Capitalism Changes

(The REITH LECTURES 1966

—Professor J. K. Galbraith)

PROFESSOR J. K. Galbraith of Harvard University achieved world prominence in economics with his book, “The Affluent Society”, published in 1960. To become a world figure in any field is not easy; in economics it may be more than usually difficult. There must be tens of thousands of economists spread around the world, but it is hard to think of more than half-a-dozen whose names would command instant recognition, even among the interested and informed.

“The Affluent Society” was not a work of exceptional intellectual distinction. While some admirers claimed it to be a watershed in economic thought comparable to Keynes’ “General Theory”, in fact it revealed nothing of the supreme technical and professional virtuosity and imaginative genius which marked Keynes’ great work. The one feature “The Affluent Society” possessed in common with the “Theory” was the breathtaking novelty and controversial character of its central theme. Both were planned deliberately as a “shock attack” on commonly accepted notions. “The Affluent Society” achieved notoriety largely because it amounted to a plausible assault on the economic religion of the United States; its public impact was as if a supposedly devout Christian had attacked some of the basic articles of the Faith.
The theme of "The Affluent Society" — compressed in a sentence — was that, in the modern industrial society, the personal consumer goods of ordinary commerce are grossly over-supplied compared with the essential community services largely provided by governments. Galbraith argued that while there is a proliferation of motor cars, T.V. sets, and household gadgets, such vital things as education, health, public transport, city beautification and planning suffer by being relegated to the back-seat. He called this situation one of "private affluence and public squalor", and it led him to advocate a substantial change in the disposition of economic resources between private enterprise and the state.

In the January-March, 1961, number of "Review", the Institute conceded a measure of truth to the central theme of "The Affluent Society"; but we argued that the author had blown up his idea to such proportions that it became little more than a caricature of the reality.

The Galbraith of "The Affluent Society" keeps coming through in the Reith Lectures, which suffer from a similar tendency to exaggeration and over-sweeping generalisation at the expense of scientific veracity. This is the distinguishing feature of the Galbraithian method; it has some advantage both from the standpoint of the author and the reader. The author achieves his purpose of arresting the reader's attention and the reader gains some insight into the author's meaning through the uncluttered clarity of the exposition. Galbraith is a master of this technique, but the reader should probe selectively and warily at the dish prepared for his consumption, rather than swallow it unquestioningly. Otherwise he may mistake the caricature for the reality.

In the Reith Lectures, Galbraith argues that many of the main features we associate with capitalism are disappearing. This is being brought about not by politics or ideology but by the compulsions of modern technology. Capitalism (or free enterprise), he says, is no longer run by the owners of capital, but by the people who manage industry. These — the technocrats — have virtually become divorced from the owners — the shareholders — who now exercise little or no control over the industry in which they invest their money. Even those who nominally represent the shareholders, namely the Board
of Directors, tend to be increasingly selected by the permanent management. "The electoral rituals of the modern large company", says Galbraith, "are among our most elaborate exercises in illusion." The removal of the shareholder from effective control has come about not as the result of any sinister process, but simply because of the nature of the large corporation in conditions of a rapidly changing and expanding technology. The great sums of capital required mean that equity holdings and thus nominal control are dispersed among tens of thousands of shareholders, and the individual shareholder has become "a passive and functionless figure". But, more important, the technology of the modern large-scale industrial organisation has become so complicated that only the full-time management has the knowledge to make the decisions required.

The essential condition of success in the modern corporation is that its activities be carefully planned in every aspect by people who have, between them, the knowledge required in the highly complex, scientific, technological environment of today. But to plan effectively, often years in advance of the actual appearance of a product on the market, the corporation must be free from outside interference and completely in command of its own decisions. These decisions of the men with the "know-how", cannot be exposed to interference from, for example, the people who supply the initial capital — i.e. the shareholders. The modern corporation, claims Galbraith, endeavours as far as possible to rid itself of dependence on outside sources of capital, whether from shareholders, bankers or other providers of finance. Thus a cardinal characteristic of today's corporation is its increasing tendency to rely on retained profits as the source of funds for expansion and development. "Few things have resulted in a greater shift in power than the ability of the large modern firm to supply itself with capital. Few things have more altered the character of capitalism".

Galbraith argues that in the large corporation the objective of growth and development takes priority over maximum profits for the shareholders. The managers and technocrats may not themselves directly benefit from profits, but they do benefit from the expansion of the firm, which brings them added prestige, opens up new opportunities for promotions,
and affords good reasons for granting themselves higher remuneration. Profits are not today an end in themselves so much as a means of continuous growth. This does not mean that profits are not just as essential as they ever were; it is rather that the modern large corporation has a different view of the purpose of profit from that attributed to it by traditional economic theory.

If it is to undertake the risks of the huge capital and developmental expenditures arising from complex technologies, often years in advance of any profits it may hope to achieve, the corporation must have a large degree of control over its markets and its sales. This, says Galbraith, it achieves through planned prices and by "brain-washing" its customers with the powerful aid of modern techniques of persuasion. The radio and T.V. — especially the latter — have made this possible to an extent quite beyond the powers of the corporation of a generation or less ago. Thus, the "free market" of traditional economic theory, claims Galbraith, is disappearing, along with the capitalist himself, as an effective force in the modern economy.

In addition, one of the biggest customers of the typical large corporation is the state itself. The corporation relies on the state also for many other things, including its insatiable requirements for educated, trained manpower and the underwriting of research and development expenditures. Unlike the corporation management of earlier times, modern management sees itself as a kind of partner with government, working in close understanding and co-operation with the state bureaucrats. "No Ford executive will ever fight Washington as did Henry I."

In drawing his picture of the nature of today's industrial corporation, Galbraith directs attention to one other vital feature. Modern technology, he says, is so sophisticated that all major decisions must, of necessity, be taken by teams of specialists rather than by individuals. No single individual can command more than a fraction of the knowledge required to act on matters for which a whole range of specialist professional skills must be pooled in order to reach a decision. This means that effective control in the modern corporation tends to pass increasingly from individuals to groups of specialists. It also,
incidentally, means the passing of the old-time rugged individualist or tycoon. Moreover, says Galbraith, the decisions once made by the technocrats cannot be safely rescinded by any individual, no matter how elevated in the corporation hierarchy, because he must lack the necessary knowledge which would qualify him to do so. Effective power is thus concentrated in the hands of the technocrats.

"Such", writes Galbraith, "is the corporation as a planning authority. It rivals in size the state itself. It has authority extending over and uniting the capital and organised talent that modern technology requires. Its authority extends on to its supply of capital, and its power is safely removed and protected from the extraneous or conflicting authority either of the state or its own owners or creditors".

WHAT is one to say of all this? The element of caricature discounted, it must be conceded that Galbraith has provided an arresting analysis of the nature of the modern industrial corporation. The detail may be lost in the bold sweeps of the author’s brush, but the picture given has real value in accenting some of the major characteristic trends of large-scale company organisation.

Some of the deductions which the author draws from his own analysis are, however, less tenable. Most startling is his claim that the "market concept" of economics, involving accepted notions of the sovereignty of the consumer, is no longer valid. Planning by the big industrial corporation, made necessary by complex technology and huge capital investments, he argues, has extensively replaced the market as the force determining what the economy does. "Within broad limits, it determines what the consumer shall have and at what price he shall have it".
According to Galbraith, the sovereignty of the consumer over a large area of the market has disappeared as a consequence of planning by the typical modern corporation. This is too sweeping. Galbraith seems to visualise a "market economy" as one in which the consumer makes clear to the producer what is wanted or not wanted and in which the consumer directly establishes the price. In the modern economy, he says, the initiative passes to the producer, and when the consumer is accommodated to the needs and convenience of the producer, we have a "planned economy" and not a "market economy".

But surely, with most things the producer has always had the initiative in deciding what shall be produced. The innovation of new products rests with the producer because it can rest nowhere else. The attitude of the consumer has been; "you show us what you can produce, and then we will let you know whether we want it". (The shrewd producer, of course, attempts to make sure, by extensive consumer surveys and advertising that there will be a satisfactory demand for the things he brings to the market-place.) The producer, too, has always endeavoured to set a price which will cover his costs and provide him with a profit. But initiative still lies with the consumer in the sense that he is free to decide whether he will buy what the producer offers, and how much he will buy, at the set price. The most successful producers are those who get closest to anticipating the consumers' needs and demands.

Galbraith would retort to this that these needs and demands can be moulded, and in fact are moulded, to the producer's tastes by the powerful apparatus of modern persuasion. This, no doubt, has some element of truth. But is the consumer such a weak or pliable subject as Galbraith seems to think? In a revealing and rather self-contradictory sentence, he concedes that "the consumer retains the right to resist persuasion or otherwise contract out of the management to which he is subject". This is surely true. In the final analysis, the consumer is still able to withhold, or withdraw, his custom (and in fact does) if displeased with the products offered to him. While he retains the right to which Galbraith refers, he is still, despite the "hidden persuaders", in a sense, the master
of his fate. He is surely more than a puppet dancing to the strings pulled by the producer. The consumer may no longer be an absolute monarch over the economic process — it is doubtful whether he ever was — but he remains a sovereign with limited but undeniable powers.

It is, of course, true that "the haggling and bargaining of the market-place", the kind that takes place between seller and buyer in an Eastern bazaar, has little place in the modern economy. It is also undeniable that, for many products, competitive prices have been replaced over the years by minimum prices, fixed by monopolies or by producers acting in concert (what the economist calls "oligopoly"). This system continues to outrage economists both of socialist leanings and those who have imbibed too heavily of the pure milk of economic liberalism.

Only recently in Australia, the Commonwealth Government has decided to wage war on these methods through its trade practices' legislation. The trouble is that this kind of legislation (except where it is concerned with obvious cases of exploitation) is now largely outdated. In effect, it represents an attack on methods of market control made necessary by the nature of modern industry, based on advanced and complex technologies, heavy capital investments, extensive research and development, and forward planning and organisation. If the producer is to outlay huge sums of money in expensive capital equipment and in product improvement and innovation, he must have some degree of assurance of a stable market. Galbraith rightly points out: "Prices in the modern economy are controlled, not for purposes of monopolistic exploitation of the market; they are controlled for purposes of planning".

Contrary to widely held current notions, he argues that these systems of controlled prices have been vastly to the advantage of the consumer. There is a disconcerting contradiction, he says, between the "inefficiency" of oligopoly, deplored in every well-regarded text-book, and the "efficiency" of the modern economy based so largely on the existence of these oligopolies. He writes, "The modern anti-monopoly and anti-trust laws are a charade. Their function is not to prevent exploitation of the public. If great size and market-power led to that, our case would already be hopeless. Their function
is to persuade people in general, and British socialists and American liberals in particular, that the market is still extant and that . . . the state is still vigilant in protecting the market”. “The French, Germans and Japanese,” states Galbraith, “either do not have, or do not enforce such laws. That is because they are not compelled similarly to worship at the altar of the market. They quietly accept the logic of planning and its requirements in size and there is no indication that they suffer in consequence”.

It is a pity that Galbraith had not produced his analysis a few years ago. The authors of the trade practices’ legislation in Australia might possibly have had second thoughts.

Galbraith claims that the conditions of modern technology, which are leading to the disappearance of many features of traditional capitalism, are also undermining the relevancy of democratic socialism. The essence of democratic socialism lies in the concept of “social control” — i.e. control by the people through their parliamentary representatives. But the large state industry, no more than the privately-owned industrial corporation, can afford to have the decisions of its technocrats over-ridden or subject to interference from outside (in its own case, by the elected representatives of the people who lack the necessary “know-how”). If the state industrial enterprise is to function effectively, it must be an autonomous institution in the same way as the privately-owned industrial corporation. In the interests of efficiency, Russia and the Eastern European countries are being forced to grant more and more local control and autonomy to the managers of the state industries.

The truth in this must be conceded. But when Galbraith proceeds to argue that because technology-oriented planning is common to both Western capitalism and European socialism, the two economic systems “are not startlingly different”, he surely goes much too far. There seems to be a world of difference between planning by large organisations, run according to the desires and initiatives of people not directly responsible to the state planning apparatus, and the managers of state-owned industries, even with a large measure of local autonomy, working within the constricting confines of a total national plan.
Within the democracies, there are, admittedly, highly efficient government enterprises, but these are generally the exception rather than the rule. The experience of many of the nationalised industries, particularly in Britain, suggests that there are still large advantages in leaving the conduct of industry wherever feasible in private hands. The difference between the socialist and capitalist countries of the modern era lies not so much in the actual ownership of industries as in the existence of an over-all, more or less rigid national economic plan in the former and its absence in the latter.

Galbraith’s love of caricature, his indulgence in over-sweeping generalisations, and his characteristic tendency to push theory beyond its safe limits, exposes him to easy criticism by would-be detractors. But notwithstanding their weaknesses, at times glaring, and their apparent contradictions, the 1966 Reith Lectures should be read by all who wish to gain insight into the nature of the modern industrialised economies and, more important, into the directions in which they are moving.
New Zealand

Impressions from a Holiday Visit

by C. D. KEMP

A FRIEND said to me on my return: “I never seem to have had much interest in New Zealand, nor any particular wish to go there”. I think this probably reflects the feelings of many Australians towards their sister Dominion. How many Australians could name, with confidence, the capital of New Zealand?

But this “indifference” may be about to change. During his recent trip, someone in Christchurch told Mr. Holt that the South Island had waited 179 years for the first visit from an Australian Prime Minister. Whether or not this is true, Mr. Holt’s visit was certainly rare enough to be regarded by New Zealanders as an “occasion” — proved by the warmth of his reception. In view of the geographical proximity of the two countries, the similarity and common origins of their peoples (a “similarity” not without noticeable differences) their membership of the British Commonwealth, and their common problems as part of the Pacific region, this appears rather strange. One might have expected fairly frequent exchanges of visits by the leaders of the two countries to be almost a matter of course. The relationship between Australia and New Zealand seems to have been rather that of two quite friendly, but reserved next-door neighbours. Each has been concerned to avoid obligations that might prove embarrassing, to go its own way and not to invade the other’s privacy.

But the march of events is conspiring to break down this “reserve” and to draw Australia and New Zealand much closer together. The vital interest of both democracies in “stability” in South-East Asia, their mutual concern for defence in this area, the world trend toward larger regional groupings, the likely eventual entry of Britain into the European Common Market (which could present serious problems for the New Zealand economy), all seem certain to lead to a much more intimate association between the two countries. The Australian-New Zealand Trade Agreement which came into effect last year is only a beginning, a first expression of what this new relationship will involve. In spite of official protestations to the contrary, many New Zealanders think this is at present working all one way, and not New Zealand’s. The Agreement has now been in operation for over 12 months. In 1966, Australian exports to New Zealand amounted to £NZ65 million, against imports of £NZ17.6 million. Since 1964, Australian exports
have increased by £9 million, while New Zealand's exports to Australia have actually fallen slightly. Although the Agreement has been in operation for too brief a period to pass a judgment, Mr. McEwen's recent visit has clearly been directed towards ironing out some of the difficulties.

Australia as much the larger country, with far greater natural resources and with a more dynamic and expansive economy, will inevitably have to carry the heavier burden of responsibility in the new order of things that is emerging. Indeed, I believe that if Britain should become a member of the Common Market, Australia would be expected to assume major responsibilities for contributing to the necessary adjustments in the New Zealand economy.

Although the number of Australians visiting New Zealand in a tourist capacity is growing (about 50,000 or 50% of all overseas tourists in 1965/6 — many of these are probably not "tourist" in the strict sense) Australians as a whole are as yet only dimly aware of the unrivalled attractions which New Zealand offers them. Perhaps I could say something about this, particularly as a large expansion of Australian tourists would make a not insignificant contribution to New Zealand's acute balance-of-payments' difficulties and thus to the strengthening of her economy. New Zealand herself is planning for an immediate substantial increase in tourism to boost export receipts. In 1965/6, overseas tourism earned £11.6 million. This represented a trebling of income from this source over the last four years. The New Zealand Government is aiming to double these earnings to around £20 million over the next two or three years.

New Zealand is "made to order" for Australian tourists. In this regard she can be to Australians what Europe is to the British. It takes only three or four hours to get there. New Zealand offers many of the advantages, without the major preparations and large expense in money and time, of a trip from Australia to Europe or North America. One can tour both the North and South Islands in a relaxed fashion in one's annual leave at a reasonably modest cost. Indeed, in these days of "the affluent society", a New Zealand trip is well within the pockets of a high proportion of Australians. It offers a holiday vastly different from the usual Australian annual vacation at a beach or country resort, with much of the sense of anticipation and excitement which attends a major trip abroad. One goes to Britain and Europe to see the great cities, the historical buildings and monuments and the scenery, probably in that order of priority. In a New Zealand visit, the scenery is the thing.

The three cities that I visited in New Zealand — Wellington, Christchurch and Dunedin — have a tendency to drabness with little evidence of interesting modern construction in either homes or buildings. Wellington, which from some aspects looks uncannily like Bergen in Norway, is redeemed by its magnificent setting in precipitous hills around a fine harbour; Christchurch, which has the appearance and atmosphere of a large English cathedral town, by its uniquely extensive parks and gardens. The Christchurch area looks as if it were specially designed by Providence for lawn tennis and cricket of the village green variety. Dunedin, which is rather shabby and prim-looking, gives the impression of having come to a halt 30 or so years ago while the rest of the world has gone on with the job of progress.

But, for the tourist, the cities are mainly taking-off points for what New Zealanders proudly assert to be the finest scenery in the world. The claim has some substance: but is it really possible to compare the scenic merits of different countries? The special attraction of the
New Zealand scene is its diversity. One does not have to travel great distances to see something of the Alpine magnificence and the beautiful lakes and waterfalls of Switzerland and the Austrian Tyrol, the majestic, brooding fiords of Norway, the quiet ordered beauty of the English countryside, the rolling romantic slopes of Scotland, or even (as in the North Island) the lush, vivid tropical greenness of Hawaii.

The North and South Islands are entirely different in character. In the Milford Sound, the Mount Cook area and other parts, the South has perhaps the greater scenic wonders. But the North, with its vivid lushness and endless precipitous hills is the more uniformly beautiful. Large parts of the South are as flat as a tennis court (you can motor 200 or so miles on the Canterbury Plains without one perceptible undulation in the road). Moreover, there is a remarkable absence of trees (the foothills of the central Alpine spine are bare and treeless, unredeemed by the snow that covers the high peaks). Nevertheless, the main scenic spots of the South would be hard to surpass anywhere in the world. Personally, I have never been on a car trip of such sustained breath-taking beauty and awesome majesty as the 70-mile drive from Te Anau to Milford Sound. The Sound is unfortunately bedevilled by an average rainfall of 270 inches a year, so one is fortunate to see it at its best. For prospective Australian tourists who have no great eye for scenery, there are other attractions. The lovely lakes, streams and rivers everywhere must surely offer trout-fishing unsurpassed in the world. (An Australian returns to his own country impressed and disturbed by the paucity of water.) At the right time of the year there are irresistible attractions for skiers. For golfers there is an abundance of pleasant golf courses.

Two features add to the strongly "international" atmosphere of a tour of New Zealand. Americans are everywhere; one can easily imagine oneself in Europe at the height of the tourist season. The second is the sophisticated comfort of the hotels (mostly run by a government corporation) at the main tourist centres. These are an eye-opener. They are right up to highest international standards, appropriately and excellently designed, and the interior decoration is superb. The food is, almost without exception, first-class. (I venture to say that New Zealand lamb is without equal in the world.) The government tourist hotels have been designed and constructed to attract overseas visitors, with a particular eye to the American market. It would be hard to find tourist hotels of comparable standard in Australia. By contrast, the city hotels for the most part are old-fashioned and provincial. But the best are comfortable and adequate.

Against all these tourist "credits", I must reluctantly enter one or two small, but not insignificant, "debits". During the first half of my visit, the very necessary pot of early morning tea came up automatically at 7 a.m. There was no charge. If you didn't want it, you had only to hang a disc on the outside handle of your door. This was an excellent system, contributing much to the pre-breakfast good spirits of the tourist and helping to make him think well of the hotel. Then the Government brought down its economic measures to meet the balance-of-payments' crisis. Morning tea was abolished overnight — unless specially ordered and paid for — as a "contribution" to reduced government spending. Everyone was profoundly irritated, even the hotel management compelled to abide by the bureaucratic ruling. What an illogical absurdity in a country striving for a major expansion in tourism to help with its balance-of-payments' dilemma! The other debit is the meagre measures of spirits served in over-large quantities of ice. It is impos-
sible to get a healthy drink unless one orders a "double"; this was the universal practice of the American tourists once they knew the ropes. The irritation caused by these relatively minor things is far out of proportion to any economies they achieve. In the overseas tourist trade the axiom that you have to spend money to make it is more valid than in most industries. I hope the New Zealand Government will remedy these deficiencies forthwith. Most tourists are middle-aged or elderly people who don’t mind spending an extra shilling or two for the little comforts of life. But they hate to feel they are being cheated.

New Zealand has a deep-rooted balance-of-payments' problem. After capital inflow (private capital is small) is taken into account, she has incurred deficits in 6 out of the last 10 years. The shortfall on current account in 1965/6 was huge — £92.5 million compared with £25.1 million in 1964/5 and £15.6 million in 1963/4. The deficit last year was offset by heavy government borrowing abroad (including £25 million from the I.M.F.) and by drawing down overseas exchange reserves by £21 million. The New Zealand balance of payments has been in a delicate state of health for years and the recent decline has reduced external reserves to an ominously low level — equal to about two months’ imports. Last year, imports skyrocketed by over £50 million, no doubt partly due to heavy government spending on large-scale constructional works.

The writing has been on the wall for some years, but the Government, for political and other reasons, has exhibited an extraordinary reluctance to come to grips with the problem. The recent drop in wool prices has compelled the Government to come down with a heavy hand in a series of crisis measures — but they are months over-due. As one measure, the food subsidies, which have been in operation since before World War II and which were thought to be sacrosanct, have been abolished leading to a steep jump in butter and bread prices. This is certain to lead to pressure for increased wages.

I was on holiday and did not study the economy, so I should play safe and avoid comment. But my feeling is that the crisis measures are directed too much at restricting consumption (a hard thing to do successfully) and too little at curbing government expenditure which is still expanding. Large government developmental schemes — particularly in the hydro-electric field — of which there are several major projects in both North and South Islands — have, temporarily at any rate, greatly aggravated the balance-of-payments' problem. This problem is critical and unless there is a miraculous recovery in export prices, much larger cuts in government expenditure, particularly on capital works, may prove to be unavoidable. There is also speculation about the abandonment of another "sacred cow", namely parity with sterling. Grossly over-full employment is one of the main bug-bears. Recent figures show 570 persons registered as unemployed as against notified vacancies of over 7,000. This must contribute to great inefficiency and excessive labour turnover costs, of which there are varying estimates ranging between £30 and £90 million a year.

New Zealand needs to devote its energies to development, few countries more so, but there are more ways than one of killing a cat. A developing economy must offer adequate rewards to the enterprising and venturesome and to attract the necessary overseas assistance in money and "know-how". The private sector in New Zealand, overloaded with taxes to pay for the Welfare State, needs more encouragement. Two (at least) of the hydro-electric schemes — those in the Lake Taupo area in the North Island and at Lake Manapouri in the South— are vast. The former is estimated to
cost about $200 million in our money. The latter is associated with the erection of an aluminium smelter by Comalco to refine alumina from the Gladstone plant. Eventually big projects such as this must make a substantial contribution to industrial development in New Zealand, of which there seems to be little. I didn't see one big manufacturing plant in the whole trip — admittedly I didn't look for them, and I didn't go to Auckland.

There is a strange misconception about New Zealand immigration. The general belief (and one which I shared) seems to have been that New Zealand has made little effort to expand its population through immigration. This is repeated in an article in the American journal "Fortune" (May, 1965) written by a member of the Board of Editors, Mr. Charles Murphy. Mr. Murphy states that while Australia has brought in more than 2 million migrants since the War, New Zealand has taken only 70,000. But the latter figure covers only "assisted immigration". Official statistics show that from 1947 to 1965, New Zealand took 477,000 migrants giving a net gain of over 265,000. The average rate of population growth in New Zealand over the years from 1958 to 1964 at 2.2%, was fractionally higher than Australia's. Such a rapid increase is no doubt a main reason behind the massive government expenditures on capital works.

To the casual observer, New Zealand bears the outward marks of an egalitarian society. For example, in the city areas, one sees no slums, but neither does one see a high proportion of attractive modern dwellings. Standards of dress are no more than average. The New Zealanders are, at first sight, very like Australians, but their outlook, understandably, reflects the ideals of the Welfare State and the extreme remoteness of their geographical situation. Also the greater homogeneity of their population! The large infusion of European migrants, bringing a diversity of cultures, is naturally having a deep impact on the Australian way of life. But New Zealanders seem concerned to maintain the essential "Englishness" of their population and culture. The only migrants admitted in any number have been from Britain and Australia (about 100,000, surprisingly, from the latter). 26,000 Dutch people have also migrated to New Zealand. The Maoris, of whom there are about 200,000, nearly all in the North Island, are an attractive and distinctive part of the New Zealand scene. They are a handsome people of powerful physique and are seen everywhere on road constructional works. Efforts are being made to encourage greater numbers to undertake higher educational and professional training.

In New Zealand, life seems to proceed at a more measured pace than in Australia. It has a quaint, slightly old-fashioned flavour (a good proportion of the cars consist of models no longer to be seen on Australian roads). In New Zealand, there is more time for the little politenesses and smaller courtesies, less aggression but also, perhaps, less initiative and dynamism. It has been said—not altogether correctly I think — that its press provides an infallible index to a nation's character. But, in New Zealand this may be true. Its sobriety and old-fashioned style and format (which resemble the newspapers of the prewar world) come as something of a shock to an Australian accustomed to the more modern and perhaps rather more frivolous approach of the press in his own country. The standard of the New Zealand papers is uniformly high and the reader opens them with confidence. New Zealanders have achieved Western standards of living without heavy industrialisation and while remaining a bit apart from the world. Supremely satisfied with their own comfortable way of life, they seem to think it is the best in the world. They would like to keep it that way, but there
is a growing uneasiness that this will not be possible. Big things are on the move and the cosy isolation of New Zealand is likely to be, indeed is already being, eroded at many points by the powerful currents moving in on them from the outside world.

The greatest weaknesses of the New Zealand people are associated with their isolation — parochialism and a notable degree of complacency and self-satisfaction. Many seem quite convinced that they have the highest material standards and the best way of life in the world. Even a very-much alive and intelligent New Zealand businessman shocked me by saying that the United States was a comparatively poor country in an economic sense. There seems to be a fairly profound ignorance of the great world beyond. In a recent speech reported in the New Zealand press, Sir John Walsh, Professor of Dentistry at Otago University, attacked the self-satisfaction and insularity of his countrymen as obstacles to New Zealand’s progress. But contradictorily, and rather typically, he concluded with the bold assertion that New Zealand had a way of life which transcended any other system in the world today. Part of the object of expanded tourism, he said, was to show peoples of other countries this way of life — (presumably so they could copy it).

New Zealand could be described, in a way, as a highly pleasant and comfortable backwater; the people a little self-absorbed perhaps, but nevertheless with an admirable solidity and steadiness, virtues not to be despised in a world passing through an era of unparalleled technological, political and social upheaval. But the best leaders and thinkers see the writing on the wall and realise that, for good or ill, the “backwater” philosophy and way of life cannot escape profound modification.
SEVEN years ago, economic crisis was in the air. External reserves were running down at an alarming rate as imports soared following the removal of licensing in February, 1960.

Addressing a gathering of financial and industrial leaders at a National Export Convention in Canberra in 1961, the then Secretary of the Department of Trade, Sir John Crawford, warned that exports would have to increase by at least $500 million by 1965 to pay for imports needed for national development and rising living standards. This was a formidable target. It meant that exports had to rise about 30% above the average of the late 1950’s ($1800 million). At one stage, in the mid-1950’s, exports had been as low as $1500 million. The prospects for primary products appeared grim. Prices were well below levels of the early 1950’s. Wool was faced with what appeared to be a terrifying threat from synthetics and wheat, sugar and base metals all appeared to be in over-supply on world markets. Many people were discounting the future of the traditional rural and mining industries and pinning their...
hopes on manufacturing. The view prevailed that Australia would have increasingly to depend on the manufacturing industries, not only to replace imports but to help make up the leeway in exports.

At the start of the 1960's the position seemed so bleak that any device to boost exports was eagerly listened to by the Government. The Trade Commissioner Service was expanded and expenditure on trade publicity substantially increased. Two direct export incentives — a market-development allowance for income tax purposes and pay-roll tax rebates related to export achievement — were introduced. An Export Payments Insurance Corporation and, later, the Australian Bankers' Export Re-Finance Corporation, were established to ensure that Australian exporters could compete on even terms with overseas firms, at least in offering credit to customers.

However, even with all these measures, nobody really expected the desired export target to be achieved and some were openly pessimistic about the future. It seemed that the 1960 decade could only see an intensification of balance-of-payments' difficulties, with the unhappy prospect of a return to import licensing. The development and migration programme appeared likely to be severely affected.

How wrong everybody proved to be in the event! No sooner were the gloomy prophecies uttered than new export markets began to open up in China, Russia, Japan and the United States for wheat, meat, sugar and other primary products! Over the four years, 1960/1 to 1963/4; exports rose by the stupendous sum of $800 million, far in excess of the budgeted $500 million. With good seasons, scientific pasture improvement, more selective breeding, increased use of trace elements and pest control, greater mechanisation and expanded acreages, farmers were able to boost rural exports from $1402 million in 1960/1 to $2142 million in 1963/4.

The tremendous developments now taking place in mining are showing how precarious is prophecy; no one in 1960 had any idea that the immense finds of iron ore and bauxite would shortly transform the outlook for mineral exports. From $125 million in 1960, mineral exports (excluding gold) are expected to reach
$400 million in the calendar year 1967, growing to $900 million by 1970.

At the start of the 1960's, overseas capital inflow, while relatively high, was still very much an uncertain quantity. There were real fears that foreign investment could seriously decline in the 60's, because of the slowing down of the growth of the economy imposed by balance-of-payments' problems. But the recent iron-ore, bauxite, oil and natural gas discoveries have completely changed all this. Enormous amounts of capital are being required to develop these new projects, mostly from overseas. Once the restrictions on foreign investments are eased in the United States and Britain, the continuing development of Australia's mineral resources could lead to a major inflow of capital into other industries as well as mining.

Imports do not appear to be rising as rapidly as had been expected at the start of the 1960 decade. A rapid growth in consumer demand is being directed more to service industries than to secondary industry; the former generally rely much less on imports. Imports of raw materials and capital equipment have certainly slowed down, although this could be temporary. Looking to the years ahead, import savings from the bauxite, oil and natural gas discoveries alone could mean a reduction in import requirements on these accounts of the order of $500 million annually.

The outlook for the balance of payments on trading account is thus the brightest for years. Exports should rise from $2636 million in 1965/6 to an estimated $2900 million this year and, notwithstanding a sharp increase in defence needs from overseas, imports could be slightly down. The over-all balance-of-payments' picture is clouded at the moment by the American and British restrictions on overseas investment. But even allowing for an expected substantial fall in new capital inflow, and higher defence spending abroad, the loss of exchange reserves in 1966/7 could be relatively small — as low as $150 million and almost certainly less than $200 million. Australia's international reserves, plus borrowing rights from the International Monetary Fund, should be around $1900 million by June 30, 1967, compared with only $1344 million at June 30, 1961.
Necessarily very approximate estimates of the balance of payments for 1966/7, together with the Commonwealth Statistician’s figures for past years, are set out below:

### BALANCE OF PAYMENTS 1960/1 to 1966/7

<table>
<thead>
<tr>
<th></th>
<th>1960/61</th>
<th>1963/4</th>
<th>1964/5</th>
<th>1965/6</th>
<th>Estimated 1966/7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPORTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wool</td>
<td>712</td>
<td>1035</td>
<td>865</td>
<td>849</td>
<td>850</td>
</tr>
<tr>
<td>Wheat</td>
<td>243</td>
<td>404</td>
<td>335</td>
<td>289</td>
<td>370</td>
</tr>
<tr>
<td>Meat</td>
<td>126</td>
<td>222</td>
<td>257</td>
<td>256</td>
<td>255</td>
</tr>
<tr>
<td>Sugar</td>
<td>70</td>
<td>157</td>
<td>113</td>
<td>94</td>
<td>95</td>
</tr>
<tr>
<td>All Other</td>
<td>251</td>
<td>324</td>
<td>334</td>
<td>340</td>
<td>380</td>
</tr>
<tr>
<td><strong>TOTAL RURAL</strong></td>
<td>1402</td>
<td>2142</td>
<td>1904</td>
<td>1828</td>
<td>1950</td>
</tr>
<tr>
<td>Mining ‘excluding Gold’</td>
<td>140</td>
<td>192</td>
<td>243</td>
<td>299</td>
<td>350</td>
</tr>
<tr>
<td>Manufactures</td>
<td>176</td>
<td>280</td>
<td>321</td>
<td>375</td>
<td>450</td>
</tr>
<tr>
<td>All Other</td>
<td>129</td>
<td>118</td>
<td>107</td>
<td>134</td>
<td>150</td>
</tr>
<tr>
<td><strong>TOTAL EXPORTS</strong></td>
<td>1847</td>
<td>2732</td>
<td>2575</td>
<td>2636</td>
<td>2900</td>
</tr>
<tr>
<td><strong>IMPORTS</strong></td>
<td>2056</td>
<td>2237</td>
<td>2739</td>
<td>2826</td>
<td>2800</td>
</tr>
<tr>
<td><strong>BALANCE OF TRADE</strong></td>
<td>-209</td>
<td>495</td>
<td>-164</td>
<td>-190</td>
<td>100</td>
</tr>
<tr>
<td>Invisibles (net)</td>
<td>-528</td>
<td>-548</td>
<td>-614</td>
<td>-640</td>
<td>-700</td>
</tr>
<tr>
<td>Balance on Current Account</td>
<td>-737</td>
<td>-53</td>
<td>-778</td>
<td>-830</td>
<td>-600</td>
</tr>
<tr>
<td>Net Capital Inflow</td>
<td>656*</td>
<td>500</td>
<td>460</td>
<td>851</td>
<td>450</td>
</tr>
<tr>
<td>Change in Reserves</td>
<td>75</td>
<td>447</td>
<td>-318</td>
<td>21</td>
<td>-150</td>
</tr>
</tbody>
</table>

*Excludes $156 million borrowed from International Monetary Fund

<table>
<thead>
<tr>
<th></th>
<th>1960/61</th>
<th>1963/4</th>
<th>1964/5</th>
<th>1965/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange Reserves</td>
<td>1078</td>
<td>1672</td>
<td>1354</td>
<td>1375</td>
</tr>
<tr>
<td>I.M.F. Borrowing Rights</td>
<td>266</td>
<td>446</td>
<td>589</td>
<td>670</td>
</tr>
<tr>
<td>Total Reserves &amp; I.M.F. Borrowing Rights</td>
<td>1344</td>
<td>2118</td>
<td>1943</td>
<td>2045</td>
</tr>
</tbody>
</table>

1963/4 was a remarkable year for the balance of payments, with a staggering trade surplus of $495 million. Everything went right at once, a flush season here, with droughts overseas in China and Russia, and commodity prices at their best levels in years. But it was too much to expect the good fortune to last. Wool prices receded by 15% in 1964/5; and last year came the disastrous drought in New South Wales and Queensland — the worst for fifty years. 18 million sheep were lost or over 10% of Australia’s total flocks.

The current low price of wool is causing some apprehension. However, the Chairman of the Australian Wool Board, Sir William Gunn believes prices will rise because Japanese stocks have been depleted, economic prospects in Europe and the United Kingdom are improving, and the tight money...
situation in the United States is being relaxed. He expects auction prices for 1966/7 to at least equal last year's average. The longer term supply-demand relationship for wool is reasonably sound — with output growing at 2½% a year, almost equal to the average annual increase in world demand. Encouraging features are the growing use of wool in Asia, particularly Japan, and signs that greater stability has been reached in the blending of wool and synthetics in clothing worn in high-income countries.

After attaining the exceptional level of $404 million in 1963/4 under the impact of heavy Chinese and Russian buying, wheat exports subsequently fell away as Russia withdrew from the market and stocks ran down because of the drought. But China has remained our largest customer taking around 100 million bushels a year. Before China began large-scale buying in 1960/1, Australia's best customer was Britain, with 20 to 30 million bushels a year. Under the encouragement of growing markets, wheat acreages have soared from 8 million acres in 1956/7 to a record 20½ million acres this year. A recent analysis by the International Wheat Council suggests that China is no longer importing wheat solely to supplement precarious food supplies. She is now concentrating on production of valuable export crops — cotton, tobacco, silk, peanuts and beans — and will probably continue to buy substantial quantities of low-cost Australian wheat.

The rise in meat exports since 1960/1 is largely due to the emergence of the United States as a major buyer of boneless beef. With the expenditure of over $30 million on beef roads and improved breeding and handling techniques, beef production could increase more rapidly than in the past. Demand from the United Kingdom and the United States should continue strong with some increase in other markets — notably the European Common Market countries, Japan and South-East Asia.

The quantity of sugar exported has risen by more than 50% since 1961/2, mainly because of increased buying by Japan and the United States (as a result of the Cuban Crisis and the removal of International Sugar Agreement quotas). Sugar plantings are now at an all-time record of 575,000 acres compared with only 375,000 acres 10 years ago. Unfortunately
world sugar prices have toppled dramatically from the record level of $140 a ton achieved in 1963/4 to about $40 a ton and exports therefore have fallen considerably in money value.

The striking upsurge in mineral exports since 1960/1 is possibly the most important economic development of the last decade. Metal prices, which had remained fairly stable between 1959/60 and 1963/4, rose by over 20% in 1964/5, but in recent weeks have fallen sharply. The great change has been in the quantity exported. Taking 1959/60 as equal to 100, the quantity of minerals and metals exported has progressively risen to 157 in 1963/4, 161 in 1964/5, 202 in 1965/6 and could reach 230 in 1966/7. The value of mine production as a whole is estimated to rise from $600 million in 1966 to $670 million in 1967 (it was less than $500 million in 1964). Main production increases expected in 1967 are iron ore $32 million, zinc $12 million and bauxite $4 million. Most of these increases will find their way into exports.

Australia's export performance in manufactured goods since 1960/1 has been remarkably good, no doubt partly in response to the special export incentives. The table below sets out the main increases which have taken place—

**EXPORTS OF MANUFACTURES**

<table>
<thead>
<tr>
<th>Commodity Group</th>
<th>1960/1</th>
<th>1962/3</th>
<th>1964/5</th>
<th>1965/6</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td></td>
<td>$ million</td>
<td></td>
<td>$ million</td>
</tr>
<tr>
<td>IRON &amp; STEEL</td>
<td>46</td>
<td>45</td>
<td>59</td>
<td>70</td>
<td>110</td>
</tr>
<tr>
<td>VEHICLES &amp; PARTS</td>
<td>19</td>
<td>20</td>
<td>39</td>
<td>42</td>
<td>50</td>
</tr>
<tr>
<td>MACHINERY</td>
<td>29</td>
<td>36</td>
<td>57</td>
<td>59</td>
<td>70</td>
</tr>
<tr>
<td>OTHER METAL MANUFACTURES</td>
<td>14</td>
<td>14</td>
<td>22</td>
<td>28</td>
<td>40</td>
</tr>
<tr>
<td>CHEMICALS</td>
<td>17</td>
<td>19</td>
<td>30</td>
<td>38</td>
<td>45</td>
</tr>
<tr>
<td>PAPER &amp; STATIONERY</td>
<td>7</td>
<td>8</td>
<td>12</td>
<td>11</td>
<td>135</td>
</tr>
<tr>
<td>TEXTILES ETC.</td>
<td>6</td>
<td>8</td>
<td>14</td>
<td>15</td>
<td>135</td>
</tr>
<tr>
<td>FOOD, DRINK, TOBACCO</td>
<td>7</td>
<td>9</td>
<td>12</td>
<td>14</td>
<td>135</td>
</tr>
<tr>
<td>ALL OTHER</td>
<td>31</td>
<td>45</td>
<td>76</td>
<td>98</td>
<td>450</td>
</tr>
<tr>
<td></td>
<td>176</td>
<td>204</td>
<td>321</td>
<td>375</td>
<td>450</td>
</tr>
</tbody>
</table>

SOURCE—The Commonwealth Statistician (1966/7 estimates ours)
NOTE—The Statistician excludes petroleum from exports of "manufactures".

The main market for exports of manufactures continues to be New Zealand, around 40%, and some uncertainty about the future is understandable in view of New Zealand's severe
balance-of-payments' problems. However, while Australia can be competitive in price and quality and sales promotion, manufactured products should find growing outlets abroad.

* * *

In the past, uncertainty and caution about the balance of payments have adversely affected policies making for rapid economic growth in Australia. The Commonwealth Treasury pointed out in a White Paper issued early last year that "economic growth can suffer, if an excess of caution leads to measures which divert resources from efficient to less efficient uses — as can happen when imports are arbitrarily curtailed, or for that matter, when exports are artificially stimulated".

Measures which strengthen the economy will in the end strengthen the balance of payments. While the balance of payments remains strong there can be few obstacles to continued rapid internal development. But when the balance of payments is weakened, from whatever cause, the effects are felt through the economy and the rate of growth slows down.

The Treasury has rightly warned there can never be a final or lasting solution to problems presented by the balance of payments. But the recent striking improvements in Australia's external prospects must lead to optimistic attitudes in government and business circles.

The long-term prospect is bright. With great mineral reserves now at our disposal and the traditional export industries so full of promise, it is almost inconceivable that Australia could fail to prosper and go rapidly ahead.
The William Queale Memorial Lecture

“The Treasure Chest of Management in Australia”
by R. A. IRISH, O.B.E., F.C.A.

Chairman Manufacturing Industries Advisory Council, Chairman Rothmans of Pall Mall (Australia) Limited, Chairman of Commonwealth Industrial Gases Ltd., and a Director of other Companies.

The October/December number of “The I.P.A. Review” drew attention to this lecture and commended it to business managements and to those who aspire to business leadership in the future.

In this lecture, Mr. Irish gives his philosophy of business, his views on free enterprise, its responsibilities and its relationship to government in the modern economy.

A 24-page booklet containing the full text of Mr. Irish’s address is obtainable on application to the I.P.A. Price 50 cents (post free).

“Lord Keynes and Prevention of Depression”
by Professor Dudley Dillard.

This article first appeared in “The I.P.A. Review”, September/October 1950. “The Economic Digest”, London, said it was "as near as we are likely to get to a statement of Keynes’ doctrine in terms that may be understood by the ordinary voter".

In view of the many requests we have had from teachers, we have decided to make reprints available. The I.P.A. gratefully acknowledges the help given by the National Bank of Australasia Ltd. in defraying the cost of reprints.

Copies are available free of charge on application to the I.P.A. by teachers, university lecturers and students, etc. We would prefer teachers to apply for a number of copies, rather than individual students writing direct.
BRITAIN, the E.E.C. and AUSTRALIA

BY
Jossleyn Hennessy

Jossleyn Hennessy, who analysed Britain's current political and economic problems in the "Review" in April, 1966, is a British economist. He has contributed prolifically to such leading periodicals as the "Economist", "Statist", "Lloyds Bank Review", "Sunday Times", and to the publications of the British Institute of Economic Affairs. He has just been appointed Director General of the British Foundation on Automation and Employment.

In this article, Mr. Hennessy sets Britain's present attempt to enter Europe in the perspective of the E.E.C.'s political origins, aims, and development, and suggests the possible consequences to Australia of the success and failure of the negotiations.

The heart of an Australian may sink as, confronted with yet another exposition of the problems surrounding the U.K.'s renewed effort to enter the European Economic Community, he reaches for a cold compress to help him struggle with the intricacies of the role of sterling as a reserve currency, the statistical complexities of the U.K.'s balance of payments, and the maze of the E.E.C.'s agricultural support measures.

Be of good cheer! The basic issues are political and, if we keep calm and hang on to our hats, easy to grasp. Admittedly the economic problems are complex but, here again, the issues are simple and we can leave the technical solutions to the
only people who understand them — the experts, because where there is a political will, there is an economic way.

Origins of the E.E.C.

Why and how did the European Economic Community come into existence? Why did the U.K. wait till 1961 to seek to join it? Why is she anxious to do so now? What repercussions would U.K. entry have on Australia?

Many people assume that the object of Germany, France, Holland, Belgium, Luxembourg, and Italy in setting up the E.E.C. was to promote a great expansion of trade in a common market of 170 millions. The Six do regard this as vitally important, but the E.E.C. mass market is less an end in itself than a foundation on which the political unity of Europe may gradually be built up. The Six feared that to propose an immediate political federation would arouse strong nationalistic resistances, whereas a common market would year by year require increasing political decisions for the co-ordination of tariff, fiscal, monetary and social policies. This has, in fact, set in motion a trend, by now irreversible, towards political unity in gradual almost imperceptible stages through, as it were, an unobtrusive back door.

It was the aftermath of World War II which transformed the Utopian ideal of European unity into a possibility. To the Europeans in 1945, Europe seemed finished. World power had passed to the U.S.A. and the U.S.S.R. Providing that the Soviets left North America undisturbed, the U.S.A. seemed ready to let Europe struggle along in its backwater. Divided among a dozen countries, with vast devastated areas, there did not seem to the discouraged Europeans much that they could do about it.

Then a series of Soviet acts changed the picture. Stalin alarmed the free world by making satellites out of East European countries that the U.S.S.R. had "liberated", by stirring up guerilla warfare in Greece, by trying to swallow up Berlin, and by other provocations. All this galvanised the Americans into the offer of Marshall Aid (June, 1947), which led (April, 1948), to the Organisation for European Economic Co-operation (O.E.E.C., now O.E.C.D.), and the North Atlantic Treaty Organisation (1949). Finally, the Communist invasion of South Korea in 1950 launched three years of war in which the U.S. casualties totalled 141,705. This made the Americans insist that German manpower must be tapped to strengthen NATO.

France, and other countries, feared German re-armament. The idea emerged of a European Defence Community (E.D.C.) with a European army under the supra-national control of a European Council, but the E.D.C. Treaty failed at the last minute to secure French ratification in 1954.

In the years spent negotiating the E.D.C. Treaty the statesmen and officials of Germany, France, Italy, Belgium and Holland had, however, learned to work together and, fired by the ideal of ending the divisions of Europe, had held discussions ranging far beyond defence. The vision of a political community with a common market took shape.

Pioneers of European Unity

It is a myth that great political movements or economic innovations emerge of themselves. They originate in the imagination and determination of individuals. Among those responsible for the E.E.C. was Robert Schuman, a Frenchman in 1945, who had been born a German and had served in the German army in World War I. Alcide de Gaspari, an Italian, had been a member of the Viennese Parliament when Austria was at war with Italy.
in World War I. Conrad Adenauer had been the anti-Prussian mayor of Cologne, who had hoped to separate the Rhineland from Prussia after World War I. These three were Catholics. But the stalwarts of the “European idea” came also from the fiercely anti-clerical Left, organised in the early postwar years in the movement for a Socialist United States of Europe. The Belgian Socialist, Paul Henri Spaak, a powerful individual driving force, refused to acknowledge defeat after the failure to secure E.D.C. and, doggedly picking up the splinters of European unity, pushed ahead with drafting the Treaty of Rome. Guy Mollet, the French Socialist, enlisted the votes of 101 French Socialist M.P.s. Jean Monnet, father of French planning, saw far wider than national planning. He envisaged a free trade area for the coal and steel industries of Europe, from which eventually emerged the European Coal and Steel Community. Today these, and others of that handful of determined visionaries, must feel a wondering joy as, looking around the E.E.C. they see late-comers queueing for admission.

My daughter, Aminta, who settled in Australia three years ago, writes, telephones, and cables me that Australians feel excited about their future: champagne is in the air; the ball is at your feet. The citizens of the Six feel like that, too. The dynamic effect that the dismantling of internal barriers, setting free the movement of goods, persons, services, and capital, in an area five times the size of the U.K., has had, not just materially on European trade, but even more psychologically on the minds of men, gives them the zest of pioneers advancing towards boundless opportunities. Europe ranks today among the “new” continents.

British Attitudes to Europe

Why did the U.K. stand aside until 1961?

We emerged from the war as victors beside the U.S.A. and the U.S.S.R., one of the three nations in the world with appreciable armed power. Confidently, we looked to the prestige of our “finest hour”, to our diplomatic “know-how”, to our “leadership” of the Commonwealth, and to our “special relationship” with the U.S.A. to maintain our status as a world power. The acquiescence in Hitler’s victory in 1940 made us think of the Europeans as unreliable allies and third rate political powers. In reality, our position was the same as theirs. The aftermath of the war revealed to them, as it hid from us, the fundamental changes in the facts of power. They saw that separate European nations — even the U.K., France, and Germany, with substantial populations and industries — would, from then on, be small fry next to the U.S.A. and the U.S.S.R. We did not.

Moreover, our thinking was understandably conditioned by the long history of our Commonwealth connection and the sterling area. In the 1950’s many people thought of the Commonwealth as an already “going” alternative to the E.E.C. But the E.E.C’s two foundations — (1) the common political authorities of the E.E.C. Commission and the parliamentary Assembly and (2) a single common market — did not exist in the Commonwealth and would not have been accepted had they been proposed. The Commonwealth and sterling area experiment of the 1950’s was not abandoned deliberately; it dissolved.

Moreover, as the fifties went by, and as Germany and France recovered, it became steadily apparent that our efforts to keep in the great power class, above them, were vain. In 1956, the Suez failure disclosed that, even together, Britain and France could not defy the U.S.A. In 1958, the Six’s rejection of our Free Trade Area proposals proved that they could bargain with us on more than equal terms. In 1960, we recognised that, by ourselves we could not afford Blue Streak, and would therefore soon be unable to deliver H
bombs, which meant that, for the first
time in our history, we would be entirely
dependent on another country for our
defence.

The participation of Australia and New
Zealand, without us, in the ANZUS
Treaty, under the aegis of the U.S.A., had
earlier shown that we alone could no
longer defend those outposts of the Com-
monwealth. Canada's astonished dismissal
of our free trade offer, and the storm over
South Africa, further emphasised that the
Commonwealth, as such, contains no con-
sensus on which to base a Commonwealth
policy either for defence or for economic
growth. An independent power needs eco-
nomic strength and an independent de-
terrent. We have neither. By 1960, the
government had grasped what the Euro-
peans had understood in 1945: the sove-
reignty of a state, standing alone, is a
term which has lost its meaning.

It was Jean Monnet who, in the first
year of the movement for European unity,
said prophetically: "There is one thing
you British will never understand — an
idea. There is another that you grasp at
once — a hard fact. We will have to make
Europe without you. But then you will
have to come in — on our terms." In
1961, we grasped the hard fact.

"Are We to be Ruled by Foreigners?"

Are we, then, to be "ruled by foreign-
ers"?

If we do not enter the E.E.C. we shall
be ruled by foreigners in the sense that we
shall depend on their good will for
our defence, and that all our domestic
policies will be mere reactions to their
policies, in the formulation of which we
shall have had no voice. By taking our
place in the counsels of the E.E.C., we
shall through joint action to control those
political and economic forces which affect
all the E.E.C.'s members in common, re-
gain an important seat in the high places
of power.

But what about a revival of Nazism in
Germany, a dictatorship in France, or an
overwhelming swing to communism in
Italy? Whether inside or outside the
E.E.C., we should be hit by such cata-
strophes. But, outside, we should be
powerless spectators. It is, indeed, argu-
able that the boot could be on the other
foot and that the British masses, sunk in
a politically and economically stagnant
Britain, envious of a prosperous E.E.C.,
might launch social upheaval here. Inside
the E.E.C., we could be a powerful factor
for stability. How much more will politi-
cal instability in Europe affect us if we
are inside the E.E.C. than if we are only
(sic) in NATO, O.E.C.D., W.E.U., and
the Council of Europe? Because she was
inside the E.E.C., was Germany more af-
fected than the U.K. by the attempted
Algerian coup of 1960? Is English justice
distorted by our union with Scotland,
which enjoys a variety of the Roman law
enforced in the E.E.C.?

Unfortunately, the emphasis in public
discussion of U.K. entry into the E.E.C.
has paid little attention to the political ad-
vantages of U.K. membership — which
are great and certain — and has concen-
trated on the economic advantages which
are potentially great but are not the basic
point at issue. The result is that while
the majority of informed U.K. opinion
understands the political necessity of
membership, a vocal and not uninfluential
minority, particularly in the Labour party,
have failed to grasp the political realities
and by continual harping on the "Shall we
be ruled by foreigners?" theme weakens
Harold Wilson's bargaining hand.

The Gaullist Finger in the Pie

But, you may object, has not President
de Gaulle sidetracked the European supra-
national ideal? Certainly he is playing
it down and thus, paradoxically, helps to
revive the embers of German nationalism.
Over the past ten years I have visited
Germany repeatedly and I can testify to
the sincerity of the mass of Germans who see their salvation as Europeans rather than as nationalists. Two devastating defeats in war, and two devastating inflations, have transformed German thinking. President de Gaulle's concept of the E.E.C. as a confederation of sovereign nations has revived the Nazi lunatic fringe but, for the time being, Germans as a whole remain loyal to the European ideal. Nor is President de Gaulle having it all his own way: public opinion polls show that a majority of Frenchmen favour "Europe" and that 84 per cent would welcome U.K. participation. Without underestimating the President's influence, I believe that the worst that he can do is (1) to slow the pace of the powerful forces at work towards political unity in Europe (which the mechanics of the E.E.C., itself continue to carry forward) and (2) possibly to delay U.K. entry. Reports from other E.E.C. countries make it clear that if Mr. Wilson were to take the Gaullist line against supra-nationalism, he would arouse the hostility of the five, without placating President de Gaulle, who is at present concentrating his objections on the U.K.'s economic weaknesses.

The Economics of U.K. Membership

Virtually all debate assumes that (1) our balance-of-payments' deficits, arising, it is said, from the insufficient competitiveness of our exports, and (2) the burden of our external debts are major obstacles to U.K. membership of the E.E.C. Is this true?

For answer, I extract some facts from an authoritative and exhaustive technical analysis by Mr. W. A. P. Manser, a Cambridge economist.

Although the E.E.C.'s external tariff creates a preferential market for the Six, U.K. exports to the Six between 1958 and 1965 grew by 115 per cent and rose from 13 per cent to 19 per cent of our total exports. In 1958, E.E.C. exports to the U.K. exceeded E.E.C. imports from the U.K. by $55 millions. By 1965, U.K. exports to the E.E.C., at $900 millions, exceeded imports from the E.E.C. also by $55 millions. If the U.K. can compete thus over the E.E.C.'s tariffs, a fortiori she should do better once inside them. The U.K.'s sophisticated insurance, banking and broking services are also easily competitive with all potential European rivals.

How about a capital outflow? U.K. long-term investments in the E.E.C. are negligible, so that the problem for the U.K. balance of payments arises from the ebb and flow of short-term money owned by non-residents — but this is already free. Further, the U.K. inside the E.E.C. would be a more attractive centre for currency reserves than she is today. It is true that both the levies on food imported and the proceeds of E.E.C. tariffs on goods imported from non-E.E.C. countries would go not to the U.K.'s national exchequer but to the E.E.C.'s funds, but these would not hit our balance of payments because the E.E.C. funds are redistributed for E.E.C. purposes, either as payments or as offsets for E.E.C. dues. The dismantling of trade barriers between the U.K. and the E.E.C. would thus strengthen the U.K.'s balance of payments.

The Treaty requires all members to observe common economic policies. Of these, only agricultural policy, which the U.K. accepts, has got far. Common fiscal and foreign trade policies could be contrary to some measures which the U.K. has taken in the past, but such policies require a degree of political integration not yet, and unlikely to be, achieved in the E.E.C. for a good many years — certainly long after the U.K. must overcome her present imbalance — and the U.K. would share in the formulation of these policies.
France's objection that under Treaty Article 108, the E.E.C. would have to underwrite the U.K.'s deficit overlooks that when the U.K. is in difficulties she already has the support of the Group of Ten, which includes the Six. The Ten support the £ because they believe its collapse would harm all of them. If the Six, who constitute a majority of the Ten, do not consider the £ worth supporting they would not do so today. On this point, whether the U.K. is inside or outside the E.E.C. makes no difference to the Six or the Ten.

Nor are the Six in any position to charge that the need for deflationary policies in the U.K. would hold back growth in the E.E.C. Inflation in the U.K. has been slower than in some E.E.C. countries, every member of which has (a) suffered from it in varying degree and (b) been forced into deflationary policies at various times. One of the preoccupations of the E.E.C. Commission is to devise means of harmonising counter-cyclical policies and these would be substantially more effective if they include the U.K.

The popular assumption that the U.K. balance of payments is always in deficit, and that the E.E.C. balance always has an export surplus, needs qualification. Between 1955-65, the E.E.C. had export deficits in all but two of these eleven years. Of individual members, France ran deficits in seven of these years. On the other hand throughout 1955-65 U.K. exports consistently covered 85 per cent of U.K. imports.

The E.E.C. is as structurally prone to an excess of imports over exports as the U.K. and for the same reason: the need to import raw materials and food. By and large, the E.E.C. has balanced its accounts by a continuing inflow of foreign capital. Apart from France, the U.K. is the only one of the seven to have achieved a positive current balance in these eleven years (including even the crisis year of 1964), and the size of the U.K.'s invisible surpluses in relation to the visible deficits which they cover, is striking. Further, the U.K. alone of the seven is an important net investor abroad, which means that she has devoted part of her current earnings to strengthening her long-term position. Unlike the Six, the U.K. is not dependent on foreign investors for her balance but is laying up for herself current income rather than debts for the future. In addition, her investments in foreign industries will help the direct export of U.K. goods and services. It follows that the U.K.'s balance of payments is at least as soundly based as that of the E.E.C.

But if U.K. exports are competitive in Europe, and if in most years the U.K. has run a surplus sufficient to enable her to increase her foreign investment, "where's the bloody horse?"

The answer is U.K. government expenditure abroad. This is far more, and different in kind, from E.E.C. government foreign expenditures. Two-thirds of German government current foreign spending is on indemnification payments. Three-quarters of the French, Italian and Netherlands capital items are repayments of international debts incurred to meet past balance of payment deficits (!) Against this, 75 per cent of U.K. government current account payments are gifts to developing countries and military costs incurred to keep international peace. Between 1960 and 1965 we spent thus no less than £6,340 millions on current and £1,557 millions on capital account, a total of £7,897 millions.

These economic facts show that there is no insuperable economic obstacle to U.K. membership. On the other hand, the E.E.C. might warn the U.K. that if she wants admission she must cease to spend such large sums on international defence and development aid.

To this, the U.K. might reasonably reply that if the E.E.C. is serious in its
aim to build Europe up as an independent political force, able to talk with its elbows on the same table as the U.S.A. and the U.S.S.R., it must pay its share of international political dues. Indeed, Mr. Wilson need not spell this out in detail because as the community moves more and more into the main stream of world politics, it will be unable to avoid progressively increasing participation in the practical operations of world leadership, and in their costs. As a member of the Community, the contribution of the U.K., as an individual country, will phase out and, with it, her deficit on international account.

How About Australia?

How would Australia be affected by U.K. membership of the E.E.C.? In area Australia is six times the size of the E.E.C. (excluding E.E.C. associates in Europe and Overseas), but its 11,000,000 inhabitants make up a small nation — in numbers about the same as the Netherlands. Like every other contemporary “sovereign” state, you cannot stand alone. Your natural friends are those with whom you have ties of blood and kinship, who speak the same language, have the same cultural and political outlook, and who, because they are “satisfied” powers, have the same material interests in international stability and the peaceful development of economic prosperity. Can we identify these friends?

Until World War II, they were overwhelmingly in the U.K., and in the Commonwealth as a whole. Subsequent events brought in the Americans to redress the balance of a weakened U.K. and an uncertainly evolving Commonwealth. Still later, within the past ten years you have welcomed many immigrants creating new ties of kinship with continental Europe.

I conclude that if the U.K. enters the E.E.C., her political and economic influence on world affairs will be powerfully strengthened. This should be welcome, not only to Australians of British origin, but, because much U.K. influence will be exercised through and in the European Community, also to Australians of European origin.

Influence in world affairs is not all one-way traffic. Australia’s association with the U.K. and the traditional political and cultural links of the Commonwealth — nothing that I have written here should be interpreted as implying that I do not value them highly — and her association with the E.E.C. through U.K. membership — should enable her to exercise a steadily increasing influence in world affairs, which any potential neighbouring troublemakers would ignore at their peril.

To sum up, the question, as I see it, is not whether, but how soon, will the U.K. enter Europe. President de Gaulle may seek to slow the hands of the clock but I believe that the momentum of European unity is too great for him to be able to put them back.

Let us, nevertheless, take a hurried glance at the alternatives if our present attempt to enter the E.E.C. fails. Withdraw from all our international commitments and cultivate our backyard? If E.F.T.A. did not dissolve, we would have a market of 90 millions (of which 55 millions are in the U.K.). By comparison with the domestic markets of the U.S.A. and E.E.C., this would progressively limit our competitiveness in all major industries which depend more and more on mass production for mass markets. There is talk of an Atlantic Free Trade Area (A.F.T.A.) linking the U.K. (and any other E.F.T.A.-ites, blackballed by the E.E.C.) with the U.S.A. and Canada. The resources of North America would tower over E.F.T.A. industries and, besides profoundly modifying E.F.T.A.’s economies, would reduce them politically to the equivalent of a fifty-first American state.
Rightly or wrongly, few E.F.T.A. members would relish this. If Australia, New Zealand, and Japan could be roped in — as has been suggested — the balance would be greatly improved, but whether this thought is realistic is for you to tell me. The U.S.A. has, however, made it clear that such alternatives will not be investigated as long as the U.K. has a chance of entering the E.E.C.

If blackballed this time, my view (on balance of evils) is that the U.K. should interpret it as an adjournment and, rather than immediately fall back on the alternatives, should do all possible to slam no doors into Europe. But the ensuing years of trade distortions, suspense and recriminations would create unpredictable hazards for the U.K., for Australia, and for all Commonwealth members, on which (fortunately) I have no space left to speculate.

Sources and Acknowledgements:

Two short but authoritative books are The Challenge of the Common Market (Blackwells), by U. W. Kitzinger, and Britain and the Common Market (Cresset Press), by John Pinder. Both outline the mainsprings of the movement for European unity, the achievements to date of the Six, and the degree to which they have pooled their separate sovereignities. Each examines the impact that membership would have on the U.K. economy, relations with the Commonwealth, and U.K. influence in the world. Both are stimulating writers. Each complements the other. Mr. Gitzinger's appeal is to the tough minded, at home in a work of scholarship. Mr. Pinder, while no less authoritative, offers a work of "popularisation".

The most up-to-date analysis of the economic repercussions of U.K. entry into the E.E.C. is Mr. W. A. P. Manser's essay in the November 1966 issue of the Westminster Bank Review (available on request from 41 Lothbury, London, E.C.2) cited above in my text.
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