potential for personal development and self-realisation. At the same time it is more perilous, abounding with strong, heady temptations. Nothing is "established", little is sacred, everything is questioned.

The bold front, the apparent self-confidence and sophistication and air of independence that youth presents to the world should not delude us into thinking that this is the real youth. Things are seldom as they appear on the surface. The very complexities of the times, the bewildering rate of change in so many directions, the break-down of old standards, have left youth bewildered and perplexed. Sometimes it feels adrift in lonely and tempestuous seas. What is it to believe in? What is it to strive for? What is it to make of its life? Perhaps even more than the youth of other days, it needs guidance and help and example, and it looks for these things as it has always done, in the first place, to those closest to it, to its parents, who are themselves often confused.

It is not altogether surprising that a small minority of youth, failing to navigate the reefs and whirlpools of contemporary society, have stranded themselves in a hideous wasteland of foul soils and obscene growths. Older people often err in judging youth by its worst specimens. And the not insignificant activities of "bodgies" and "beatniks" have led some people recklessly to condemn the youth of today as irresponsible, destructive, contemptuous of authority and order. It might be argued that youth has always had its rebels against society and that the bodgy gangs of the present have their parallel in the larrikin "pushes" of the past. But of the two, the contemporary delinquents appear the more unsavoury.
The gangs of the past grew out of the soil of poverty and the frustrations of idleness in the under-employed society. Today’s delinquents, by contrast, seem to be partly the products of too much money acquired too easily.

There is an ominously sadistic and sinister streak in the teenage gangs of today, a calculated viciousness that is the despair of authorities and sociologists throughout the world. It is something more than just plain brutality; the desire to inflict pain and distress for their own sake, the indulgence in insensate acts of destruction, seem the symptoms of some kind of strange insanity, of a terrible disease. It is like fruit gone rotten before it has even started to ripen. This is undoubtedly one of the great problems of contemporary society.

While it would be a grave mistake to take the teenage delinquents as in any way representative of the youth of today, their activities are too serious in their implications, too widespread, to be just put out of mind. These are not “angry young men” concerned to find fault with present-day society. All generations have their “angry young men”, the intellectual rebels who do not find the world and its ways to their liking but who do not know what they would put in their place. “Angry young men” are usually sincere, if misguided. They serve a purpose in directing attention to the “bad spots” and to some hypocrisies and false values in our mode of living. Only a fool would want to suppress them. In the end they usually mature into healthy, constructive citizens. But the “bodgy” mentality, at its worst, is a threat to decent, civilised living. It is, indeed, an attack on Man himself and what he stands for.

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By comparison with the generations of the past, modern youth has been liberated. Better-off materially, less inhibited by conventions and dogmas and prejudices, able to participate in the limitless experiences offered by science, education and travel, it seems at first sight to be uniquely fortunate, the “chosen” of all youth throughout the ages. Yet above the youth of today hangs a sombre cloud. It lives in the first period in history when the continued existence of human life on the planet has itself become a matter of speculation. It would be surprising, if subconsciously at least, this was not exerting a powerful influence on its disposition and its attitude to the adventure of living.
"Productivity—the Key to Better Living"

The first print of 20,000 copies of the I.P.A.'s special booklet—"Productivity—the Key to Better Living", was sold out three weeks after publication. Supplies from a second print are now available.

The demand for the booklet from companies, businesses, and schools has exceeded expectations. Several companies have ordered 500 or more copies for distribution among their employees.

At the time "Review" went to press, total distribution amounted to 26,000 copies.

The booklet discusses:
- Why it is important to increase production per man.
- How output can be raised.
- How productivity in Australia compares with other countries.
- The size of the national cake.
- Standards of living.
- How better productivity helps to keep down costs and increase prosperity.

The I.P.A. has designed the booklet especially for wide distribution among factory and office employees and in the schools. Bulk copies are being sold to companies and business firms for 2/- a copy.

This gives the following schedule of charges:

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The I.P.A. believes that improved productivity largely depends on a firm understanding by Australians that their welfare and living standards are based on productivity. As this educational campaign is of great importance, the I.P.A. hopes that record sales of the booklet will be achieved.
Significant Advance in Australian Statistics

A GREAT and significant advance in Australian statistics has been made with the recent publication of the “Australian National Accounts” by the Commonwealth Bureau of Census and Statistics. This large production is clearly the outcome of years of painstaking thought and effort by the staff of the Bureau.

Perhaps the most important new development in “Australian National Accounts” is the calculation, for the first time, of the Gross National Product and its broad constituents in terms of constant prices. It is now possible to assess trends in such vital economic magnitudes as the levels of private and public investment, personal consumption and other current expenditures, undistorted by price changes.

Despite constant urging from many quarters over the past few years, the Statistician has hitherto been reluctant to place the mark of official approval on calculations of this kind because of the great statistical difficulties encountered. Only where the data was fairly simple and homogeneous, as with primary production or exports (of which 90% are primary products) was the Statistician prepared to express the changes in terms of quantities and not just in terms of values, which, of course, are often meaningless for economic analysis because of price variations. Manufacturing and tertiary industry cover an enormous range of products and services which often have little or nothing in common, one with another.

In respect of quantity indexes, the Commonwealth Bureau of Census and Statistics has, in the past, been more cautious than the statistical departments of many other countries. In the absence of official measurements expressed in constant prices, investigators of economic trends have been forced to
make their own calculations (and some curious calculations have been made) which have necessarily lacked the authority of estimates proceeding from official statistical quarters.

In addition to the lack of quantity indexes, Australia's record in the field of national income statistics also left room for improvement. A perusal of the United Nations' Year Book of National Accounts Statistics reveals a paucity of information on Australia as compared with other countries. The new comprehensive analysis of the statistics of national income should go a long way to correct these deficiencies. For the first time it is now possible to make detailed comparisons with other countries on such matters as the origins of production; and consumer expenditure, the composition of capital investment and Gross National Product, all in constant prices.

It is interesting to note that according to the Statistician's estimate of real G.N.P. the true rate of growth of the Australian economy since 1948/9 has averaged about 4% a year. Total production has increased at the rate of $1\frac{1}{2}$% per head of population, or 2% per worker employed. Some economists have been inclined to base their views about the capabilities of the Australian economy on figures of past performance that look somewhat grandiose compared with those now revealed in the National Accounts' statistics.

The new National Accounts' tables—of which there are now 80, compared with only 11 in the 1961/2 White Paper on National Income and Expenditure—greatly enlarge the range of tools available to economists and statisticians in the employ of government and business for the interpretation and analysis of trends in the Australian economy.

For the perfectionists the new tables apparently still do not go far enough. But as fresh series are developed and the statistical staff accumulates experience, no doubt the range of information will be extended and the scope for error reduced.

Good statistics are an essential part of economic inquiry—both theoretical and practical. One of America's leading economists, Professor Arthur Burns, has pointed out that while every major economic theorist has made use of statistics,
they did not do so in greater detail because the data needed often did not exist, or was not to be trusted unless subjected to laborious and time-consuming tests or revisions—a task the single-handed investigator could rarely undertake. He adds that "Adam Smith's famous declaration that he had 'no great faith in political arithmetic' was not a hostile or flippant utterance, but a confession by a good scholar that he could not 'warrant the exactness' of the 'computations' at his disposal."

This observation is worth bearing in mind. Used with discrimination and with an eye which penetrates to the true meaning behind the figures, the new National Accounts Statistics can be a boon to economists. The value of statistics ultimately lies in their proper use—and this is a matter of correct and imaginative interpretation. They can be a dangerous weapon in the hands of ill-informed laymen or of those who have no compunction in twisting them to serve sectional or political purposes.

The Commonwealth Statistician and his staff are to be warmly commended for the production of this considerable addition to the experimental field of national and social accounting.
Price Stability—How Long?

AUSTRALIA has enjoyed the boon of a stable price level for nearly three years. This is a remarkable feat considered against a background of almost uninterrupted inflation in the years since the end of World War II. How long can stable prices continue?

It must be remembered that the price stability of the past three years coincides with a recessional down-swing and an economy operating at something less than full employment. Is it likely that with the economy gaining momentum and the unemployment percentage falling, inflation will again become active and prices resume the upward march which was interrupted by the cracking of the 1960 boom?

We may shortly know the answer to this question.

The most that can be said at the moment is that though the odds may be weighted against the maintenance of price stability, the prospect is not entirely without hope. The grounds for this hope lie in the fact that the Australia of the 1960's is more keenly aware of the evils of inflation than the Australia of the 1950's. In official quarters there is a much stronger determination to resist inflation and the public generally are somewhat less under the influence of the "money illusion" than they were 5 or 6 years ago. (The "money illusion" is the idea that higher money incomes necessarily mean that the recipients will be able to buy more.) The experience of the boom and its aftermath has bitten deep.

To some extent, this new resolve to grapple with the almost irresistible forces of inflation is apparent not only in Australia, but in most of the economically advanced countries. Through most of the 1950's, in many countries, of which Australia was perhaps the prime example, there was a rather lax attitude to inflation. Even some reputable economists were inclined to argue that "inflation didn't matter". Today, that viewpoint has little support. People want growth, perhaps more than ever, but they want it to be continuous, not a
thing of "fits and starts". Steady growth depends on a strong balance of payments, but inflation can rapidly reduce the most robust balance of payments to a state of dangerous anaemia.

Rising costs and prices tend to undermine the balance of payments by weakening the competitive position of exports in overseas markets and of local production in the home market. As the external currency reserves dwindle, restraints of various kinds have inevitably to be imposed causing a serious check to production, growth and development. Sustained economic growth is possible only in an environment where inflation is kept to a minimum. This is a truth which is now almost universally recognised.

Governments today generally show a much stronger determination to avoid excess demand in the economy and a greater readiness to use their monetary and budgetary powers for this purpose. There remains, however, a potent source of inflationary pressure over which governments have no, or at best only limited, control. This is the persistent habit of wages and salaries and other incomes to increase at a faster rate than the goods and services on which they can be spent. In the United Kingdom and United States the level of wages and salaries is, for the most part, decided through negotiations between employers and unions—a process known as collective bargaining. In Australia, on the other hand, wages and salaries are determined in the main by wage-fixing tribunals, appointed by governments but operating, to some extent, independently of them.

In the Australian system of wage determination, the Commonwealth Conciliation and Arbitration Commission occupies a decisive position since its awards are taken as a standard by all other wage-fixing bodies. Earlier this year the Commission awarded a 10% increase in "margins" for skill and three weeks annual leave for workers in the metal trades; these decisions are now being applied generally throughout industry. It is not expected that the Commission's judgment will exert any serious inflationary effects, although some mild upward pressure on the price level seems certain. Next
year, however, could be crucial. In its 1961 Basic Wage Judgment, the Commission said: "We anticipate that we will not be required to review the real basic wage for some three years." This suggests that the Commission will make a decision on the level of the real basic wage in 1964.

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If inflation is to be avoided, economists are agreed that increase in wages and other incomes must not exceed the rate of advance in national productivity. Unfortunately, immense difficulties arise in observing this simple economic proposition in the actual practice of wage-fixing.

For a start, movements in productivity are anything but easy to measure. More attention has been given to this problem of measurement in the United States than in any other country. Yet the 1962 "Annual Economic Report of the President" felt constrained to say: "If the rate of growth of productivity over time is to serve as a useful benchmark for wage and price behaviour, there must be some meeting of minds about the appropriate methods of measuring the trend rate of increase in productivity, both for industry as a whole and for individual industries. This is a large and complex subject and there is much still to be learned." Most economists seem to have been prepared to accept an average annual growth rate in productivity (production per man-hour) for Australia of 2 to 2½ per cent. However, the Commonwealth Statistician's recently published estimates of the growth in real gross national product since 1948/9, now suggest an average annual increase of about 4% in total G.N.P. Since the labour force has been growing by about 2% per annum this means an average increase in output per man-hour of barely 2% per annum over the last 13 years. But in the last six years the average yearly increase has been only 1½%.

In Australia the position is more complicated than in many countries because of the wide swings (often from year to year) in the terms of trade which have a large influence on gross national product. If the terms of trade improve (say, because of a rise in export prices) it means that we can buy more of the products of overseas countries for the same
quantity of exports. This adds to the total volume of goods available for sharing up among the Australian people. An illuminating example of the effects of the terms of trade on G.N.P. is provided by the experience of the early 1950’s. With record prices for wool and wheat, real G.N.P. per person employed increased by over 4% per annum between 1948/9 and 1950/1. But with the reversal in the terms of trade, G.N.P. per person employed rose by less than 1% in 1951/2 and actually fell by 3% in 1952/3. Productivity per person also fell in the years 1956/7 and 1957/8 when the terms of trade declined substantially.

To meet the difficulties imposed by wide year-to-year variations in productivity, several economists have proposed that wage-fixing should have regard only to the average yearly long-term trend. Mr. Anthony Clunies-Ross (lecturer in economics at Monash University) for instance, has suggested that wages should be adjusted annually on the basis of an average 2% a year improvement in productivity. (He also advocated that cost-of-living rises should be taken care of by increases in child endowment so that the basic wage earner with a family would be no worse off than if a cost-of-living rise had been awarded). One wonders, however, whether it would be possible for the Commission to resist the pressure for a substantial rise in wages in a year where there was a sudden jump in productivity, brought about by abnormally high prices for exports.

Another difficulty (and one pointed out by the President’s Economic Report) is the period of time over which the long-term productivity trend is to be estimated. The average yearly rate of increase in productivity varies quite materially at different periods. For instance, in most countries, productivity has been advancing less rapidly in recent years than in the earlier post-war years. In these countries, if the early post-war years were included in assessing the trend, the application of a straight mathematical relationship between wages and productivity would probably give rise to some inflation.

A further difficulty is that if wages throughout industry are increased in accordance with the national average rise in productivity, industries whose productivity lagged behind the
average will find their costs increasing. Some will counter this by raising prices. But it cannot be taken for granted that industries where productivity is rising faster than the average will reduce prices. We could thus easily find that a simple mathematical adjustment of wages to productivity would lead to a persistent inflationary tendency in the economy.

For these and other reasons, the President's Economic Report concludes that productivity measurements should be used as a guide rather than a rule in making wage adjustments.

The judgment of the Arbitration Commission in the 1961 Basic Wage Case suggests that it is following a similar line of thought. The Commission said that in its view productivity figures could be used merely to demonstrate a trend and were, in any case, only a very approximate measure. The Commission made it clear that productivity was only one of a number of matters which would be taken into account in the consideration of wage adjustments. Other factors it mentioned were the capacity of the rural industries to pay wage increases, the competitive position of the secondary industries, the balance of payments, the level of investment and employment, and retail trade.

On this point, the balance of argument seems to be in favour of the procedure nominated by the Commission, rather than of the automatic adjustment of wages to long-term productivity as proposed by various Australian economists.

The Commission is to be highly commended for the recent improvements in its procedures for arriving at major wage determinations. The decision in the 1953 Basic Wage Judgment to dispense with the long-standing, quarterly cost-of-living adjustments was undoubtedly a good one, although almost forced upon it by the fantastic price increases of the preceding 2 or 3 years.

Whether the Commission has been entirely wise in since retreating somewhat from this position in undertaking to review the basic wage every year on the basis of cost-of-living changes is at least debatable. But, on the other hand, it may be said that the procedure now contemplated is less automatic than the quarterly adjustments; the Commission has left it
open to employers to show, in any instance, why the basic wage should not be increased where prices rises have occurred.

But whatever the procedures followed, one thing is certain: the wage awards of the Commission should not be of such a kind as to provoke inflationary pressures of any magnitude. While the Commission has shown awareness of its responsibilities in this regard, its attitude still seems to be mildly equivocal. The real crux of the matter here lies in the widespread existence of over-award payments over which the Commission has no control.

In its 1961 Basic Wage Judgment, the Commission argued that there was no legal reason why any increase in the basic wage should not be absorbed by over-award payments, and it added: “Those employers who do not attempt to absorb a wage increase in over-award payments are doing so by their own act and not by any act of ours”. But having said that, the Commission seemed to concede that because of industrial pressures or shortages of skilled labour, employers might find themselves unable to take up increases in the legal awards of the Commission in over-award payments. (To attract and hold the labour they need, employers are, in fact, compelled to maintain over-award payments and thus to increase their existing wages by the amounts granted by the Commission). The Commission quoted from an article suggesting that wage determination was being increasingly taken out of the hands of the arbitration tribunals and that the ability of these tribunals to determine wages in such a way as to maintain price stability was therefore extremely limited. In another part of the Judgment the Commission stated: “In our view we should not refrain from awarding an increase which is otherwise just and reasonable on the ground that it may cause some slight inflationary pressure.”

While the Commission’s difficulties can be appreciated, it would be encouraging to find a more whole-hearted acceptance of its responsibilities for preventing inflation than seems to be implied in these passages.

In recent years the Commission has made commendable refinements in its attitude to wage determination. But it is to be hoped that this is not the end of the road. The Commission gives the impression of still being rather over-
influenced by narrowly legalistic considerations. What is wanted in today's world is a fully realistic approach to the wage question based, among other things, on wages as they are and not as they would be if legal minima were being observed.

To some extent, improvements in these directions may call for amendment to the legislation from which the Commission draws its authority. For instance, there is little doubt that the use of the concept of the basic wage as a standard for variations which affect the entire wage structure is outmoded and unreal. On previous occasions we have advocated that the Commission, in making changes in awards, should regard the total wage as one wage without division into a portion known as the "basic wage" and a separate portion to cover margins for skill and other legal payments. The Commission could then give its rulings in terms of a percentage addition to the total wage. There would still be "a basic wage" in the sense of a legal minimum which must be paid to the unskilled worker, but this wage would not be used as a standard for adjustments which affect the total complex of wage awards. The elimination of separate hearings for the "basic wage" and "margins", would lessen the likelihood of wage decisions which, in total, give rise to cost and price inflation.

A procedure of this kind would have the advantage too, of protecting the position of the skilled worker vis-a-vis the unskilled, in an age when skills are becoming all-important. A modernisation of the system of wage determination in line with the needs of economic policy in a full employment economy and of increasingly automated industrial processes is an urgent task. Adventurous thinking, unhampered by too much regard for traditional methods and precedents, is required.
Australian Relations with South East Asia

by

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Sir Alan has had a distinguished career as an administrator and diplomat. He was Secretary of the Department of External Affairs from 1950 to 1953 and has held some of the highest diplomatic posts as a representative of Australia. Among many important positions he was Australian Ambassador to the U.S.S.R. (1949 to 1950), Ambassador to Japan (1956 to 1960) and Ambassador to the Federal Republic of Germany (1960 to 1962).

In this article, Sir Alan has written on a subject of great and growing importance to Australia—our relations with the Asian countries to our North.

SINCE the Second World War, Australia has developed a special interest in Southeast Asia, a term now generally used to describe the geographical area which includes the Indonesian and Philippine archipelagoes, Malaya, Thailand, Burma, Laos, Cambodia and Vietnam.1 Of course, Australia has also important interests elsewhere. For instance, there are our special relationships with Great Britain and the United States, our trade ties with Japan, and our participation in various United Nations' activities. Nevertheless, there is an urgency and immediacy about our relations with Southeast Asia which call for special attention, if only because drastic changes which are taking place there can well determine our national destiny.

In using the convenient generic term 'Southeast Asia', it is wise to remind ourselves at the start that it should not be taken to imply unity of outlook between the component States in the fields of politics, economics or defence. In fact, Australian relations with Southeast Asia are very largely relations with individual States.

How and why has our special interest in this area developed, and to what extent has it been based on the policies of particular political parties? The war with Japan caused and disclosed significant changes in the power situation in the Pacific, and brought to sovereign independence a series of 'new' Asian States. "Events" as an ex-Under Secretary of the British Foreign Office once said—"are very strong." It is my interpretation of the historical record that all Australian political parties have played a significant part in the increasing stress laid by political leaders since, say, 1939, on the importance for Australia of the Pacific area in general and Southeast Asia in particular. In their search for Australian security all have been forced by the facts to realise that the days of the Pax Britannica, when Australia could shelter somewhat complacently behind the British Fleet, were over; that British military power in the Pacific had diminished greatly, while American power was dominant; that some kind of Pacific Pact which would include the United States must be sought. Further, all have realised that the 'military' approach to Asia is not sufficient: there must also be a non-military approach designed to help solve the basic problem of poverty in Asia, if political and economic instability in the area are not to result in revolution or aggression or both.

I do not suggest, of course, that the policies of the different parties have been identical, or that their methods have been precisely the same. The Labor Party, for instance—particularly when Dr. Evatt was Minister for External Affairs—laid far greater stress on the United Nations as a possible solvent of international disputes than has the Liberal-Country Party coalition. Yet all, I believe, have marched in the same broad direction.

The Menzies Government succeeded to office in December, 1949, and its first Minister for External Affairs was Mr. Spender (now Sir Percy Spender). Before he resigned his portfolio in 1951 to become Australian Ambassador in Washington, the foundations of the Colombo Plan (economic aid and technical assistance to under-developed countries in South and Southeast Asia) had been laid, while negotiations for an 'Anzus' treaty were well under way. To both of these I shall return later.

It is to Lord Casey (then Mr. Casey), who succeeded Mr. Spender as Minister for External Affairs, that the development of the special Australian interest in Southeast Asia is due rather than to any other Cabinet Minister. On 20th July, 1951, he left Sydney on a good-will visit to Djakarta, Singapore, Saigon, Bangkok, Hongkong, Manila, Japan and Korea. Seen in perspective, this journey marks something of a watershed in the direction of specific attention by the Australian Government to the problems of Southeast Asia. In public statements made after his return, the Minister spoke of the "ferment" in the area, the strength of nationalist sentiment, its acute economic problems—including shortage of trained personnel—and the skilful use made of nationalist sentiment by Communists for their own purposes. It was clearly to Australia's interest to do everything possible to help improve living standards and maintain political stability.

2. Lord Strang.
3. See Menzies' policy statement as Prime Minister, 28/4/39; Curtin's newspaper article of 27/12/41; the Australia-New Zealand Agreement of January 1944; U.N. Charter Arts. 51-4; Arts. 55 and 76 (Dr. Evatt's influence); Spender's speech of 14/3/1950.
4. Titles subsequently conferred have been omitted.
“If my trip has taught me one lesson more than another”, said Lord Casey, “it is that Australia must show a sympathetic interest in all the problems of Asia—cultural, economic, political and . . . even military problems . . . Friendship will not come automatically . . .”

On the military side, he stressed the “great importance of Indo-China and Burma to the security of Malaya.” He said he would recommend to the Government a review of Australian representation in Southeast Asia. It was “essential that we should have our own posts reporting quickly and directly to Australia so that we can follow developments and be in a position to take diplomatic and any other action which appears appropriate and practicable.”

This last recommendation was in fact approved, and during the succeeding years Australia built up, despite severe limitations of staff and finance, a range and quality of diplomatic representation in the area which has in my opinion served her interests well. Despite the inevitable limitations upon the effective influence which a Middle or Small Power can have on international developments, there is no doubt that an Australian ‘presence’ has been established in Southeast Asia during the past decade and that the Australian ‘voice’ has been no negligible factor in maintaining whatever stability exists there.

Since 1951, Australian policy towards Southeast Asia has tended to concentrate substantially, though far from exclusively on matters of Defence. This is scarcely surprising, in view of the direct threat to Australia during the war with Japan; the diminution of British power and influence in the Pacific; the conquest of mainland China by the Communists; the rise of Asian nationalism, particularly in Indonesia; the size of the area Australia has to defend and the small population available to defend it.

Under the Anzus Treaty (1952) the strongest non-Communist power in the world, the United States, has bound itself to “act to meet the common danger in accordance with its constitutional processes” in the event of “an armed attack on the metropolitan territory of any of the Parties, or on the island territories under its jurisdiction in the Pacific or on its armed forces, public vessels or aircraft in the Pacific”. The significance of Anzus is that an armed attack in the Pacific on Australia, New Zealand or the United States by any power (Communist, or non-Communist) is covered by the Treaty. Yet at its inception Anzus received a singularly unenthusiastic welcome by the Parliamentary Opposition, and was strongly criticised by a number of academic commentators. During the debate on ratification, the Labor Party formally accepted the treaty but, influenced presumably by opposition to the terms of the Japanese Peace Treaty with which Anzus was associated, and angered by governmental and Press criticism of Dr. Evatt’s handling of the dispute with the United States over Manus Island, Labor Members left the impression that they regarded Anzus as unnecessary, unimportant or weak. Most academic commentators followed suit. I have examined the validity of these criticisms in detail elsewhere; here it is sufficient to record the strong support for Anzus expressed by Mr. Calwell during his recent visit to the United States, and by Mr. Whitlam in his Roy Milne Memorial Lecture of 9th July, 1963.

Australian initiative was also substantially responsible for the successful negotiation of the Southeast Asia Collective Defence Treaty (SEATO), under which the United States, United Kingdom, France, Pakistan, Thailand, the Philippines, New Zealand and Australia
undertake to act to meet common danger in accordance with constitutional processes in the event of "aggression by means of armed attack" upon any party in a defined Treaty area which excludes Formosa and Hongkong. In this case, however, the United States is committed to 'act' only in the event of "Communist aggression".

SEATO has been widely criticised as 'weak' (a paper tiger) and as likely to prevent the growth of friendly relations with non-aligned countries such as India. It is true that India has expressed strong opposition to SEATO; that the organisation is much looser than NATO; that it has failed to prevent Communist encroachment in Laos; and that the interests of the member countries are so diverse that it is difficult to secure general agreement on any course of action which European members fear may "escalate" into atomic war in Europe. But it should not be forgotten that SEATO commits the United States to obligations in relation to the mainland of Asia which she has not always been ready to assume. Further, the mere existence of SEATO has been an undoubted stabilising factor in an area which, immediately after the Geneva Conference on Indo-China in 1954, seemed likely to disintegrate with speed. Few who left that Conference conceived that, nine years later, the State of Cambodia would remain intact and that a non-Communist Government—whatever its difficulties and weaknesses—would remain in power in the Republic of Vietnam. SEATO has played an indirect part in this, and certain members of SEATO including Australia, have played a direct part in encouraging the resistance of Thailand to Communist pressure by sending air units there in time of emergency and by granting economic aid.

The Labor Party did not oppose the creation of SEATO, but now believes it must be "replanned on a cultural, educational, medical and technical assistance basis and not on a military basis, and should include all the peoples of Southeast Asia". It was of course the objective of those who originally planned SEATO that the organisation should include all the peoples of Southeast Asia. This proved impracticable, and, while circumstances are changing—the Chinese-Indian border dispute has weakened Indian faith in the efficacy of the "Five Principles", while the current Indonesian policy of 'confrontation' with Malaya over Malaysia could conceivably produce a more sympathetic attitude in Malaya towards SEATO—there seems little likelihood of an increase in membership in the foreseeable future. Indeed, there seems some possibility of withdrawal by Pakistan, which is highly critical of the degree of political, economic and military support she has received from her SEATO allies.

Finally, on the Defence side, British, New Zealand, and Australian military forces co-operated with Malayan forces during the 'Emergency' in fighting Communist guerillas in the jungle, and under so-called ANZAM arrangements between the three Commonwealth countries maintain forces in Malaya as part of the Commonwealth 'strategic reserve'. The Labor Party opposed the Government's decision in 1955 to send ground forces to Malaya, still questions the wisdom of keeping them there, and urges action to try to secure agreement upon a 'nuclear-free zone' south of the Equator.

It is proper, I believe, to recognise the initiative and achievements of the Menzies Government in the international field as regards Anzus, Seato and Anzam,

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10. See Whitlam, Roy Milne Lecture 1963. It is not yet clear whether the recent Labor Party Conference in Perth has now approved retention of Australian troops in Malaya 'subject to a clear and public treaty'.
while still reserving the right to question the adequacy to present Australian military forces for tasks they may have to carry out, the low percentage of the overall Budget which the Defence Vote constitutes, and the particular allocation of funds actually voted for Defence in recent years to specific military purposes.

The Colombo Plan of capital assistance to and technical training for under-developed countries represents an important non-military approach to the solution of Asian problems, including those of Southeast Asia. By 1962, Australia had contributed over £A33 million for capital aid, and some £8½ million for technical assistance. While none argues, of course, that even the total capital aid granted by all countries under the Colombo Plan as a whole has solved the economic problems of South and Southeast Asia, the effects of the Plan to date—including political effects—are often under-estimated. Publicists like Barbara Ward and Sir Douglas Copland have made out a strong case for increasing Australian aid contributions to 1% of the national income. Sir Garfield Barwick reminds us that if we add to Australian contributions to national aid of all kinds, the costs of developing New Guinea and Papua, Australia is already contributing 0.52%—a percentage, he claims, higher than that of the United Kingdom, Germany or Canada. Certainly, Australia's contribution to technical training under the Colombo Plan has been substantial, no fewer than 4,071 trainees having been received into Australia by 1962, to say nothing of Australian specialists sent overseas. When one realises that there are 12,000 students from Asia (including private students) in Australia today, the full scale of this intermingling of cultures, becomes apparent. Asians no doubt continue to resent an immigration policy which discriminates, with few exceptions, against Asians on the ground of race so far as permanent residence is concerned; nevertheless, they return to their own countries aware that they have been accepted into the Australian community while studying here and, on the whole, with a more friendly attitude towards this country. Their presence in Australia has also stimulated the growing demand by Australian groups, organisations and individuals for modifications in our immigration policy designed to remove racial stigma while maintaining substantial homogeneity of population.

Space will permit consideration of only one other topic, viz. relations with Indonesia, which involve some reference to the problems of West New Guinea and Malaysia. The Australian Labor Party, while in power, gave substantial support in the United Nations to Indonesia in its struggle for independence, and Indonesia actually nominated Australia as, in effect, its representative on the 'Good Offices' Committee set up by the United Nations. But no Australian political party has supported the Indonesian claim to West New Guinea, and over the years, this issue has adversely affected friendly relations between the two countries.

The West New Guinea issue has been one of the Australian Government's most difficult problems. Australian public opinion has been extremely sensitive to any action which might be regarded as appeasement of Indonesia; yet effective action to maintain Dutch sovereignty could be based only upon Great Power support, particularly American, which was not forthcoming. When at length the Dutch decided to speed up the process of self-government and offered to
accept a United Nations trusteeship, no action by Australia—short of an inconceivable war on this issue with Indonesia—could have prevented an eventual Indonesian take-over.

Recently Sir Garfield Barwick has been roundly criticised in some quarters for his quiet but persistent attempts to improve relations with Indonesia by avoiding public attacks on Indonesian policy and motives and suggesting sympathetic understanding of the domestic situations in which statements of Indonesian policy are made.\textsuperscript{11} We would do well to remind ourselves from time to time, however, that there is more to diplomacy than calling a spade a spade—particularly in dealing with Asians—and that a foreign policy which throws weights around irrespective of the capacity of one's muscles to sustain and control at any particular stage can be dangerous.

The conception of Malaysia is open to criticism on a number of grounds. Ideally, it should perhaps have been preceded by full self-government in each of the Borneo territories, whose population could then have made up their own minds in their own way whether to join Malaysia. But surely it is ironic for Indonesia to press for a plebiscite in Borneo which it clearly does not want in West New Guinea, and to urge delay in the process of de-colonisation in Borneo which no Afro-Asian country will concede in regard to any 'colonial' territory anywhere else. It is also ironic that Indonesia, which failed to keep undertakings given at the highest level not to use force in relation to West New Guinea, should charge the Prime Minister of Malaya with having broken an alleged undertaking to carry out plebiscites in Borneo before Malaysia came into existence—an undertaking, in this particular form, denied by Tunku Abdul Rahman.

The Australian Government has made quite clear its support for the creation of Malaysia, and to the outside onlooker it would appear that Sir Garfield Barwick's discussions on Malaysia—in Manila last March were skilful and showed a degree of patience and subtlety which has not always been apparent in the execution of Australian foreign policy. But the success or otherwise of Australian diplomacy on this issue will depend mainly upon President Soekarno himself, and also, probably, on American readiness to continue economic aid to Indonesia.

For the second time Indonesia has chosen to pursue a policy of "confrontation"—a word of uncertain meaning which awakens strong echoes of another word, "brinkmanship", though without nuclear overtones. Such a policy is disturbing to all of Indonesia's neighbours, who are being forced to ask themselves the question whether professed opposition to 'neo-colonialism' masks a desire by Indonesia for dominance or aggrandisement.

In Indonesia itself internal rebellion has been overcome; the last vestige of 'colonialism'—West New Guinea—has been eliminated; there remains the unsolved task of coping with serious economic problems. If instead of concentrating now on the solution of these problems, the leaders of Indonesia pursue their natural interest in Borneo developments to the point of adventurism, they will not only disappoint their friends, including Australia, but undoubtedly stimulate demands in other countries for more adequate protection of legitimate national interests.

\textsuperscript{11} See speech of 22/3/63 (Current Notes—Vol. 34, No. 3 at p. 24).
As this article goes to Press, the Malaysia Conference in Manila has ended with a joint communique the precise meaning and significance of which is being studied carefully. Presumably Malaysia will still come into existence, although the date is now somewhat uncertain. The projected loose confederation of the three signatory States—"Maphilindo"—could under some circumstances be a useful stabilising factor in Southeast Asia. To be this, however, it must prove itself in practice to be not merely 'inward-looking', but also 'outward-looking', taking due account of the interests of other countries in a genuine spirit of understanding, compromise and good-will.

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