Winston Churchill

"I felt as if I were walking with Destiny."

So much has been written about Winston Churchill that one must wonder whether there is anything left to be said.

Yet how many, except those privileged to know him intimately — and perhaps not even they — can pretend to fully understand this extraordinary, complex, formidable human being? He was a man of such dimensions that the eye of the ordinary mortal cannot hope to bring into focus more than a small part of the manifold of his personality and character. Yet a man can be properly assessed and judged only in his entirety.

What were the qualities that made him what he was? His sublime courage, his unyielding will, his energies, his multifarious talents are known to all. But those who attempt to unearth the ultimate sources of his genius and greatness may have to dig deeper.

There seems little doubt that Churchill had a pronounced sense of destiny. He was, too, a romantic. There are indications that he felt within himself strange and mysterious stirrings. He apparently came to believe that he was intended
to play some transcendent role in the great, unfolding human drama, that he was marked out to have a decisive influence at a moment of supreme crisis for mankind. This would help to explain his perseverance in the face of setbacks and disappointments that must have been shattering to a man of his ardent disposition and soaring ambitions. He had to wait a long time for his dreams to come true: he was 65 when he became Prime Minister in 1940.

There was no arrogance in this. The sources of his strength and inspiration, he may have conceded, came from something outside himself, from some Divine source. Whether he was a religious man in the ordinary sense may be doubted. But, in his great years, he spoke constantly of the certain eventual triumph of Good over Evil. To him this was the real struggle. The War, in its ultimate meaning, was not one between nations or races ("We do not war with races as such"), but between the forces arrayed on the side of all that was decent and worthwhile and good in the world and the forces of hatred and malevolence and oppression. Hitler was Satan. No understanding, no compromise was possible. He had to be trampled down, exterminated. Churchill spoke not of beating Germany, but of beating Nazi Germany and Hitlerism.

Churchill, despite his fierce and ardent nature, was a man of compassion. The least revengeful of men, he could not harbour hatreds. Indeed, some may say that of all his great qualities, his magnanimity was his greatest. How hard it is to forgive and forget, to judge others dispassionately, to take account of the circumstances that help to make people what they are, or the extent to which they are at the mercy of cruel, incomprehensible Fate! Churchill showed himself on countless occasions to be reluctant to criticise or condemn. Of Britain’s great enemy in World War I he wrote, "No one should judge the career of Kaiser William II without asking the question, ‘What should I have done in his position?’" He knew that when the battles were over, a better world could not be constructed on foundations of hatred and revenge.

Many great leaders in history have been austere figures, lonely, apart. We feel them to be not as ordinary people are, to be somehow more than human. They appear to have shed, or to have mastered, the foibles and failings common to the
rest of us. We approach these lofty figures with respect, awe, but not often with understanding or affection.

Churchill does not belong among men of this kind. In him the imperfections of the common man were magnified. Moreover, he made little effort to suppress or conceal them. He could be moody, bad-tempered, petulant, impulsive, even vulgar. He was intensely sentimental. He was self-centred to a degree, over-sensitive, and loved to be flattered.

In making a balance-sheet of his character, a common error is to subtract these ordinary human foibles. In truth, they are an essential part of the fabric of his greatness. Without them he could not have done what he did. It was Churchill's intensely human qualities that made him at one with the people in the dark hours. The miracle of the inspiration of his leadership was possible because he was somehow close to the people, not remote from them. He could live on the loftiest plane of thought and deed without ever losing touch with the earth. Thus the man, distrusted and even hated in earlier years, came not merely to be revered, but loved in a way that possibly no other great figure has been loved.

Aristocratic by birth, Churchill was, by temperament, a nonconformist and a rebel. Throughout life he refused to tread accepted paths. He was perpetually at war with the conventional. Consequently he made enemies. He really belonged to no political party. Nor, strange to say, was he typically English. It is widely assumed that he was above all a man of Empire. Even that must be doubted. In 1943 he spoke of the need for national sovereignties to yield to international combinations. "Such plans offer far better prizes than taking away other people's provinces or lands or grinding them down in exploitation. The empires of the future are the empires of the mind."

Churchill's vision encompassed the world. But his overriding concern was with Europe and its reconstruction on a basis which would reduce the likelihood of future wars by uniting the European peoples into one family. When the War was still raging he said: "In Europe lie most of the causes which have led to these two world wars. In Europe dwell the historic parent races from whom our western civilisation has been so
largely derived. I believe myself to be what is called a good European, and deem it a noble task to take part in reviving the fertile genius and in restoring the true greatness of Europe”.

And when it was over, he proposed a United States of Europe. In the legacy of the ideas he has left us, there is, perhaps none more important than this.

Unsurpassed in British annals as was Churchill’s war-time leadership, the historian may yet say that his finest hour was when he stood alone, without support from any important group in the nation, friendless, distrusted, reviled. In the wilderness of the wasted years, his was the lone voice of truth. Had it been heeded, the war with all its immeasurable suffering and sacrifice, and the loss of 50 million lives, could most probably have been prevented. Year in year out he stood unflinchingly for what he believed to be right in face of the hostility of all but a tiny few of his fellow countrymen. Does history yield a nobler example of moral courage and fortitude?
The

Boomless Boom

SINCE the War Australia has had four periods of exceptionally high or peak prosperity — 1951, 1955, 1960 and the present. We are accustomed to designate these periods by the term “boom”. A common characteristic is that the economy is in a state of rapid expansion with all its resources fully engaged, unemployment being down to 1% or under. These periods of peak prosperity have, in the past, been short-lived as inflation and balance-of-payments difficulties have compelled the Commonwealth Government to impose more or less severe measures of restraint.

But, in several important respects, the present boom is noticeably different from its predecessors. Arising out of our experience with previous booms we have come to associate prosperity with easy, inflationary profits, excessive consumer spending on credit terms, and feverish activity in shares, land and real estate by speculators in search of quick returns. In the present boom, these features have been conspicuously absent. Indeed, it could almost be called a “boomless boom”, one without a “head” on it, lacking the carnival atmosphere of previous booms. This unique aspect of the present situation is puzzling many people, even shrewd economic observers.
Despite the very high level of activity, the attitude of the business community is restrained and that of the consuming public, cautious. There is a noticeable absence of "animal spirits". People are looking after their money and stopping to think before they spend or invest. There is little disposition to engage in the speculative forms of activity. Some business people even give the impression of being unhappy. They seem reluctant to concede that this is real prosperity, or if it is prosperity, that it will last.

It is worth looking a little more closely into the reasons for this restrained, even sober mood. Part of it is undoubtedly attributable to a hang-over of unusual duration from the excesses of the 1960 boom. With memories of the aftermath of 1960 many people fear a repetition. Having burnt their fingers once, they are making doubly sure not to burn them again. The reaction from the 1960 boom was unusually severe and its lessons have bitten deep.

Another cause of a general kind which may be giving rise to some uncertainty is the deterioration in the political and military position in South-East Asia. Certainly people have become conditioned to the occurrence of almost day-to-day crises in the international sphere, but Australia is very intimately involved in the problems of Vietnam, Malaysia and Indonesia.

The sterling crisis and the consequent disturbance of the international currency and commodity markets have added to the uncertainty and helped to inhibit that kind of care-free mood which usually accompanies peak prosperity.

Against the background of a slightly darkening world military and financial picture, developments are occurring in the Australian economy itself which are contributing to a mood of caution. It is worth looking at these in some detail.

In 1963/4, export income, which had barely averaged £1,000 million in the preceding three years, suddenly rocketed to almost £1,400 million. Everything seemed to go right for Australia at once. Production of the main export commodi-
ties—wool, wheat, meat, metals—all achieved record levels at the same time as world demand was strong and prices were higher than for some years. It was, however, rather too much to expect that this fantastic good fortune would last. Following the large increase of 7% in the wool clip in 1963/4, current production may be slightly down, while average prices have receded by around 15%. Wheat production continues to break records, but marketing has become more difficult because of bigger crops in the main producing regions of the world and reduced demands by the Communist countries. The meat exporting bonanza to the United States has had to be somewhat curtailed in response to the inevitable protests from American producers, although this has been offset by greatly increased purchases from the United Kingdom. Exports of metals have been well maintained, but the Mt. Isa dispute has meant disastrous losses of production which are already being reflected in the trade figures. Export incomes from sugar have been severely reduced by the precipitous fall in prices from a peak of £131 a ton in October, 1963, to the current price of around £30 a ton.

Notwithstanding this cumulation of unfavourable circumstances the export cheque for 1964/5 should still exceed £1,300 million — the second biggest ever. On the export front it can hardly be argued, therefore, that there is any immediate cause for alarm. It is worth remembering that only two or three years ago the experts were saying that in five years time Australia would need to increase its export income by some £250 million if it were to meet its targets for development and migration. It is nice now to be able to reflect that we have done even better than that and have achieved something that nobody really felt was possible.

On the other hand, in recent months the tide of imports has risen rapidly and may reach a level approaching £1,400 million for 1964/5—nearly £300 million above the preceding year. In the current year, an estimated deficit on trading account of some £70 million contrasts unhappily with a surplus of £250 million in 1963/4. We are being forced to dig into our
reserves to meet balance-of-payments deficits which, on all counts, seem certain to exceed £100 million and could, at worst, approach £150 million over the whole of the financial year. In recent years the business community has become noticeably more alive to the significance of the balance of payments and to the repercussions of large or continuing deficits on the internal economic picture. This is all to the good so long as this new awareness does not lead to an over-sensitivity to the fluctuations in our external fortunes which, by the intrinsic nature of the Australian economy, must be expected almost from year to year. The table below sets out the main features of the balance of payments for the last three financial years, together with estimated figures for the current year.

<table>
<thead>
<tr>
<th>BALANCE OF PAYMENTS 1961/2 TO 1964/5</th>
<th>1961/2</th>
<th>1962/3</th>
<th>1963/4</th>
<th>1964/5 Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPORTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wool</td>
<td>397</td>
<td>407</td>
<td>518</td>
<td>455</td>
</tr>
<tr>
<td>Wheat</td>
<td>160</td>
<td>125</td>
<td>203</td>
<td>145</td>
</tr>
<tr>
<td>Sugar</td>
<td>34</td>
<td>46</td>
<td>78</td>
<td>57</td>
</tr>
<tr>
<td>Meat and Dairy Products</td>
<td>130</td>
<td>154</td>
<td>167</td>
<td>173</td>
</tr>
<tr>
<td>Metals, Manufactures and Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products</td>
<td>346</td>
<td>333</td>
<td>408</td>
<td>470</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1,067</td>
<td>1,065</td>
<td>1,374</td>
<td>1,300</td>
</tr>
<tr>
<td><strong>IMPORTS</strong></td>
<td>TOTAL</td>
<td>857</td>
<td>1,032</td>
<td>1,124</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>210</td>
<td>33</td>
<td>250</td>
<td>-70</td>
</tr>
<tr>
<td>Net Invisibles</td>
<td>209</td>
<td>259</td>
<td>269</td>
<td>280</td>
</tr>
<tr>
<td>Balance on Current Account</td>
<td>1</td>
<td>-226</td>
<td>-19</td>
<td>-350</td>
</tr>
<tr>
<td>Capital Inflow</td>
<td>9</td>
<td>291</td>
<td>247</td>
<td>220</td>
</tr>
<tr>
<td>Change in Reserves</td>
<td>10</td>
<td>65</td>
<td>228</td>
<td>-130</td>
</tr>
<tr>
<td>Absolute Level of Reserves</td>
<td>561</td>
<td>626</td>
<td>854</td>
<td>725</td>
</tr>
<tr>
<td>(At 30th June)</td>
<td></td>
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</table>

The historic purpose of reserves built up in the flush years is to meet deficiencies in the not-so-good years. What is important is that the reserves should be maintained at a level sufficient to cope with any reasonable calls upon them in times when the balance of payments is adverse.
Naturally there is speculation about the likely level of overseas reserves at the end of 1965/6. Forecasts of movements in the balance of payments have proved, in the past, to be a notoriously misleading exercise. For a number of reasons it is impossible to foresee with any clarity what will happen in the coming financial year. Although it is to be hoped that production of major primary exports will not be too seriously affected by severe drought conditions in Northern Australia and in parts of New South Wales, a clear picture of price and selling prospects, particularly for wool and wheat, has yet to emerge.

In addition, the future of capital inflow, which has become a major factor in the whole balance-of-payments picture, is surrounded with some uncertainty. In recent weeks it has shown a tendency to fall, and restraints being imposed overseas on the export of capital, especially in the United States, are giving rise to anxiety.

Capital inflow is the most unpredictable of the unpredictables, tending to fluctuate widely from year to year. What will happen in 1965/6 is almost anybody’s guess. But providing the economy remains buoyant and expansive, our feeling is that overseas investment in Australia will continue at a reasonable level. Tremendous prospects in the mineral field, arising out of the staggering discoveries of recent years, seem certain to attract increasing interest in overseas countries. Important international companies are too deeply involved in these and other great projects, at present in little more than an embryo stage, to suddenly curtail their operations. Also, apart from the United States and Britain, Australia, as a field for investment, is attracting increased attention from countries such as Germany and Japan.

It is to be expected that imports, the other side of the external payments’ account, will continue at a high level. The value of imports for the half year ended December, 1964, was 26% above the comparable half year in 1963. There were big increases in imports of motor vehicles and parts; in raw materials for some manufacturing industries (particularly tex-
tiles, chemicals, plastics and engineering) recovering from the 1962 slump; and in capital goods such as aircraft, tractors and office machinery. On the other hand, imports of finished consumer goods rose by only 18% compared with the overall increase of 26%. For the full year, 1964/5, imports are expected to reach an all-time high, somewhere around £1,400 million. Next year, with new defence equipment to be purchased abroad, they seem certain to continue at a high level. Unless developments take an unexpectedly favourable turn, the overall prospect for 1965/6 is for a further drawing down of the external reserves. But the reserves which are likely to be over £700 million at the 30th June this year, and which are backed by I.M.F. borrowing rights of £200 million, are adequate to stand anything other than a catastrophic payments' deficit in 1965/6.

What businessmen fear most is a sudden application of severe corrective measures of the kind that were applied in the three other post-war booms when inflation was proceeding at an ominously rapid pace and when overseas reserves were running down. Not unnaturally, they have a horror of sudden "credit squeezes" and of sharp increases in taxation. In the light of lessons gained during previous export booms, counteracting monetary and fiscal measures are being applied with much more discrimination. Since early in 1964 the screws have been gently tightened; the recent rise in interest rates is the latest instalment in the policy of gradual restraint. But the present "boom", if it can be called that, has elements that distinguish it from its predecessors. The Australian economy today is strongly competitive and profits are harder to earn. The tempo of business has quickened and, since 1961, industry has not had the protection which was previously afforded by import licensing. Certainly the current year is likely to see additional pressures on the price level as the increased defence budget gathers way. There is also some apprehension over the possibility of further wage increases as a consequence of the Unions' claim for an adjustment of the basic wage to meet rising living costs and of competitive bidding for labour. The case at present before the Commonwealth Arbitration Commission is the first to be argued solely on the basis of changes in the consumer price index. And, in addition to
the claim for a 9/- to 13/- increase in the basic wage (plus a further amount when the cost-of-living figures for the March quarter become available) the unions have decided to lodge a claim later in the year for a rise in "margins" averaging around £2.

The inflationary impact of the steep addition to defence expenditure cannot be measured but its severity will be reduced by large purchases of equipment from overseas. There have been hints from Government circles that some resources may be released by a levelling out of activity in the key industries of housing construction and motor vehicles, both of which have been expanding at an exceptional rate. There is evidence of finance for home building being tightened up and of a consequent slackening of the rate of new housing commencements. The demand for motor vehicles is also easing; experts in the industry predict that new registrations will increase by only about 3% this year compared with 10% last year, 16% in 1963 and 36% in 1962.

Nevertheless, the prospect at the moment is for further increases in costs and prices. Almost concurrently with the expansion of defence spending, the Commonwealth Government raised the already high migration target of 127,000 for the current year to 142,000. While the efforts of Governments and of large private employers to step up the intake of skilled migrants appear to be achieving some success in helping to relieve the acute shortages of skilled labour, the over-all economic effects of a larger migration programme must impose additional strains on an economy already fully stretched.

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The Australian economy has its problems; but so have all economies; few, if any, in the world, let it be said, with less than Australia. The fact that a high level of activity and continued rapid expansion have been achieved, without
The Boomless Boom (continued)

the usual accompaniments of feverish speculative activity and over-optimistic spending, is cause for gratification rather than disgruntlement. After all, this is what we have wanted. Can it be that some of the most savage critics of the "stop and go" policies of the past, are now dejected because the economy is avoiding the very excesses which on previous occasions compelled resort to the measures they deplore? Or is it that there is some perverse streak in our natures that causes us to prefer the exhilarating excitement of "boom and bust" to the undoubted advantages of steady, sober progress?
Devaluation

The run on the British gold and dollar reserves toward the end of 1964 has led to conjecture in financial and business circles and among economists in Australia on whether the present exchange value of sterling of $2.8 to the £ can be maintained. Although building up for some time, the weakness in the balance of payments attracted curiously little attention in Britain while thinking remained focused on the General Election. Soon after the Wilson Government took office it was confronted with a financial situation of some gravity. The Labour Government, to its credit and to some extent in contradiction of its past criticisms of the Conservative administration, took orthodox, though severe measures to cope with the threat to sterling.

In dealing with a balance-of-payments emergency, two broad alternatives are open to the authorities. One is to protect the existing exchange rate by curbing the growth of national expenditure, thus reducing the demand for imports and encouraging exports; the other is a devaluation of the currency. Either course may need to be buttressed by additional measures, including short-term borrowing, to give the medicine time to work.

The Labour Government, whatever may be said in criticism of the particular measures adopted, rightly chose the first course and announced its firm intention to protect the financial integrity of sterling. Massive temporary credits, amounting in all to $3 billion, were negotiated with the Federal Reserve Bank, the Bank of International Settlements and the Central Banks of eight European countries, Canada and Japan. Bank Rate was raised to 7%, and a 15% temporary surcharge was placed on imports other than food and raw materials. Fiscal
Devaluation (continued)

policy was tightened up. The wave of speculation on the devaluation of sterling abated after the announcement of the $3 billion short-term credit.

The full effect of these deflationary measures will not be seen for some time, but in the last month or two the position has shown some improvement. Exports in December rose by 7% to their highest-ever level and imports fell by 4%. The adverse balance of trade fell from £54 million in November to £16 million in December, but rose to £34 million in January. This compared with an average monthly deficit exceeding £50 million over the five months ending in November. The loss of reserves slowed down from £39 million in November to £10 million in December and £6 million in January. In February, the drain on the reserves ceased and the gold and dollar holdings of the Bank of England rose by £23 million. Late in the month the Government decided that the import surcharge would be reduced to 10% on April 27. The 7% Bank Rate imposed to meet the crisis may also be shortly reduced. On the other hand, the indications are that the forthcoming April Budget will be a tough one, with tax increases as one ingredient.

The road back to a healthy balance of payments will not be short. Nevertheless, the measures taken by the British Government to defend sterling, and the strong support it was able to obtain from central banks in leading countries, would suggest that there are powerful reasons for thinking that sterling will be maintained at its present parity. On the other hand, some authorities persist in the view that sterling will eventually be devalued, possibly within the next twelve months.

* * * * *

There is a tendency to assume that devaluation provides a simple, more-or-less painless way out for a country experiencing difficulties with its international payments. This is not, in fact, the case.

In simple terms, a persistent balance-of-payments' deficiency means that a country is living beyond its income.
There is really only one solution to this dilemma — it must cut its coat according to its cloth and curb its current levels of spending and standards of living until export earnings can be increased.

The devaluation of a country’s currency (that is, the reduction of its price in terms of other currencies) does not provide a magic talisman by which this stern necessity can be avoided. National expenditure and standards of living must still be brought into line with what it can afford. Indeed, the real purpose of a devaluation would be to do just that. How does this occur? Largely because devaluation helps to reduce imports by raising their price in the currency of the country in difficulty. That looks simple enough. The trouble is that the medicine of devaluation, like some of the modern “miracle” drugs, is a medicine with dangerous side-effects.

The increase in the cost of imports leads to an increase in the general price level and in the cost of living. This tends to set in motion demands for a rise in wages, salaries and other incomes to compensate for the higher living costs. If this pressure is not resisted, and incomes rise, and living standards recover to the old levels, then the purpose of the devaluation (i.e. to reduce or to curb spending) will be undone.

The depreciation of the French franc in 1958 is frequently cited as an outstanding example of the advantages to be gained through devaluation. The success of the move, however, was attributable to a series of stern measures taken to stabilize wages, costs and prices and to curb internal expenditure. There is little ground for believing that the kind of autocratic action which was taken in France at this time, in response to a serious financial emergency, could be duplicated in other countries, where political circumstances are very different.

Advocates of devaluation lay stress on its stimulating effect on exports. Immediately, the depreciation of the exchange rate tends to increase the incomes of exporters since their earnings in foreign currencies can be converted into a greater number of units of their depreciated currency. This is true, but if wages and costs are allowed to rise in response to the higher cost of living resulting from increased prices for imports, and national expenditure remains unchecked, then
soon exporters will be in no better position than they were prior to the devaluation. If this train of events occurs, and it is obviously very difficult for political reasons to prevent, nothing will have been gained by the devaluation. It will be a case of "as-you-were". Or rather, not quite "as-you-were", because the mere fact of devaluation may cause a loss of confidence by overseas traders and investors in the country's currency. What has been done once may be done again. This lack of confidence may result in the withdrawal of capital, or, at the least, less investment of capital in that country than would otherwise have been the case. The country's new position may, thus, be even worse than it was before devaluation.

All this means that for devaluation to be effective, it must be accompanied by measures to restrain internal expenditure and to prevent the rising cost of imports from being translated into a higher level of money incomes. This is often not fully realized, or at least accepted, by those who propose devaluation as a way out of a country's difficulties. They seem to imagine that devaluation somehow provides a means of avoiding the harsh necessity of curbing expenditure and living standards.

If expenditure and living standards have to be cut back in any case, it may be asked why it would not be better to do it directly rather than tamper with the exchange rate and weaken confidence abroad in the integrity of the currency. A Government that faces up to the logic of the position of its country's economy by cutting national expenditure will command respect and confidence in overseas countries, ingredients vitally needed to help the economy back on its feet. Deflation, however, is bitter medicine, and too much of it cannot be administered without giving rise to protests from the patient.

This was the great draw-back of the gold standard system which regulated international financial relationships between countries prior to World War I and during some part of the inter-war period. The gold standard was a device for maintaining stable exchange rates but often at the cost of severe deflations and unemployment in countries which ran into trouble with their balance of payments. The mechanism of
the gold standard was very simple. Under the gold standard, the volume of currency and credit in countries adhering to the standard bore a defined ratio to the size of their gold reserves. When a country was in deficit with its overall balance of payments, gold flowed out of the country to finance the deficit. The volume of currency and credit had then to be automatically reduced in order to maintain the required relationship between the quantity of money and the gold reserve. This reduced spending and costs in the country concerned and, through its effect on exports and imports, helped to right the balance of payments.

In its heyday the gold standard made a tremendous contribution to the growth in international trade, largely because it provided a system of stable exchange rates. The great world depression in the early 1930’s led to the final collapse of the gold standard. From that point on there was no automatic mechanism for ensuring stability of exchange rates, which fluctuated widely. Countries tried to gain advantages for themselves in international trade by depreciating the value of their currencies in terms of other currencies. This came to be known as a period of “beggar-my-neighbour” exchange depreciations.

International trade did not flourish under this system. If exchange rates are liable to alteration over-night by unilateral government action, it is clearly impossible for trade between countries to be conducted with any confidence. Exporters would not be certain what their earnings would be worth when converted into the currency of their own country and importers could not know how much they would have to pay after entering into a contract to buy goods. Fluctuating rates would give rise to constant speculation in the currencies of different countries, which would tend to cause additional dislocation and heighten the uncertainty about the future.

After World War II it was recognized that some mechanism was needed to maintain stability of exchange rates, without the disadvantages attendant on the old gold standard. A new financial institution, the International Monetary Fund, was created for the purpose of assisting countries in difficulties with their external payments and of maintaining reasonable stability in the rates at which currencies exchanged for one an-
Devaluation (continued)

other. Member countries are able to borrow from the Fund to tide them over their difficulties; in the meantime, the Fund expects them to take the fundamental steps necessary to restore their payments' position. Exchange rates are fixed in terms of gold (the basis being the U.S. dollar gold price of $35 to the ounce). Countries cannot alter their exchange rates by more than 10% without the permission of the Fund. The I.M.F. thus provides a mechanism for maintaining stability of exchange rates and for giving countries time to put their houses in order without the necessity of the over-severe deflationary correctives imposed under the gold standard system.

By and large the International Monetary Fund has proved to be a most effective instrument, although there are some who question whether its lending resources are adequate for the needs of a rapidly expanding world economy. From time to time its gold and currency holdings have been increased. The last Annual Meeting of the Fund held in September, 1964, in Tokyo agreed that there should be a 25% increase in the quota contributions of the member countries. Doubts, however, continue to persist whether the present system of international payments will prove adequate for the tasks ahead. These doubts centre particularly on the weakness of the British position.

The difficulties of sterling arise not so much from weakness in the British current balance of payments, that is its earnings from exports and other sources weighed against its expenditure on imports and other items. (British exports are, in fact, and contrary to widely held opinion, proving to be competitive over an extensive field). These difficulties stem quite largely from the fact that sterling (along with the dollar) is the major international currency, financing about one third of all world trade. Many countries (known loosely as the "sterling area") are accustomed to holding their international reserves largely in sterling, and to making their payments to other countries through sterling.

Large sterling balances are also held privately by financial and trading concerns operating on an international plane. In the event of a serious weakness developing in the British balance of payments, these private holders, fearing the possibility of a sterling devaluation, try to convert at least part of their funds
into gold or dollars or other stronger currencies. These speculative runs greatly aggravate the strain on sterling at times when it is least fitted to support them and also give rise to uneasiness in countries whose official overseas reserves are held largely in sterling. If devaluation took place these reserves would be reduced in value by the amount of the sterling deprecation.

Over and above, therefore, the difficulties ordinarily encountered with balance-of-payments' deficits, sterling is subject to periodic embarrassments by virtue of its role as an international currency.

A devaluation of sterling would be a blow not merely to Britain's financial prestige, but also to the whole system of international payments. It would weaken confidence in stable exchange rates. If sterling were to be devalued there is little doubt that many other countries, including possibly Australia, would also down-grade their currencies in order to protect their trading position. Only the stronger currencies, such as the German mark and the Swiss and French francs, might be able to withstand the consequences of a sterling devaluation. Even the United States dollar might not remain unaffected and could conceivably be forced to follow sterling down, if not all, at least part of the way. Thus a smashing blow might be dealt at the whole international payments' mechanism based on stability of exchanges.

The dollar itself, despite its predominant position in the international payments' mechanism, is already not without its troubles because of the continuing deficit in the American balance of payments.

The devaluation of sterling (which would almost certainly be followed by "sympathetic" movements in the exchange rates of the other countries in the sterling group) would weaken the competitive position of the United States in international markets and throw strain on the dollar. For these reasons the American authorities can be expected to do everything in their power to safeguard sterling at its existing rate.
Wrapped up with this question about the fitness of sterling to carry out its role as an international currency is the future price of gold. There are those who argue that a rise in the price of gold would provide, at one major stroke, a means of increasing the resources available for settling international debts and help to promote the expansion of world trade.

A rise in the world price of gold, while it may have advantages on some grounds, would leave the existing exchange rate relationships between the different countries untouched. It would be equivalent, in effect, to a world-wide monetary devaluation but would not affect the rates at which the currencies of individual countries exchange for one another. This would thus be of no great help to Britain which could only obtain benefits, if any, from devaluation in terms of other currencies.

So far the United States has repeatedly stated its opposition to any change in the present price of gold of $35 to the ounce.

In the light of the continued heavy strain on the dollar and sterling as international reserve currencies, new devices to assist in the financing of international settlements have been the subject of much discussion among the authorities in the main countries in recent years. A number of different plans have been proposed, most having in mind the provision of additional financial facilities of one kind or another within the International Monetary Fund. With the rapid growth of world trade of some 4 to 5 per cent. a year, it seems certain that the burden at present carried by the dollar and sterling as the main reserve currencies will eventually be more widely shared.
The Economic Miracles

One of the most remarkable facts of world economics in the two decades since World War II has been the economic achievement of the Western European countries. In particular, the spotlight of attention has been focused on France, Western Germany and Italy. The spectacular progress achieved by these countries, from an almost hopeless situation at the end of the war, has evoked the admiration and curiosity of students of economic policy. The improvement in living standards and the rates of growth have been so exceptionally rapid, that each of the countries concerned has been said to have achieved an “economic miracle”.

Many, and sometimes conflicting, explanations have been offered. The German “miracle” has been popularly attributed to Dr. Erhard who, soon after the war, in opposition to all his advisers, including the post-war Occupation authorities, and in face of desperate shortages of every description, decided to abandon the basic post-war controls for a return to free market, classical economic principles. There is an amusing story told about this decision. Without consulting the officials of the Allied powers, Erhard chose a Sunday when they were absent from their offices to issue a decree doing away with rationing and price controls. Even the head of the American occupation forces, General Clay, was aghast. He said: “Herr Erhard, my advisers tell me you are making a terrible mistake”. “Don’t listen to them, General”, Erhard replied, “my advisers tell me the same thing”. In a world which, at that time, was thinking largely along lines of socialist solutions, this was a brave step.

By contrast, the French “miracle” has been widely attributed to the application of precisely the opposite principles, namely state economic planning and controls. Whereas the German success has won widespread respect for “the free market”, the French achievement has led experts in other countries to advocate a greater measure of national economic planning in their own economies.

The Italian “miracle”, unlike the German and the French, has been attributed to no single, dominant cause. It has been confined largely to the Northern industrial areas of Italy, leaving the South relatively backward and untouched.

In order to throw more authoritative light on a fascinating subject, the Institute of Economic Affairs (a research body in England concerned with economics) commissioned three well-qualified writers to examine each of the three “miracles”. The papers (the German by Mr. Josselyn Hennessy, the French by Dr. Vera Lutz, the Italian by Dr. Giuseppe Scimone) have recently been published by the Institute of Economic Af-
fairs* in a small book. The book is an important contribution to a subject that will no doubt continue to attract the attention of the businessmen, economists and government advisers of other countries, concerned to know whether similar "miracles" can be effected with their own economies.

First, a few basic facts about the performances of the "miracle" economies should be recorded.

Between 1950 and 1960, the G.N.P. of Germany rose by an average of 7.6% a year in constant prices (compare Britain 2.5% a year). This was helped by the addition to the working population brought about by the influx of 13 million refugees from Eastern Europe. Production per head increased at an average rate of 5.8% a year (Britain 2.2%). Between 1952 and 1960 the volume of German exports rose by nearly 200% (Britain 33%). Between 1950 and 1960, personal consumption per head in Germany jumped by 80% (Britain 22%).

For France — G.N.P. (at constant prices) increased during the 1950's at an average of between 4.5% and 5% a year. As the working population did not rise significantly over the period, the annual average increase in G.N.P. per head was much the same — i.e. between 4.5% and 5%. Industrial production about doubled and the value of exports trebled.

For Italy — between 1953 and 1962, G.N.P. (at constant prices) almost doubled and industrial production more than doubled. G.N.P. per head showed average gains of more than 5% a year. The volume of exports nearly trebled while the volume of imports more than doubled.

In some ways the French achievement, under a form of national economic plan-ning, has attracted more attention in other countries than the German "miracle" under Dr. Erhard's "free market economy". It has certainly influenced economists, and even some businessmen in Britain and Australia to advocate the adoption of some of the features of French planning as a means of speeding up the "growth rates" of their economies. The National Economic Development Council set up in 1962 in Britain by the Conservative administration is, doubtless, partly traceable to the example set by its neighbour across the Channel. The influence of French planning on economic thinking is possibly due to the fact that it seems to belong naturally to an era when all countries have sought to achieve greater control over their economic destinies through a wide variety of governmental policies.

However, those who have favoured the introduction of some features of the French system into the Australian economy will find little encouragement in the paper by Dr. Lutz. All economies today may be said to be, in a sense, "planned" but the French Plan goes much further than others in setting a precise, overall growth rate for the economy as a whole for four years ahead, and targets for individual sectors or branches of the economy.

French planning is not, strictly speaking, coercive: it does not provide the machinery by which the government can compel industry and consumers to act in ways designed to bring about the realisation of the "planned goals". Nevertheless, the central authorities, by guidance and persuasion, attempt to "steer" the economy toward the achievement of the hoped-for objectives. Moreover, the fact that in France such a large proportion (well over 40%) of total investment is under the direct control of public authorities provides the Government with

*See note at foot of article.

*See note on page 27.
a strong weapon of control. Many French planners would like to further strengthen the apparatus for implementing the Plan.

The supporters of the Plan claim that it has a strong psychological incentive. By setting growth rates and "targets" on the high side, they argue that it stimulates the economy to perform, so to speak, above itself. Dr. Lutz is clearly sceptical of this claim. She states that the setting of high "growth rates" tends to conflict with financial stability by promoting inflationary tendencies in the economy. (In fact, the French economy, since the war, and as late as 1963, has suffered from periodic waves of inflation). Dr. Lutz comments: "Certainly the commitment to a growth rate which is on the high side... is a factor encouraging the attempt to force investment above the level which savings will support, inducing the inflationary expansion of credit, and making the authorities reluctant to put the brake on in time".

As far as the detailed industry targets are concerned, the realised results have frequently diverged widely from the forecasts. Since an enormous volume of work and consultation between industrial managers, technical and economic experts and governmental officials is required in the setting of these targets, the practical value of this detailed target setting must be doubted.

Dr. Lutz concludes that there is no way of telling whether the French achievement has been helped (or hindered) by this kind of planning. But she states categorically that it "does not provide an explanation of the difference between France's post-war economic performance and Britain's".

* * *

In the early years after the War it seemed possible that Germany could easily have gone the way of France by adopting a more or less detailed form of "economic planning". A plan was drawn up in 1949, ironically enough by a group of American experts, which provided for a 10% increase by 1953 over the pre-war levels in the volume of Germany's industrial production. The investigator of the German "miracle", Mr. Josselyn Hennessy comments:—

"The reality made the planners' targets look silly. For example, industrial production had by 1952/3 risen not to 110 but to 150. The officials who prepared these plans were no fools but all that they succeeded in establishing once more was that crystal gazing was a respected profession with a continuing future in the fun and games department, but that the economic system is too complicated and too little is known about its detailed working to enable detailed long-term forecasts to be used as reliable guides to current action. If the planners had had their way Germany's economy would have been kept in a crisis straitjacket. Germany would have remained the sick man of Europe and might have been sucked into the Soviet orbit".

While economic policy in post-war Germany is, in vital respects, different from old-time laissez-faire, it has been based fundamentally on an intelligent and imaginative use of the forces of the free market. In the early reconstruction stages it was deliberately designed to favour the enterprising and businessmen, often without much capital, at the expense of holders of capital, creditors and fixed-income receivers.

The first step was to stop the post-war inflation and restore values to some rational basis. This called for a far-reaching currency reform. In 1948 the internal value of the money unit was cut by 93.5%. Stable money meant that investors and entrepreneurs could not fatten on easy inflationary profits, but could prosper only through efficient production and administration. The policy favour-
ing businessmen, combined with a competitive labour market and the restraint of the trade union movement in seeking higher wages, gave rise to considerable inequality of incomes. This generated further savings and further investment. Some of this went into the production of the cheaper kind of luxury goods, which seemed out of place when millions were miserably housed and clothed. But the “luxuries” had a strangely beneficial effect on the national psychology. They portended the return of better times and acted as strong incentives to harder work and to overtime. A pair of silk stockings or a good cigar was, in those days of fearful austerity, something worth striving for.

The nationalised industries in Germany, unlike those in Britain, were subject to market tests, both in obtaining capital and in the prices charged for their output. Tax policies were designed to discourage consumption and favour savings and investment. Income taxes were reduced and revenues were raised increasingly from sales and consumption taxes. However, the inequality of incomes and “regressive” taxation were offset by an all-embracing system of social security — far more extensive even than that of post-war socialist Britain. In 1957 expenditure on social benefits in Germany amounted to 21% of total consumption compared with 11% in Britain. Notwithstanding the extensive system of social security, Mr. Hennessy concludes: “The real guarantee behind the genuine security of rising wages and employment that the German worker enjoyed in the 1950’s was the rising productivity of a flexible, competitive economy, free from restrictive practices, and it would be the extent to which these market factors continued to be enforced which would be the workers’ guarantee of the future”.

In 1947 a United Nations’ survey said that Italy was “on the edge of bankruptcy”. But in the decade from 1953 to 1962, the real Gross National Product doubled. The Italian “miracle” cannot be attributed to any single cause. It represents the process of transition of a traditional, backward, highly protected economy, to a modern, industrialised market economy. Of the many factors that contributed to the great progress achieved in the late 1950’s, the Common Market was probably the most powerful. At least this is the view of Dr. Giuseppe Scimone: “... on the whole it represented the main driving force behind the economic ‘miracle’”. Among other things, it facilitated economies of scale. “The possibility of selling in a market three times the size of the home one, and with a larger average consumer capacity, represented a strong stimulus”.

As in France the expansion owed much to the new generation of businessmen and entrepreneurs with a modern outlook and progressive ideas. There was a proliferation of small concerns, requiring little capital, catering for the consumer goods’ market. This was assisted by the low level of wages and the opportunities for tax evasion provided by a lax officialdom. Dr. Scimone writes: “The Italian phenomenon had much in common with the development in the United States during the so-called ‘Roaring Twenties’ when small traders reached the tycoon class in a few months”. The new opportunities for expansion acted as a stimulus to businessmen who were prepared to plough back a large proportion of the profits earned.

Other factors which contributed to the Italian “miracle” were the huge amounts of American aid in the early years (some $2,000 million during 1945 to 1952) and the discovery in 1949 of immense reservoirs of natural gas (the largest in
the world) within easy reach of the great manufacturing areas of the North. The achievement of monetary stability (after the post-war inflation) under the influence of Professor Luigi Einaudi, a brilliant economist and the Governor of the Bank of Italy and the Minister of the Budget, was an indispensable foundation for the revival of enterprise and the restoration of confidence in the future.

The growth rates achieved by the "miracle" countries in the last decade have been among the highest in the world — exceeded only by Japan. The fact that the "statistical" rates of growth of Britain (particularly) and of the United States have been so much less, at first led some people to believe that the European countries had discovered some kind of magic formula for growth, unknown to, or at least not applied in, Britain and the United States. But the circumstances at work and the policies pursued in the "miracle" countries, despite some similarities, have differed quite markedly from one another. The most striking contrast, of course, is between the detailed central planning of France and the reliance on free market forces in Germany, and, to a less extent, Italy.

But the disparity between the growth rates of France, Italy and Germany on the one hand, and Britain and the United States (perhaps Australia might be added) on the other, suggests that there have been some common factors present in the former group of countries that have not been present in the latter.

Some of these factors can be readily distinguished.

First was the physical and moral devastation left in the wake of the War. Britain, too, suffered vast physical destruction, but not to anything approaching the same degree as France, Italy and Germany. Peoples, whose economic position is desperate, may be encouraged to superhuman efforts to improve their lot.

Second, was the fact that, by comparison with the United States and Britain, the economies of France and Italy (even before the War) were comparatively backward with much lower standards of living. Given a change in outlook and policies (and the War helped to produce both) the scope for rapid progress was thus considerable. The abnormally low standards of production and of life which existed in the three European countries at the end of the War also gave rise to a kind of statistical "illusion" where large percentage rates of increase in G.N.P. are much easier to record than in high standard-of-living countries.

Third, the large shift of the working population from agriculture to urban industries in the post-war years was most pronounced in all three countries by comparison with highly industrialised Britain and the United States. There can be little doubt that this goes at least part of the way to explaining the "miracle" growth in the European countries.

Fourth, was the institution of the European Common Market from which Britain has been excluded. The writer of this article, who was in Britain and Western Europe in 1961, is convinced that this has been a most potent force in the sustained economic expansion of recent years. Perhaps even more important than its direct economic benefits has been the psychological attitude of hope, of confidence in the future and of boundless optimism to which it has given rise. This attitude of mind was so unmistakable, so prominent in the thinking of
Europeans in 1961 that it is surprising that the writers (Dr. Vera Lutz and Mr. Josselyn Hennessy) on France and Germany have not given the Common Market a more prominent place in their analysis of the causes of the "miracles" in these two countries.

* * *

The European "miracles" represent, in essence, a process of transition from an older, more rigid and static economic and social system to a modern, highly industrialised society of change and opportunity. Traditional attitudes and values are breaking up. The new generation of Europeans think differently and act differently from their predecessors. Despite De Gaulle, Europe, in many respects, has moved closer to American economic ideas, technology and methods. The unprecedented strides in productivity and standards of living are, at root, explainable not so much in terms of economic policies as in terms of the emergence of a new social order and way of life. This is the real significance of the European "miracles".
NOTE:

The **Institute of Economic Affairs** was founded in 1957 by a British businessman, Mr. A. G. A. Fisher, who had become wealthy through the establishment of farms producing chickens for the table. In the early years of the organisation a good part of the finance was provided by Mr. Fisher personally, but in recent years an increased contribution has come from voluntary subscriptions from interested companies and individuals and from sales of publications.

The central aim of the Institute is to raise the standard of economic thought and discussion and those invited to write for the Institute are asked to show how business and public policy can best serve the interests of the community. The work of the Institute is guided by an Advisory Council made up mainly of prominent university and business economists. Among the members of the Council are Graham Hutton, Colin Clark, George Schwartz, a well-known journalist of “The Sunday Times”, and professors John Jewkes and Stanley Dennison.

The Institute is a non-political body.

**MR. JOSSELYN HENNESSY** is a well-known writer and lecturer on economic and political subjects. Since 1956 he has visited Germany eight times in order to make a special study of Germany's post-war economic development.

**DR. VERA LUTZ** was a student at the London School of Economics during 1930-35 where she took a B.Sc.(Econ) and a Ph.D. She worked on international economic problems as a member of the staff of the League of Nations. In 1962 she published a book, “Italy: A Study in Economic Development”.

**Dr. GIUSEPPE SCIMONE** is an economist and writer with a special interest in business management and administration. He has contributed articles to many prominent British financial and industrial journals.
Our Most Important Men

by

R. A. IRISH, O.B.E.

The author of this article is one of Australia's leading company directors. Mr. R. A. Irish is Chairman of four companies (Rothman's of Pall Mall (Australia) Ltd., Commonwealth Industrial Gases Ltd., Swift & Co. Ltd., Anthony Hordern & Sons Ltd.). He is also a director of Ampol Petroleum Ltd., and other companies.

Mr. Irish has kindly written this article at our invitation.

The nation has pledged itself to growth and development, and our very survival depends upon the vigour and skill with which we pursue this objective.

Growth automatically changes the established pattern of things, brings greater responsibilities and complete dependence on men of calibre.

The success of a business almost always depends on one man—the top manager. Good managers are a pretty scarce commodity all over the world. Even in countries with a long industrial history, countries which have spent a great deal of time and money in developing management skills, there are good and bad managers. Because we do not have a long industrial history, the urgency of our need is great.

In every organisation one man has to be a benevolent dictator, no matter how many supporting executives he may have. He must be the driving force and a dedicated leader. He must be a man who
thinks decisively and clearly but, above all, takes time off to think. He has to be part of his people, with a sympathetic insight into the fortes and frailties of those who work with him, rather than for him—because people are the essence of every business, even in this age of automation.

From meeting with top management in various parts of the world it is possible to discern a common feature of the really good managers. They are invariably introspective people with disciplined minds, and this does not by any means infer that they are introverts.

What they have realised is the need to train and discipline their own minds constantly, that they must never pause in the process of polishing themselves to do better, that they must never falter in their quest for knowledge.

It follows they are people with a sense of humility, who never believe they are right at the top, and, if they do come to believe that, they are surely on the way down, for they cannot rise higher.

Good managers are born not made. Formal training courses cannot make a good manager, nor does it follow that a particular standard of education is an essential requirement. Some of the greatest industrial leaders did not have such opportunities.

The fact is that the secret recipe rests in the man himself. It is truly a case of "Physician heal thyself", but when a man has an innate capacity and is consciously prepared to groom himself for top management responsibilities, there is no question that general education and formal management training can help to make him a better manager.

The rapid industrial revolution in Australia has put our managerial capacity to a severe test, but we can be proud of the many cases where our top managers have proved themselves to be in world class.

The great activity in management training is now yielding some of its fruits. There is an increasing crop of young managers and potential managers. One eminent English businessman told me recently he was greatly impressed by the young managers he had been fortunate to meet in Australia, and he added that his own country could not point to the same degree of development in potential top management material.

This, indeed, is a precious national asset, because Australia is no longer an isolated island, but part of the world land mass. Day by day we encounter world competition and find ourselves subject to the interplay of international issues of all kinds. The problems of today are more intricate than those of yesterday. We are operating on a bigger scale than before in the midst of constant social changes and we can expect that the future will make all these considerations even more complex.

Our future growth in this modern world depends on the quality of the managers we are now breeding and, if we fall short in this area, or discourage the ambitious to rise to the top, we will frustrate our great potential destiny.

Sometimes I wonder how conscious we are of the urgent need to develop managers of the future. We know they will have bigger problems to contend with, but they will have different problems and they will have to succeed in a world much more technologically and socially advanced than it is today. Perhaps I could ask you, as the reader, whether you have provided for your future in this respect, and what you have done specifically about it?

The greatest difficulty in business operation is to find the men who are potentially good. The casualty rate is high, and an incorrect judgment can be costly or disastrous, particularly at the top level. But, having found a good man, how far
do we help to equip him for the needs of the future?

The successful manager is the one who regards the success of his business as his mission in life. This is his basic loyalty, and this is his single purpose. For this reason many believe that the preparation of a future manager is best handled simply by letting him grow up through the company. On the contrary, there can be great danger in in-breeding of this kind. Too many influences are at work to brain-wash the individual into a pattern of thinking and behaviour, and there develops a tendency to draw on the traditions and experiences of the past to plan for the future—and therein so often lie the seeds of slow decay.

This is why the present managers of our businesses owe it to themselves, to the nation, and to their companies to make good use of the splendid facilities now available to provide scientific training in management, and to broaden the horizons of those who are, or will be, top management. We need people who are original thinkers, who can adapt themselves to change and know how to deal with it. Without this we cannot achieve the growth we all hope for.

The standard of Australian management education is high and constantly rising. Through the Australian Institute of Management, The Australian Administrative College, our Universities and many other bodies, there are short and long courses which, if they did nothing else, have the great value of causing people to think in a more penetrating and imaginative way about the problems they will have to deal with. In fact, however, they achieve much more than that.

Where I have misgivings about Australian management, is in the tendency to make ad hoc judgments on vital issues. The spirit of adventure is by no means dead, and the last thing we must do is to discourage risk-taking, but a good gambler does not gamble—he assesses the risks before he plunges.

For example, the owner of a one-man business can cheerfully decide to buy a particular motor vehicle because he happens to like it, and there is no serious economic consequence if it does not prove to be what he expected. But, it is a very different question when decisions have to be taken about a large transport fleet. There, personal prejudices can have very serious consequences. Ad hoc judgment on a sizeable matter of this kind could have an important bearing on the success of an undertaking.

On the same line there have been many cases where managers have seriously over-estimated the future market from judgments on instinct and optimism, with insufficient data and thought. As a result, their companies have been committed to a course of expansion and expenditure from which there was no retreat.

Undoubtedly, many of our managers need to learn to be tougher, more realistic, more analytical, and more cautious before they settle policies and plans of long-term effect. In part, the deficiency here is inherent in our scale of operations but, even if a business is small today, it may be very large in ten years' time, and that is why we need to give our future managers the philosophies and skills which will meet what the future will demand. If we do not believe we will grow, naturally there is no need to do anything about it.

I would like to inject here a strong plea for the welfare of our present and future managers. This is the managerial era, successor to the age when the owner managed the business. Most of our managers do not have large investments in the companies they run, and they have little opportunity to save any material amounts if they are doing their job properly. A man on £6,000 per annum would be doing very well indeed if he was able to save as much as £1,000 a
year, and this does not amount to much by the time he retires.

A man may spend his working life fighting for big stakes on behalf of others, enjoying some justifiable privileges and benefits while he works, only to find himself left to live as best as he can on retirement, and at a much lower scale than that to which he has been accustomed.

Under our income tax laws an increase in salary of £1,000 per annum means very little to a top manager. After tax is deducted, and with the higher personal expenses which form a necessary part of his management status, there is obviously little margin left to provide for the future.

The top manager carries great responsibilities, and they are with him day and night. He deserves to be paid well while he is in office so that, if he is a reasonably prudent man, he can live without worrying about his personal finances; but, when a man has given long and valuable service he should be so provided for that he can continue to live in his retirement as he was accustomed to. Too many companies make pitiful provisions for those to whom they owe so much, and this situation needs studying if businesses are to have the best men at the top. In my experience, the manager who has a sense of financial security now and in the future, makes better judgments and does a better job.

Unless there are incentives of this kind, why should a man undertake the responsibilities of top management?

I think, too, that those who decide and administer our income tax laws should bear in mind that good managers are worthy of a high reward and, as the work they do adds greatly to the welfare of the community, they should not be frustrated or discouraged by excessive taxation as some of their counterparts have been in countries such as the United Kingdom.

Bad management is a serious national loss. Often a business does not realise it has bad management, and sometimes the rot created by past bad management cannot be retrieved even with valiant efforts. Similarly, inferior management will produce inferior results, and some companies have found that a profit which may seem to be quite satisfactory actually contains an element of hidden loss, discovered only when a better manager takes over and, through his good management, lifts the profits to a higher level.

The quality of management is a vital question, and it has come very much before the public in recent times. Many of our public company failures can be attributed to sheer bad management. Sometimes this is due to lack of foresight, sometimes to inaction, sometimes to bad decisions, but most times to the poor quality of the man in charge.

There has been an unfortunate tendency to blame directors and even auditors for failures of this kind.

It should be realised that a Board of Directors does not manage a business and it cannot supplant the individual who is top manager. It can guide with wise advice, help from experience, but it does not displace the judgment of the manager in the problems and policies operating day by day.

It is true there are cases where directors have not been diligent and prudent, and this has aroused emotional outcries for legislation to make failures impossible. Unfortunately, no law can cure this any more than laws prevent crime.

What is not realised in many of these cases is that the directors were misled by management and, in some instances, deliberately. In other cases the manager has rationalised a situation or given unwarranted, optimistic opinions instead of facts.

It is never pleasing to a manager to have to report an adverse or declining situation, but the essence of good manage-
Our Most Important Men (continued)

ment is to be scrupulous in seeing that the Board get the true facts in a straightforward manner. If a manager has opinions about the facts, he must be careful to state them as opinions. Too many managers do not realise the vital distinction between fact and opinion.

Indeed, one of the most frustrating experiences at any board meeting is where a director has to probe and probe to ascertain the facts. Obviously he cannot make a decision until he knows the full facts, and where he finds himself repetitively in this situation, he would do well to consider whether the manager is the man for the job.

He should have similar second thoughts when he finds propositions put before the Board in a half-baked and ill-considered manner. If only some directors of "disaster companies" had insisted on a proper presentation of propositions, there is little doubt that different decisions would have been taken.

At a time when there is so much talk about protecting investors, the best protection I know is to have a good sound management in an enterprise. Of course, the investor does not have much chance of assessing the quality of management except by results, and sometimes that is too late. One of the most important functions of a Board of Directors is to satisfy itself that the management is as good as it needs to be. However, the more we do to propagate sound principles of good management, the more we are likely to insulate the investor against the penalty of bad management.

Australia is firmly pledged to a programme of industrial growth under free enterprise, but free enterprise carries with it responsibilities as well as benefits. Not the least of these responsibilities is the perpetuation of good management, and whenever management falls down on its job, this is a blow to the structure of free enterprise.

This is not to say that good management will prevent company failures or shut-downs, because there may be other uncontrollable reasons, but at least one benefit of free enterprise is that when an undertaking is not efficient or is an economic loss, it is compelled to close its doors and it ceases to be a drain on the nation. We have seen, by contrast, public undertakings carried on in various parts of the world when they had long since ceased to be economically advantageous.

So long as those at the head of businesses keep firmly in mind the need for decisive action to train our most vital work force, we need have little fear about the future growth of our country, but the years to come will tell whether we have stood up to our duty in providing Australia with its most important men.

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