THE 1967 WAGE DECISION —

A Vast Improvement

THE 1967 Wage Judgment* is remarkable in more ways than one.

It abandons the basic wage which has been the central feature of the determinations of the national wage-fixing body for 60 years. In this sense the Judgment is historic.

It accepts the "total wage" (the basic wage plus loadings and margins) as the basis for future wage adjustments.

It applies, for the first time, the full increase awarded (in this case $1) to adult female workers as well as to males; this has been taken by some to foreshadow a gradual move toward equal pay for equal work.

It is unanimous. Judgments in recent years have often been marked by wide divergences of opinion between different members of the Commission, thus seriously weakening the authority of the majority decision.

* It is called a "Pronouncement", but to avoid confusion in terminology we have retained the term "Judgment".
Perhaps for the first time the Judgment itself is expressed in brief, simple terms (it comprises less than 10 foolscap sheets thus avoiding the lengthy, tortuous and confusing argumentation of previous post-war judgments.

Finally, the Commission, in spite of its constant insistence in the past that it is not an "incomes body" but a body for "settling disputes", seems to have moved, at least some way, toward the former conception. This is suggested by the text of the Judgment which emphasises the "economic consequences" aspect of the Commission's determinations and the desirability of avoiding an increase which would "create difficulties about prices and inflation"; but, even more so, by the nomination of a specific date, August 6, 1968 for the next annual economic review of wages.

All in all, the 1967 Judgment is hard to fault. It should do much toward restoring public confidence in the national wage tribunal. In recent years the prestige and authority of the Commonwealth Conciliation and Arbitration Commission had suffered severely from determinations which, on occasions, seemed to conflict seriously with the needs of economic stability and balance; from the frequent, almost year-to-year, shifts of ground on the basic procedures and principles to be followed in the fixation of wages; from the lack of unanimity among individual members of the Bench; from the long-drawn-out hearings which preceded the judgments; and from the excessively lengthy, ponderous and over-legalistic character of the judgments themselves. The Commission, at times, gave the impression of being anchored to the past, hidebound and shackled by tradition, precedent and out-moded concepts, unable to adapt itself to modern requirements and to the new economy of full-employment and "middle-class" affluence. Last year's Judgment confirmed all these impressions and gave rise to the feeling that the Commission had become an institution, which was confused about its purpose, uneasy about its role, and inflicted with a disturbing loss of self-confidence.

Now, in this year's Judgment, the Commission has shown that past form is not necessarily a true indication of present performance. In one dramatic movement (one might say) it
has shaken itself free of the inhibitions and restrictions of the past and has boldly entered the modern era.

The dollar increase is probably a realistic compromise. It certainly could hardly have been more — the Commonwealth Government was opposed to any increase — and in view of the acceptance of the total wage — which the unions did not want — it could hardly have been less. It is difficult to feel any sympathy with the unions' lamentations since the Judgment was given. As the Commission points out this is the third general increase in award wages within the 1966/67 financial year, the others being the $2 increase in the basic wage last July and the interim margins adjustment in December. The Commonwealth Government's submission showed that average minimum wages had risen by about 7.4 per cent (this is before the $1 increase) since June, 1966 — an increase "that by no stretch of imagination can be regarded as coming within the limits that can be accommodated by possible increases in productivity".

In view of the present increase, along with the other rises in award wages in the last 12 months, the Commission's express desire that there should be no further general review of wages before the second half of 1968 (that is, for over 12 months) is wise and should go some way toward allaying official concern over the rate of increase in wages. The Commonwealth Government has insisted that wage increases of a magnitude which results inevitably in higher prices, weaken the economy and, therefore, are not in the interests of wage-earners themselves.

The acceptance of the total wage concept (and the consequent abandonment of the basic wage) has clearly not been an easy step for the Commission to take. The basic wage had its roots deep in the industrial history of Australia and had been the main instrument for protecting the standard of living of the Australian wage-earner. It was, in fact, the proud child of the Commonwealth wage-fixing authority itself. It is not, therefore, surprising that the tribunal has felt a strong sentimental attachment to the basic wage and has been reluctant to dispense with it.
Seven years ago, in the January/March 1960 number of "Review", the I.P.A. argued that for the adjustment of wages for economic conditions, the basic wage should be replaced by the "total wage" concept. After rejecting the total wage in its 1964 and 1965 Judgments and embracing it, in principle, in 1966, the Commission has now come to accept it fully. This is a major, one might say historic, advance in wage-fixing procedure.

It is worth quoting the reasons given by the Commission for its acceptance of the total wage:

The total wage "... will enable the Commission to act flexibly, to ensure that economic gains are reflected in the whole wage each year, to give more reality to its award-making both in economic and work-value cases, and to give proper attention to the low wage earner. It will simplify the procedural difficulties in economic cases, which would not be entirely overcome by the unions' agreement to simultaneous hearings of basic wage and margins cases. It will eliminate the present awkward necessity for different benches contemporaneously dealing with different parts of the wage; it should simplify the rapid and proper spread of economic decisions throughout awards and determinations under this Act and the Public Service Arbitration Act; and it should put those who give and receive over-award payments in a better position to deal with their problems".

Few will dispute that these considerable benefits should all flow from the adoption of the total wage. But the real reason for the ultimate rejection of the basic wage in favour of the total wage procedure can be traced back to the national tribunal's own decisions, in the years after World War II, to adjust not only the basic wage for improvements in economic conditions, but also the "marginal wage" as well. (Prior to World War II, changes in margins for skill were assessed primarily on changes in the nature of the occupations concerned, and only the basic wage adjustments reflected movements in general economic conditions). The absurdity of applying separate adjustments, both based on the capacity of the economy to pay, to the two parts comprising the full wage was soon to become alarmingly apparent. In 1959, for instance, not long after the Commission had decided that economic conditions justified an increase in the basic wage of 15/-, margins were upgraded by 28%, also for economic conditions. This meant
that average wages were increased by some £2 a week or around 9 per cent within the space of a few months — an increase far exceeding any conceivable gains in national productivity.

It was clear that the Commission itself was becoming seriously embarrassed and confused by its own system. At times, its members would assert that an increase in the basic wage had not absorbed the total capacity of the economy to pay higher wages, implying that there was still room left for marginal increases. At other times this was denied. The dangers of this system — its inflationary potential and its threat to economic stability — were too real to be permitted to continue. In 1965, the Commission announced that it would consider the basic wage and margins (for economic changes) together and not separately. This decision really sounded the death-knell of the basic wage. The obvious and logical course was clearly now to make one single adjustment to the total wage, rather than to give separate decisions for the two portions comprising it.

In its recent Judgment, the Commission has wisely emphasised that it is not committed to any one single method of applying the increase on which it may decide from time to time. It may award a flat amount, as in the present case; or it could specify a flat percentage increase (this would give the higher wage-earners a greater absolute increase than the lower); or it could apply the increase in terms of varying percentages. (These alternative procedures were also proposed by the I.P.A. when it advocated the adoption of the "total wage").

* * * * *

Over the past two decades, the Commonwealth arbitration authority has been subjected to greater criticism than any other Australian institution. Dissatisfaction with the Commission has been profound and widespread and has led many people to advocate fundamental changes in its constitution and nature. Some have even suggested that, not withstanding its honoured role in Australian industrial history, it should be
scrapped and replaced by some other system of wage fixation. While we may perhaps claim to have been more aware than some of the great intrinsic difficulties of the Commission’s task, the I.P.A. must admit to having been among its severer critics. We were alarmed and dismayed, for instance, by last year’s Judgment and the confusion and disharmony which it reflected in the minds of the members of the Commission.

Most thinking people, however, will wish to applaud the Commission for its 1967 Judgment. In its clear, straight commonsense and its refusal to be bound by the impossible tangle of precedents and procedures established in the past, the Judgment represents a major advance. It should help to re-establish the respect in which Australia’s national wage-fixing body was held in earlier times, and, given modern and responsible attitudes by employer and union organisations, it could herald a new and saner era in wage negotiations and industrial relations.
The decision to establish the Bankers Development Re-finance Corporation has given rise to a rather virulent outbreak of economic xenophobia — a near-fatal disease for Australia if it ever really took hold. Fortunately that is not likely to happen, for nations as well as individuals, when it comes to a showdown, are quick to grasp on which side their bread is buttered.

It is to be regretted, however, that the spate of press speculation and conjecture which followed the Commonwealth Treasurer’s statements on the Corporation served to inflame latent emotions against foreign capital as such and against so-called overseas ownership of our astonishingly expanding natural wealth. This was not the fault of Mr. McMahon. He has, on the contrary, been at pains to emphasise that the Commonwealth Government welcomes foreign capital; he has expressed concern that the restrictions on overseas investment in the United States and the United Kingdom are resulting in less overseas capital for Australia. Indeed, one of the reasons the Treasurer advanced for the formation of the Corporation stems from this very fact: that by mobilising large sums of money for investment, the Corporation may help to offset, at least in some part, the falling off in the supply of capital from abroad.

The very volume of press comment and conjecture has, not surprisingly, led many people to attach far too much significance to the Corporation. For instance, in the public mind the intention to form the Corporation is being associated with the notion that in future Australia’s dependence on overseas capital will be greatly reduced. Even the bankers, who are justifiably proud of what seems to be largely their own brain-child, must have been embarrassed by the reception which greeted the announcement of its impending birth. One T.V. news commentator, in an excess of nationalistic fervour, acclaimed it in absurdly ecstatic terms. The prospective position and powers of the Corporation in the total Australian economic and financial complex are thus being considerably over-estimated. Far too much is being expected of it.

Nevertheless, the Corporation should represent a useful forward step in Australian financial organisation. It should be able to make a most valuable contribution in arranging for the provision of finance of a magnitude and type hitherto hard to come by. While many technical details are so far unknown, the central purpose of the Corporation is to furnish finance specifically for large development projects requiring great amounts of capital. In recent years, the scale of the finance needed for many of the more spectacular ventures has often been far beyond the resources of the Australian capital market and the established banking and financial insti-
tions. In effect, the Corporation means that the trading banks, with the backing of the Reserve Bank, will now be combining to do collectively what they have found difficult or impossible to do individually. No one can quarrel with this. The new institution should assist in mobilising local capital for great projects of national importance. This may help to appease the deep-rooted Australian desire for a greater degree of participation in the ownership and control of organisations concerned with the development of basic natural resources.

But that having been said, there will still remain a compelling need for foreign capital, foreign know-how and foreign skills to assist not only with the exploitation of Australia's mineral wealth, but also with the continued development of other equally vital areas of the economy. The truth — unpalatable as it may be to some — is that the eventual formation of the Corporation will not lessen by one dollar Australia's clamant need for overseas money to bring to realisation the great goals of national development and population expansion to which we have set our hands.

The creation of a new piece of financial machinery, no matter how ingenious, does not, of itself, add one iota to the physical resources available for investment in new projects and for maintaining and improving living standards. This is not to deny that the Corporation, wisely administered, may bring about a more efficient deployment of the available reservoir of savings. There has been some suggestion that the new Corporation will also result in the movement of resources away from consumption to investment. But this is highly questionable; the Treasurer himself has indicated that the diversion here could be no more than marginal.

Anyone who doubts that Australia needs all the overseas capital it can get should take a good look at our balance-of-payments' experience over the last five years. This should prove a salutary exercise. The total deficit on current trading—that is, the extent to which our payments exceeded our current receipts—was little short of $3,000 million. A deficit of that order would have sent most countries, let alone a small economy like Australia's down the drain toward national bankruptcy. Fortunately, these massive deficits have been more than made good by the capital which other countries were prepared to invest in Australia. Why we should be able to do in the future what we have been unable to do in the past, is a mystery which the opponents of overseas capital have not bothered to explain. The fact is that the flow of overseas money into Australia acts like a governor (not the only one) regulating the pace of our national development. When the stream of foreign capital flows strongly, this pushes the Australian economy ahead at a rapid rate. When the stream dwindles, the rate of development, other things being equal, is slowed.

There is no escape from the basic economics of the Australian situation. If we want development to fire ahead we must seek overseas money and technical and managerial "know-how" and we must be prepared to pay, within reason, whatever price this may exact. If we are not prepared to pay this price, then we must accept the logic of a much slower rate of national progress and virtual stagnation in living standards.

The over-riding fact is that Australia is a capital-hungry country — perhaps more so in relation to the size of its economy than any other country in the world. There are several simple reasons for this insatiable capital hunger.

The first is that we are attempting to maintain a rate of population growth, based on a massive immigration pro-
gramme, which is among the fastest in the world. To settle people into homes and jobs at high living standards requires huge sums of capital. Some economists put the figure at around $10,000 per migrant.

The second is that Australia, because of its vast and sparcely populated area, poses unique and complex problems of development. Many of these can be solved only by sinking immense amounts of money into basic development to render productive large remote areas of the Continent. This means that returns from such investments are long delayed, with the possibility in some instances of no returns at all. The development of the North and North-West provide obvious examples. Only groups commanding great financial resources can undertake ventures of this kind. Dr. E. M. Hutton of the Division of Tropical Pastures of C.S.I.R.O., stated recently that large-scale pastoral investments by American interests in the North were doing Australia a great service by putting Northern development ten years ahead.

The third is that in the last few years Australia has become one of the greatest potential sources of mineral wealth in the world. The future viability of the balance of payments, and thus the maintenance of our industrial progress and immigration programme, has become intrinsically bound up with the rapid exploitation of these resources. Wealth left in the ground is not wealth at all. The economic and speedy development of this natural wealth, not to say the disposal of its output on world markets, is a task requiring not only huge sums of money, but also sophisticated technology, specialised skills and, not least, international marketing connections.

The fourth reason for the insatiable demand for capital is that in spite of its exploding economy, Australia's population and industrial capacity are still small compared with the major industrial nations abroad. Indigenous research, scientific and technical, is thus on a relatively minor scale. It can and should be greatly increased. But whatever is done must, for a long time to come, be insignificant by comparison with industrial research and development carried out in the United States and Western Europe. Added to this is the fact that the world is in the throes of an era of astonishing scientific and technological change, and new highly complex, science-based industries are becoming an indispensable feature of any country that aims to keep in step with the rest of the world. In these fields, even the large Western European countries have found it impossible to go it alone and have, in effect, been forced to draw liberally on American capital and technology.

The reasons for Australia's capital hunger are thus plain. It has a spectacularly expanding population; it has the strong Australian thirst for improved living standards; the natural desire to grow big; defence commitments which are rapidly accelerating; huge areas of difficult country to develop and populate. Finally, Australia, if it is not to become an industrial backwater, needs the superior technologies and scientific knowledge of larger economies at a more sophisticated stage of industrial development.

One has only to pause and look around to appreciate the extent of Australia's capital hunger. We desperately need money for roads; we need money for housing; we need money for schools and universities and hospitals; we need money for dams, hydro-electric schemes, basic power and fuel developments; we need a great deal of money for public projects such as the Melbourne underground; we need money for primary and manufacturing industry development; we need money for opening up new lands, notably the North and North-West (the "Ord
River projects”); we need money — immense amounts — for the exploitation of Australia's new-found mineral wealth and natural gas resources; we need money for our expanding defence obligations. This capital hunger is the inescapable accompaniment of a great wave of development and rapid economic expansion. It will persist so long as we continue to pursue the national ambitions we have set for ourselves.

If the inflow of capital were seriously to decline — either because of external forces over which we can exert no control or because of the triumph of small-minded, insular conceptions — the effects would be felt throughout the entire economy. We would find then we could not do the things we all wanted to be done, and felt should be done. There would be less money for everything: roads, schools, universities, industries, public projects, mining development, and the rest. Even the most nationally-minded among us, harbouring impossible ideas of Australia “going it alone,” would soon feel the crunch and would be screaming to High Heaven for relief.

Some people are assuming that the Bankers Development Re-finance Corporation will be able to marshal vast additional sums for mineral development by diverting resources from consumption. It has been suggested that this diversion might be brought about by the Corporation attracting additional savings and through the curtailment of consumer credit available through the hire purchase finance companies. The idea that large resources can be shifted out of consumption into investment is a fallacy that dies hard. Consumption is, and always will be, the stubborn, unrelenting enemy of the economic planner in a democratic society. The curtailment of consumption expenditure is a prescription for the other fellow — seldom, if ever, for oneself. For there is hardly one of us, when it comes to the pinch, who does not want to achieve some improvement in his standard of living here and now. The notion that sizeable additional resources can be made available for development by suppressing consumption is one of our greatest essays in national self-delusion.

What the Corporation is more likely to effect is some change in the deployment of existing investment resources — away from, say, large office buildings and from medium-size and smaller businesses, dependant on the banks for their working capital — to natural resource development. There is a danger here that will need to be watched. The Corporation itself will be keen to avoid any suggestion that large powerful groups — many of which in any case have access to overseas sources of finance — will benefit at the expense of their smaller and weaker business brethren.

The Corporation will also no doubt be careful to avoid using its privileged borrowing position to compete unduly with existing financial institutions, and thus introducing additional strains into an already over-strained money market. Indeed, the main function of the Corporation could well be that of a broker rather than an actual lender of money. For instance, if funds can be obtained for large developmental projects under the present money market mechanism — the Mount Newman venture strongly suggests this is so — there would seem to be little sense in the Corporation duplicating financial facilities already available. Where adequate funds do not seem to be readily forthcoming from existing Australian sources, the Corporation, once it has satisfied itself as to the intrinsic soundness of a project, could act as a kind of broker, negotiating contributions from the large financial institutions.

The Corporation will introduce a new factor into the money market, a highly
complex and sensitive instrument for allocating the supply of investment funds among the many competing demands from both the private and public sectors. A too-rapid or over-ambitious development of the Corporation's activities could introduce confusion into the capital market and result in a deployment of resources which would disrupt the balance of the economy. It could also aggravate present inflationary tendencies by intensifying the competitive scramble for scarce resources, not only for capital purposes, but also as between investment and consumption. The Corporation must therefore hasten slowly.

It is interesting to observe that the Canada Development Corporation (with purposes almost identical with those of the Australian counterpart) which was first proposed in April, 1965, has yet to be established. The Canadian proposal has been subjected to fairly exhaustive examination over the last two years. One of the most authoritative is that carried out by Professor E. P. Neufeld of the University of Toronto. His assessment appears in a report sponsored by the Canadian Trade Committee consisting of top businessmen and leading academicians. Neufeld's report conceded the need for such a Corporation but urged that it should be developed as a body to offer advice of a highly specialised kind on the financing of major developmental projects. He recommended that it should also conduct research into the true nature of the foreign ownership "problem" so far as Canada is concerned. The Neufeld report asserts, "there is a possibility that it is not a capital market gap (i.e. scarcity of Canadian equity capital) that explains the drift of Canadian industry into foreign hands, but a technological and managerial gap as well as other non-financial factors. If this is so, it would be ludicrous to establish an institution to fill a capital market gap that does not exist, instead of taking other measures to deal with the gaps that do exist".

While a convincing case can be made for a new financial institution such as the Bankers Development Re-finance Corporation, there can be no justification whatever for the second organisation proposed by the Department of Trade. This latter proposal envisages the borrowing of large sums of fixed-interest money from overseas to be re-lent to Australian-controlled enterprises for development projects.

If such a scheme is tenable on strictly financial and economic grounds — and that is far from certain — then it can very easily be made part of the functions of the Bankers Development Re-finance Corporation.

The greatest mistake would be to expect too much of the Corporation too quickly. The relationship of the Corporation to the whole economic complex and needs of Australia should be carefully spelt out to avoid the otherwise inevitable disillusionment with its activities. It is quite clear, for instance, that it will be beyond the powers of the Corporation to achieve any dramatic reduction of the extent of the overseas stake in the Australian economy; nor will it be able to lessen, in any substantial way, our dependence on overseas money and knowledge for the realisation of our national ambitions.
A burning issue in the Australian economy at the moment is whether the community can be enticed, or compelled, to save more and, consequently, spend less on its everyday needs. The pace of development is creating massive demands for capital from a multitude of large-scale private and public projects. The rapid expansion of defence expenditure is now adding to these demands. The needed finance can be provided only out of the savings of the Australian people, and the savings of peoples of other countries made available to us through overseas investments and loan. The possibility of obtaining increased local savings to finance development was one of the main questions on which the Vernon Committee was requested to report.

In the depressed 1930’s, Lord Keynes directed the attention of governments and economies throughout the world to the crucial importance of the “savings-investment” concept. The problem in those days was not so much a shortage of savings, as the inability or unwillingness of governments and businessmen to undertake investment on a scale sufficient to provide full employment. In starkly simplified terms, Keynes’ theory was that the level of employment depends on the volume of investment.

Now that the problem of achieving full or close-to-full employment seems to have been largely solved in the advanced economies, most countries have turned their attention to the promotion of the fastest possible rate of economic growth. This is creating huge demands for investment funds.

In Australia, the problem is even more acute than in most countries. The national objectives of rapid development of vast natural resources on the one hand, and of population
growth on the other, are giving rise to an insatiable demand for savings.

It is felt therefore, that some of the significant facts about savings and investment will be of interest. To facilitate easy assimilation and comprehension, they have been presented and discussed below in question and answer form.

Q. What determines the amount of money available for investment in capital projects?

A. Mainly the total savings of the Australian community. Rarely does the contribution from overseas, vital though it is, exceed 15 per cent of total investment. The importance of overseas investment however is much greater than its relative amount, because it is attracted to industries in which Australians are reluctant or unable to invest because of the magnitude of the funds required, the risks involved, or because of lack of technical "know-how".

Q. What determines the quantity of savings?

A. Mainly the level of incomes and, to a less extent, spending habits. Most people save more out of a higher income. Government policy can affect the level of incomes (e.g. by providing full employment) but spending habits become ingrained and are not easy to change. Most of us like to live well here and now, and are reluctant to increase our savings beyond a certain amount.

Government policy can also affect the amount of money available for investment in another way: by raising taxes or charges to provide more revenue than is necessary to meet current or operating expenditures and using the surplus to finance capital projects. The economist has come to call this "compulsory savings" as distinct from "voluntary savings", which are those set aside of their own free will by individuals, or by institutions (such as companies, unincorporated businesses or farmers) out of their profits. A great part of all public works expenditure (around 80%) since the War has been financed from compulsory savings. In recent years, government instrumentalities, such as the Post Office and state electricity
undertakings, have been setting their charges at a level not only sufficient to cover operating costs, but to provide a surplus for capital outlays. Raising taxes or public utility charges to provide more compulsory savings is, however, likely to reduce voluntary savings, because people are left with less money out of which to save.

Q. What are the main sources of savings?

A. The table below, compiled from official data, shows the main sources of gross and net savings in Australia in 1965/6.

<table>
<thead>
<tr>
<th>SOURCES OF SAVINGS</th>
<th>GROSS (including depreciation provisions)</th>
<th>NET (excluding depreciation provisions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies</td>
<td>1160</td>
<td>440</td>
</tr>
<tr>
<td>Life Assurance and Pension Funds</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Persons</td>
<td>2060</td>
<td>1270</td>
</tr>
<tr>
<td>Governments</td>
<td>1550</td>
<td>1380</td>
</tr>
<tr>
<td>Total Domestic Savings</td>
<td>5070</td>
<td>3390</td>
</tr>
<tr>
<td>Savings from Overseas</td>
<td>880</td>
<td>880</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5950</td>
<td>4270</td>
</tr>
</tbody>
</table>

Gross savings include depreciation provisions by companies and private businesses and by government business undertakings. Depreciation really finances the replacement of existing assets and not the creation of new assets.

Savings by life assurance and pension funds represent income from their investments. Government savings (as explained above) are the surplus of taxes, and charges for services such as electricity and gas, over current expenditures. A large share of personal savings represents retained profits of farmers and other small business proprietors; but it also includes deposits by wage and salary earners in their savings and other bank accounts, life assurance premiums, contributions to pension funds and so on. Savings from overseas cover investment in Australia by overseas companies (including retained profits) and private individuals, and also government borrowing abroad.
Q. Where do savings go?

A. Companies, farmers and other small businesses buy new plant and equipment and erect new buildings; governments spend them on public works such as roads, power projects, schools and so on.

A good part of the voluntary savings by wage and salary earners go into housing, but some finish up with industry and government. The broad categories of investment in 1965/6 were:

<table>
<thead>
<tr>
<th>Category</th>
<th>$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwellings</td>
<td>880</td>
</tr>
<tr>
<td>Factories, Shops, Office Buildings, etc.</td>
<td>740</td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>2000</td>
</tr>
<tr>
<td>Public Works</td>
<td>1920</td>
</tr>
<tr>
<td>Stocks</td>
<td>160</td>
</tr>
<tr>
<td>Increase in Overseas Reserves</td>
<td>60</td>
</tr>
<tr>
<td>Cannot be accounted for</td>
<td>190</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5950</strong></td>
</tr>
</tbody>
</table>

Q. What are the main ways the savings of private individuals are channelled to the eventual borrowers?

A. Through loans and investments by banks, life assurance companies and pension funds, and direct purchases of shares, debentures and government securities by individuals themselves.

In 1964/5, personal deposits in savings banks rose by $409 million of which about one half went to the purchase of government securities issued to finance public works programmes. Most of the remainder went to pay for the erection and purchase of homes. Individuals — mainly farmers and businessmen — also increased their deposits in fixed and current accounts with the trading banks by $343 million, most of which was lent to companies, farmers and small businessmen for working capital.

The trading banks were net sellers of government securities in 1964/5, having been heavy purchasers the previous year when record farm incomes sent their deposits soaring. Personal contributions to life assurance and pension funds in 1964/5, amounting to $198 million, were invested in
roughly equal proportions in company shares and debentures, government securities and loans to industry. Individuals were net sellers of government securities in 1964/5, and indeed have been for some years. Share buying by individuals is relatively insignificant, only 4% of personal savings being devoted to this purpose in 1964/5.

Q. Who are the major buyers of government bonds and company shares, debentures and notes?

A. The following table gives the answer for 1964/5.

<table>
<thead>
<tr>
<th>Government Securities</th>
<th>Ordinary and Preference Shares</th>
<th>Debentures, Notes and Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td>209</td>
<td>—</td>
</tr>
<tr>
<td>Trading Banks</td>
<td>-23</td>
<td>3</td>
</tr>
<tr>
<td>Reserve Bank</td>
<td>127</td>
<td>—</td>
</tr>
<tr>
<td>Life Assurance Companies</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>Public Pension Funds</td>
<td>63</td>
<td>5</td>
</tr>
<tr>
<td>Private Pension Funds</td>
<td>35</td>
<td>27</td>
</tr>
<tr>
<td>Non-life Insurance Companies</td>
<td>19</td>
<td>14</td>
</tr>
<tr>
<td>Non-Finance Companies</td>
<td>-25</td>
<td>40 (†)</td>
</tr>
<tr>
<td>Unit Trusts</td>
<td>—</td>
<td>6</td>
</tr>
<tr>
<td>Commonwealth Government</td>
<td>198</td>
<td>1</td>
</tr>
<tr>
<td>State and Local Governments</td>
<td>*</td>
<td>4</td>
</tr>
<tr>
<td>Persons</td>
<td>-35</td>
<td>78</td>
</tr>
<tr>
<td>Overseas</td>
<td>-24</td>
<td>119</td>
</tr>
<tr>
<td>All Other</td>
<td>26</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td><strong>627</strong></td>
<td><strong>370</strong></td>
</tr>
</tbody>
</table>

Notes: † Purchasers of existing shares only  
* Borrowers

This table shows that subscriptions to Commonwealth and semi-government securities are primarily dependent on the Commonwealth Government (mainly financed by surpluses of tax receipts over current expenditures) the banks and life assurance and pension funds. Life assurance and pension funds together outranked individuals as share buyers. With ordinary and preference shares, debentures and notes, the biggest subscribers were overseas companies investing in their Australian subsidiaries. Of the $239 million subscribed by overseas investors to ordinary and preference shares, debentures, notes and deposits in 1964/5, only $37 million was "portfolio" investment in listed Australian securities: the remainder represented "direct"
investment by overseas companies in their Australian subsidiaries or associate companies.

Q. Has the role of the individual investor in company shares been declining?

A. Yes. The table below, compiled from statistics prepared by the Reserve Bank, sets out net purchases of new and existing ordinary and preference shares of all companies — public and private — in Australia over the period 1953/4 to 1964/5.

**NET SHARE PURCHASES 1953/4 — 1964/5**

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Life Co's</th>
<th>Private Pension Funds</th>
<th>Individuals</th>
<th>All Other Australian Institutions</th>
<th>OVERSEAS TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>million</td>
</tr>
<tr>
<td>1954</td>
<td>2</td>
<td>4</td>
<td>86</td>
<td>32</td>
<td>24</td>
</tr>
<tr>
<td>1955</td>
<td>2</td>
<td>5</td>
<td>132</td>
<td>27</td>
<td>70</td>
</tr>
<tr>
<td>1956</td>
<td>6</td>
<td>7</td>
<td>98</td>
<td>39</td>
<td>62</td>
</tr>
<tr>
<td>1957</td>
<td>10</td>
<td>9</td>
<td>54</td>
<td>49</td>
<td>64</td>
</tr>
<tr>
<td>1958</td>
<td>17</td>
<td>13</td>
<td>14</td>
<td>56</td>
<td>70</td>
</tr>
<tr>
<td>1959</td>
<td>24</td>
<td>23</td>
<td>3</td>
<td>74</td>
<td>68</td>
</tr>
<tr>
<td>1960</td>
<td>45</td>
<td>23</td>
<td>-62</td>
<td>90</td>
<td>122</td>
</tr>
<tr>
<td>1961</td>
<td>54</td>
<td>20</td>
<td>20</td>
<td>78</td>
<td>178</td>
</tr>
<tr>
<td>1962</td>
<td>35</td>
<td>23</td>
<td>57</td>
<td>83</td>
<td>129</td>
</tr>
<tr>
<td>1963</td>
<td>53</td>
<td>26</td>
<td>-105</td>
<td>65</td>
<td>185</td>
</tr>
<tr>
<td>1964</td>
<td>63</td>
<td>25</td>
<td>57</td>
<td>103</td>
<td>57</td>
</tr>
<tr>
<td>1965</td>
<td>67</td>
<td>27</td>
<td>78</td>
<td>79</td>
<td>119</td>
</tr>
<tr>
<td>TOTAL</td>
<td>378</td>
<td>205</td>
<td>432</td>
<td>775</td>
<td>1148</td>
</tr>
<tr>
<td>% total</td>
<td>13</td>
<td>7</td>
<td>15</td>
<td>26</td>
<td>39</td>
</tr>
</tbody>
</table>

*Mainly non-finance companies buying existing shares; trustee and investment companies and non-life insurance companies.

In the two years, at the beginning of the period, individuals subscribed to, or purchased on the stock exchange 57% of all new and existing shares. But since then, a remarkable change has taken place. Over the two years, at the end of the period, individuals bought only 20% of the value of all shares sold.

Over the period, 1953/4 to 1964/5, overseas buying accounted for 39% of all share purchases; life companies 13%; private pension funds 7%; other institutional buying 26%; and personal buying only 15%.
Q. **What are the reasons for the declining importance of the individual share investor?**

A. The main reasons seem to be:

1. The growth of tax-exempt fringe benefits to employees through employer-subsidised contributions to life assurance and pension funds. These funds are now generating huge amounts for investment each year, both from earned income and from contributions. Personal contributions to life assurance and pension funds (less claims and expenses) are now exceeding $200 million a year and investment income $300 million. In 1954/5, personal contributions were $102 million and net investment income only $64 million.

2. The vast sums of money required for the development of the new mineral finds and for the highly automated plants of modern industry are beyond the resources of even the wealthiest of individuals; they must be provided, in the main, by institutional and overseas investors.

3. Changes in the distribution of personal incomes in favour of the middle and lower income brackets, who do not invest directly in shares to the same extent as those in the upper incomes.

4. Heavy death duties and income taxes are breaking up the large holdings of families who originally founded many of our companies.

Q. **Has the declining importance of the individual share investor, relative to the institutions, significant implications for the economy?**

A. It means that a fundamental change is occurring in the nature of capitalism. Because of the great increase in the holdings of shares by life assurance companies and employee pension funds, the benefits from profits are now being widely spread throughout the community. It is no longer true to speak of profits going in the main to only a small section.
Methods of raising finance for companies are also altering. Companies no longer resort to frequent new issues of shares to the investing public, but rely on retained profits and substantial supplies of capital from notes and debentures and share placements, at or near market price, with institutions.

Q. To what extent do institutional holders feature in the share registers of major public companies?

A. A recent study by two economists at Sydney University* revealed that institutional investors — e.g. trustee companies, pension funds and life assurance societies — feature prominently. The authors analysed the shareholdings of 299 of the largest manufacturing, mining and oil companies in Australia. 135, nearly half, recorded no institutional investment: these companies were mainly subsidiaries of overseas companies. But institutions were major shareholders in the other 164. They held more than 15 per cent of the shares of 31 leading public companies, 10 to 15 per cent of the shares of 39 companies; 5 to 10 per cent of the shares of 56 companies and 1 to 5 per cent of the shares of another 38.

The twenty largest holdings of the 299 companies when aggregated, accounted for 58 per cent of total shareholders funds: of which overseas investors — mainly companies — owned 36 per cent; Australian companies and institutions 16 per cent and persons only 6 per cent.

Q. Does the proportion of their incomes saved by Australians fluctuate very much?

A. No. Figures compiled by the Commonwealth Statistician show that domestic savings as a percentage of the gross national product have kept uniformly high since 1948/9.

Year Ended June 30th | Domestic Savings as % G.N.P.
--- | ---
1949 | 21.9
1950 | 24.8
1951 | 31.3
1952 | 22.1
1953 | 22.7
1954 | 22.7
1955 | 22.4
1956 | 22.6
1957 | 24.1
1958 | 21.4
1959 | 22.5
1960 | 23.6
1961 | 23.5
1962 | 22.6
1963 | 23.8
1964 | 25.4
1965 | 26.3
1966 | 24.7

Q. Is personal consumer spending in Australia increasing at a faster or a slower rate than overseas?

A. Over the past decade or so personal consumption expenditure (in constant prices per head of population) in Australia has been increasing at a slower rate than most other Western countries. Here are the figures:

Annual Rate of Increase in Personal Consumption Expenditure Since 1950

<table>
<thead>
<tr>
<th>Country</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>WEST GERMANY</td>
<td>6.1</td>
</tr>
<tr>
<td>ITALY</td>
<td>4.0</td>
</tr>
<tr>
<td>FRANCE</td>
<td>3.5</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>1.8</td>
</tr>
<tr>
<td>UNITED STATES</td>
<td>1.5</td>
</tr>
<tr>
<td>CANADA</td>
<td>1.7</td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>2.0</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Personal consumption expenditure has risen more rapidly in West Germany, Italy and France partly because their living standards in the early post-war years had been reduced to bedrock subsistence level by the deprivations of war. One of the reasons for the markedly slower rates of increase in Australia would be that Australia has been forced to apply a greater proportion of its resources to maintain large-scale immigration and development — in other words, to investment.
Q. How does the level of domestic savings in Australia compare with overseas?

A. In proportion to their incomes, Australians are among the world’s largest savers. This is revealed in a recent study by the Bank of International Settlements.

### SAVINGS AS % GNP

<table>
<thead>
<tr>
<th></th>
<th>By Individuals %</th>
<th>By Companies and Institutions %</th>
<th>Forced Savings by Governments %</th>
<th>TOTAL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>10</td>
<td>7</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>United States</td>
<td>7</td>
<td>9</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Canada</td>
<td>5½</td>
<td>14</td>
<td>5</td>
<td>24½</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5</td>
<td>10</td>
<td>3½</td>
<td>18½</td>
</tr>
<tr>
<td>France</td>
<td>9½</td>
<td>8</td>
<td>4½</td>
<td>22</td>
</tr>
<tr>
<td>Germany</td>
<td>9</td>
<td>11</td>
<td>6</td>
<td>26</td>
</tr>
<tr>
<td>Sweden</td>
<td>5½</td>
<td>9</td>
<td>10</td>
<td>24½</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7</td>
<td>11</td>
<td>10</td>
<td>28</td>
</tr>
<tr>
<td>Japan</td>
<td>12</td>
<td>13</td>
<td>9</td>
<td>34</td>
</tr>
</tbody>
</table>

Q. What are the main reasons for the high level of individual savings in Australia?

A. The exceptionally high level of individual savings in Australia seems to be accounted for by:

1. the savings of the farming community, who have enjoyed great prosperity since the War.
2. the high ratio of home-ownership, the highest in the world.
3. the high level of savings through life assurance and pension funds (encouraged by tax concessions). In many overseas countries provision for the future is made through government welfare schemes.

Q. Would it be possible to increase the level of savings in Australia very much?

A. No! . . . The Vernon Committee explored various avenues for increasing savings through the provision of incentives — e.g. the encouragement of private pension schemes, the expansion of saving bank facilities and higher interest
It concluded: “We cannot be confident that any of these, or a combination of them, would have sufficient effect”.

It fell back on increased taxes as the main channel through which greater saving might be provided.

Q. But can people be forced to save more?

A. Not to any significant extent. People are reluctant to reduce the level of consumption or standard of living to which they have become accustomed. In fact, they are looking all the time for an increase in their living standards and have come to expect some improvement year by year. Increased taxes to provide for additional compulsory savings would be certain to meet with stern political opposition. If extra taxes were imposed, people would try to circumvent them by borrowing more, reducing their voluntary savings and agitating for higher money incomes to preserve their “take-home” pay.

NOTE: All statistical tables in this article have been based on official governmental sources.
Interesting I.E.A. Publications

The following publications have arrived from the Institute of Economic Affairs, London. Copies may now be purchased from the Institute of Public Affairs, 289 Flinders Lane, Melbourne. Phone 63 6358.

The Australian prices have been kept as close as possible to British prices in order to achieve the widest possible distribution to libraries, companies, teachers, schools and universities.

A discount of 33½% applies to booksellers and of 10% to schools and universities. (Prices include postage.)

"Towards a Welfare Society" pp.40 Price 80 cents
This is a report of an I.E.A. study group which included two well-known economists — Colin Clark and Graham Hutton.

Until recently there was a widespread view among economists and politicians that the desire of the community was for an expansion in State-provided welfare. British surveys now show there is a marked majority against State expansion in Health, Education and Pensions and people favour confining State services to people in need.

"Economic Fact and Fantasy" pp.34 Price 70 cents
by Prof. G. C. Allen

In this essay Prof. Allen comments on Prof. J. K. Galbraith’s Reith Lectures delivered on the B.B.C. in November/December, 1966. At various points he finds Galbraith “misleading”, “biased” and “perverse”. Large firms can dominate markets and can sometimes succeed in bending the choices of consumers. But there are large areas over which their sway does not extend. Their power is qualified by an ever-widening range of consumer choice and competition.

Galbraith may be right in foreseeing a growing centralisation of authority, but we need not except it as inevitable.
“Policy for Incomes”  pp.76  Price $1.00
by Prof. F. W. Paish and Jossleyn Hennessy

This paper discusses the desirability of controlling wages, profits and prices, and the difficulties of enforcing controls. The authors believe if unemployment is below 2% an "incomes policy" would be ineffective because it would not be able to withstand the pressure of demand for labour; and if unemployment is above 2% an "incomes policy" would be unnecessary. The conclusion is that an "incomes policy" is either unnecessary or abortive, and that the way to maintain high employment and rising living standards and yet avoid inflation is to control the supply of purchasing power in relation to output and resources.

“What Price North Sea Gas?”  pp.55  Price $1.00
by George Polanyi

The recent discovery of a major natural gas field in the North Sea may revolutionise Britain’s fuel supply. Mr. Polanyi rejects the official policy of price control for North Sea Gas in favour of free marketing pricing. “If and when sufficiently abundant supplies are available”, says the author, “the market price of the gas will automatically become very low — without any intervention by Government. Cheapness will result from abundance, not abundance from cheapness”.

“Financial Intermediaries and Monetary Policy”  pp.63  Price $1.00
by N. J. Gibson

The author believes the attempt to control the growth of bank deposits and credit expansion by restricting the supply of Treasury Bills and imposing liquid asset ratios and special deposits has been a failure. He says the demand for H.P. finance may not show much direct response to monetary measures.

This paper will be of interest to economists, politicians and civil servants closely concerned with economic policy.

“Universal or Selective Social Benefits?”  pp.70  Price $1.40
by A. Seldon and H. Gray

State welfare in Britain cost £6,500 million stg. in 1965/6. This is about half of Britain’s total public expenditure. A very large part of this expenditure goes to people who could pay and do not need it. The authors are critical of this waste in social expenditure. There is growing awareness, even by “the poverty lobby”, that universal services supplied without charge or test of need make it difficult to give more generous assistance to victims of special hardships or handicaps.
The I.P.A. Helps Teachers, Students and Schools

One of the most significant features of the I.P.A.'s educational work is the remarkable demand by teachers and students for I.P.A. publications. These are now being used in the senior economics and social studies classes in over 600 schools in all States.

We regularly send free of charge to teachers and students nearly 4,500 copies of each issue of "The I.P.A. Review," over 10,000 copies of "Facts" and, in addition, about 1,000 "Facts" Wall Charts.

The fact that this important distribution has been built up entirely by requests from teachers and students is a tribute to the objective, educational character of our work.

If the I.P.A. succeeds in giving the citizens of tomorrow a better understanding of the economic principles basic to Australia's welfare and progress, it is fair to say that, the community should derive great future benefit. But this kind of education is clearly a continuous task.

This year we reprinted, in association with The National Bank of Australasia Ltd., an article, "Lord Keynes and Prevention of Depression", which first appeared in "The I.P.A. Review" in 1950. So great was the demand from teachers for copies that the first print of 2,000 copies was exhausted in three weeks, and to date nearly 5,000 copies have been distributed to schools and universities throughout Australia.

We receive a wealth of mail from teachers and students, and some recent extracts from this correspondence follow:

Mr. F. T. Nankervis, Scotch College, Melbourne
The I.P.A. publications continue to be of great value . . . I always read "Review" with interest, and nearly always there is more than one article that is highly relevant to some aspect of the Matriculation work. In some cases I have retained sets in the subject library for use over several years . . . Students appreciate a fresh and topical point of view . . . Presumably also the publication makes a useful contribution towards the education of their parents!
"Facts" is popular . . . and teachers ask for the wall sheets for display in their class-rooms. I am very grateful to you for so generously supplying us with so many copies of each publication.

Master in Charge, Economics and Commerce, Sydney C. of E. Grammar School
We use these publications in our economics classes and I consider them to be extremely valuable. We now have one hundred boys studying economics in the Sixth Form.

Teacher of Commercial Subjects, Newcastle Tech. High School
The publications “Review”, “Facts” and the annual Reports have proved most valuable in the teaching of economics to senior students.

Mr. J. Peers, Pinjarra, W.A.
I have been receiving the very informative and interesting I.P.A. Facts sheets . . . They are of immense value to me as a Senior Master in a Government High School teaching economics.

Master of Commercial Subjects, Drummoyne Boys' High School, N.S.W.
I wish to congratulate you on your decision to provide copies of "Lord Keynes and the Prevention of Depression" free for school use . . . I would be pleased to receive 120 copies for use in this school's economics classes.

W. J. Blakeney, Lecturer, The Teachers' College, Sydney
It would be appreciated if 100 copies of "Lord Keynes and Prevention of Depression" could be supplied for distribution to our graduate student teachers . . . May I add how much I appreciate the services given by the I.P.A.

Principal, Coburg Teachers' College, Victoria
We find "The I.P.A. Review" of considerable value for keeping our lecture material up to date. The "I.P.A. Facts" are distributed to all first year student teachers-in-training and these have proved to be very valuable. Probably the most useful articles have been those on Asian countries.

Mr. R. G. Haebich, De La Salle College, Kingsgrove, N.S.W.
I have just read your publication "Productivity — the Key to Better Living". It is excellent for the purposes of teaching . . . I have been searching for a long time for a text or booklet which explains this matter so clearly, interestingly and in a way which is real to students.

Lecturer in Social Studies, Bendigo Teachers' College
Many thanks for the copies of "Facts" (for January). These are of great benefit to us in bringing text books up to date with new contemporary developments.

L. Roberts-Smith, Adelaide University
We can guarantee distribution of approximately 100 copies of each of "The I.P.A. Review" and "Facts" . . . We have a market of over 2,500 freshers, in addition to 6,000 senior students (full time).

Economics Master, Mordialloc-Chelsea High School
I have a copy of your publication "Production, the Key to Better Living" . . . I have found it most helpful in the teaching of Leaving Economics.

Mr. Alan Gregory, Lecturer in Education, Monash University
As Chairman of the Economics Committee of the Victorian Commercial Teachers' Association . . . I am able to speak personally as well as on behalf of economics teachers . . . in . . . congratulating the I.P.A. for their excellent service and generous assistance to schools . . . To be of value, economics needs to be taught with relevance to the economy itself . . . Both "Facts" and "Review" assist greatly in this task . . . hence their widespread use in our schools . . . They are invaluable sources, which assist in widening understanding beyond the textbook . . . The I.P.A. is to be commended for sharing its thoughts with, and helping to inform the young citizens on the way up.
The Rise of Japan

by

Professor W. Macmahon Ball

The author of this article has been Professor of Political Science at the University of Melbourne since 1949. Professor Macmahon Ball has a close first-hand knowledge of Japan. He represented the United Kingdom, India, Australia and New Zealand on the Allied Council for Japan in the years after World War II.

Prior to that (in 1945) he was an Adviser to the Australian delegation at the San Francisco Conference of the United Nations, and later Australian Government Political Representative in the Netherlands East Indies.

In 1948 Professor Ball led an Australian Government Goodwill Mission to ten countries in East Asia.

In 1949 he published a book "Japan: Enemy or Ally". Next year he will further his study of Japan under a Fellowship awarded by the University of Tokyo.

Most of us in Australia have come to realise how important Japan is for our economic stability and growth. Japan is now our best customer over all, not just our best customer for wool. The minerals we have lately discovered, and continue to discover in vast quantities, would not be nearly so important if Japan were not eager and able to buy them. I want to suggest in this article that Japan may have a much wider and deeper influence on Australia’s future than can be measured by the rising trade figures. Japan may play a key part in shaping the future of this part of the world, in making the political and economic climate in which we must live.

For a long time Britain was the leading power in the region. She won her influence by trade, investment, and sea power, and by the diplomacy that these made possible. For forty years after her defeat of Russia in 1905, Japan’s influence was in many ways replacing the British influence. All the national independence movements in South East Asia began about 1905, and were directly inspired by the demonstration that an Asian power could defeat a European power. Since 1948 the influence of the United States has been decisive in the Pacific, in Japan, in much of South East Asia, in Australia and New Zealand.

I think it likely that in the next twenty or thirty years the influence of the United States will diminish and the influence of Japan markedly increase in East and South East Asia.

The main reason, of course, why Japan has such great potential as the leading power in the region is that she is so very far ahead of all other Asian...
The Rise of Japan (continued)

nations in productive capacity. Her natural resources are meagre, but her human resources have been developed on a most impressive scale. The Japanese are easily the most highly educated people in Asia, and much better educated than many "Western" peoples. Many Japanese are highly skilled in science and technology, in organisation and management. Unlike some Asian nations that are crippled by communal rivalries and conflicts, the Japanese are a very homogeneous people, in race, religion, language and culture. They are a people with a sense of basic national unity, that somehow transcends the most vociferous factional, party, and ideological conflicts.

Twenty years ago Japan's cities were in ruins. There was some starvation, and malnutrition was widespread. In parts of Tokyo, particularly in and around Ueno railway station, men and women died daily on the footpaths from hunger or disease. People seemed shocked and nerveless and almost indifferent to their future. Since then Japan's economic recovery and growth is one of the most impressive achievements in the world's economic history. For the last fifteen years the average growth of the GNP has been nearly 10% with an average annual investment rate of about 30%, a much higher investment rate than in any other country. In 1966 Japan made over 47 million tons of steel, about seven times more than the peak production before the war. Japan has now surpassed France, West Germany and Britain as a steel producer, and ranks third after the USA and USSR. Japan now also ranks third in the production of motor vehicles. In 1966 Japan led the world in ship building for the eleventh consecutive year, building 47% of the world tonnage built.

This exceptional fast rate of economic growth has not, of course, been achieved without setbacks, or without social stress and strain. Though real living standards have steadily risen, and are many times higher than in most of Asia, and higher than in some "Western" countries, they have been under continuous threat from the rise in consumer prices. I feel that in Japan, as in many other countries, it is nearly impossible to measure the rise in per capita real income in a way that provides any clear index of the rise in individual welfare. It is good, no doubt, to have wage rises that enable you to buy better food and better clothes than ever before, television sets and transistors, and so on. But if the price of land, and the cost of building, have soared so high that you can never hope to own your own home; if you live in a crowded, uncomfortable, unhygienic dwelling (in 1963 only about 12% of Tokyo buildings were sewered); if the journey to and from work in public transport is an exhausting ordeal; if the air you breathe is laden with smog, then, all in all, your higher "real" wage or salary may not be so satisfying.

I think there is a growing realisation in Japan that in the last fifteen years private investment in modernising and extending industrial capacity has run far ahead of public investment in housing, water supply, sewerage, roads, the control of smog, and the extension of social services.

Until lately, there was a marked contrast between the initiatives, the innovations, the impressive achievements in Japan's economic encounters with the outside world, and the quiet, almost passive foreign policy the Japanese government followed. In economics the style was positive and confident; in politics it was a modest "low posture". There were several reasons for the lack of foreign policy. Japan did not of course achieve independence until 1952 when the peace treaty of September 1951 came into effect. But the United States and Japan negotiated a mutual security treaty simultaneously with the Peace Treaty. Because Japan was still so weak economically and militarily in comparison with
the United States, and because the security treaty provided for the stationing of American armed forces in and about Japan, it would have in practice been impossible for Japan to diverge in any material way from American policy even if its government had wished to do so. In fact the Japanese Government was on balance very satisfied with an arrangement by which Japan was able to shelter under the American nuclear umbrella and be saved the financial costs and political tensions which a faster and bigger rearmament programme would involve. Even now Japan spends only about 1.4% of the GNP on defence, and this has been one important reason for her quick economic growth. She has been investing in export industries rather than in military hardware. Foreign policy issues, at least until lately, have generated strong domestic tensions. These tensions expressed themselves explosively in 1960 when Mr. Kishi’s government renewed and revised the security treaty with America. Moreover those Japanese who oppose rearmament and the American alliance — and these people are not only the supporters of the socialists and communists — build part of their case on Article 9 of the Constitution. The Article reads:—"Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea and air forces, as well as other war potential will never be maintained. The right of belligerency of the state will not be recognised."

This article has been pretty much ignored by the Government but the government parties in the Diet have never achieved quite the two-thirds majority needed to delete or amend it. It remains something of an embarrassment to those who urge the need for more arms.

For all these reasons it has hardly been feasible for Japan to follow any foreign policy that would depend on Japanese military strength. And indeed, there is a deep and widespread aversion, both on the right and on the left, to the use of Japanese forces outside Japan.

Yet in the last few years Japan has begun to abandon its “low posture” in the world. The Government has taken the initiative on a number of regional issues. In some and probably most of these it has had American moral and material support. But in others, it has followed a firm line of its own, not always coinciding with American policy.

The Japanese Government now seems to be seeking the political and economic, though not the military leadership, of South East Asia. Thus the Government now convenes conferences in Tokyo of those in charge of economic affairs in South East Asian countries. There was the Ministerial Conference for the Economic Development of South East Asia in April, 1966, the nine nation Conference on Agricultural Development of South East Asia in December, 1966. The Japanese Government has taken the lead in searching for ways and means to rescue and restore Indonesia’s economy. It matched the American contribution of $200 million to the Asian Development Bank, established last December (Australia contributed $85 million). It took part in the much publicised ASPAC conference in Seoul in June 1966, and, very significantly, insisted that it should not, as its original sponsors intended, be a conference to declare a united front against communism, but a conference to promote the economic growth of the region, without military or ideological undertones.

The attitude of the Japanese people to the outside world has changed greatly since 1960. From 1947 to 1960 it was the Cold War. For Japan it was a period of complete military dependence and heavy economic dependence on the
United States. This dependence produced the deepest domestic and political tensions in Japan. The issues were often posed in grossly over-simplified terms. Were you anti-communist and pro-American, or pro-communist and anti-American? Did you support the American military alliance with American military bases in Japan, or did you support the Socialist Party's policy of neutrality in the cold war?

But things have changed since then. Japan's economic achievements have given her people confidence. The marked reduction in tension between America and the USSR has relieved one major source of fear. And it no longer makes sense in Japan to talk about a policy on communism as such. It is essential to specify whether you are talking about communism in Russia, in China, or somewhere else. Recent developments in China have created incorrigible problems for both communists and socialists in Japan. The Japanese Communist Party, which according to the police statistics has a membership of about 110,000 and has five representatives in the national House of Representatives (with a total of 486 members) seems to be trying to steer a neutral course between the Russian and Chinese parties. The Socialists are finding their rather rigid ideology harder to maintain in its purity. It is hard to maintain a live hostility to "capitalism" when, under Japanese capitalism, not only the GNP but real wages and salaries keep on rising. Though they may have no real fear of Communist China, it is becoming harder for the Socialists, who have been such passionate opponents of nuclear tests, and supporters of non-proliferation, to support Peking's policies.

Overall I feel that Japanese foreign policy attitudes have become more flexible and realistic, no longer tightly bound by ideologies of the left or right, by "anti-imperialism" or "anti-communism".

I think the general election on January 29 provides a good deal of evidence of the changing political mood in Japan. It had been widely predicted in the polls that the Socialist Party — the main opposition party — would make substantial gains, partly because of the reports of corruption in the Liberal Democratic Party, and partly because the Socialists have criticised the American policy in Vietnam so strongly. In the event the election was a clear set-back for the Socialists and a lesser setback for the Government, whose majority was reduced from 108 to about 75. It was the smaller "moderate" parties, with more flexible policies, the Democratic Socialists and the Komeiites who gained ground.¹ The Democratic Socialists, who have diluted their socialist doctrines to make them more acceptable to middle class voters, won 30 seats, an increase of 7. The Komeiites, the political wing of the Soka Gakkai, the Nicherin Buddhist sect, was contesting the national Lower House for the first time. It won 25 of the 32 seats it contested. The Soka Gakkai claims the loyalty of 6 million households.

It is hard to know how far the Komei Party can properly be regarded as an Opposition party, since Mr. Takeriri, the Chairman, has said its aim is "to establish a middle-of-the-road government based on the middle-of-the-road" principle of Buddhism. Mr. Sato the Prime Minister insists that the Komeites are his "friends". Yet the party is much more outspoken than the Government on foreign policy. It will seek "to correct Japan's over-reliance on the United States"; it favours the gradual dropping of the U.S.-Japan Security Treaty, and

¹. In April Dr. Matsushita, (supported by the Liberal Democratic and the Democratic Socialist parties) was defeated by Dr. Minobe (supported by the Socialists and Communists) in the election for the governorship of Tokyo. It seems likely that this was a personal triumph, with no implications for national policy.
supports China's entry to the United Nations.

I think it would be a mistake to try to draw clear and strong conclusions about Japan's future foreign policy from the January elections, taken by themselves. No doubt the election results were influenced by all sorts of factional and personal rivalries, and by the amount of money the parties could lay their hands on for the campaign. It seems that the Socialists in opposition had much less money to spend than the conservatives in office. There are other signs that the approach to foreign policy seems to be changing. The questions asked are no longer dominated by the American-Russian power struggle. There are no longer questions about how Japan should react to what Americans or communists are doing, but questions about what policies Japan can pursue on its own initiative. I feel that this new approach is getting increasing support from both the left and the right and is making many of the foreign policy issues over which they fought so furiously as lately as 1960 rather out of date.

It is already possible to discern some of the main objectives of Japan's new foreign policy. Its first objective is peace and stability in East Asia. It will not follow the United States in seeking peace and stability by the military containment of communism, but rather by the economic development of the countries of South East Asia, in the conviction that their economic development will give a firm basis for their national independence, independence from Peking or Moscow, or Washington. The Japanese are generally opposed to Western military intervention in East Asia on three grounds. First, they are terrified that the local conventional war may escalate into a global nuclear war which would obliterate Japan. Dr. Reischauer, Asian historian and American ambassador to Japan 1961-66 has reported: "The escalation of the war in Vietnam in February 1965 through the extension of the American bombing to the North threw the Japanese public into virtual panic. It seemed to them that the United States policy was in the hands of blind military adventurers, who, like those of Japan three decades earlier, were leading their country into a hopeless conflict with the forces of Asian nationalism".2

Second, while the Japanese have long been suspicious and anxious about Russian intentions, they do not believe that World Communism, or Chinese Communism, is a real and present danger to Japan. Dr. Reischauer was expressing not only his own feelings, but those of most Japanese, when he testified before the Senate Foreign Relations Committee earlier this year:—"The threat of Unitary World Communism as sweeping Asia has largely faded, and the menace of Chinese domination — if ever it was a real menace in the military sense — is growing weaker".3

Third, and perhaps most important. Where there is armed conflict between "advanced" western people and a "backward" Asian people, the sympathies of most Japanese are with the Asians. Mr. R. P. Dore, the British sociologist, who has made Japanese society his special study makes this comment: "A good many Japanese, watching films of the Vietnamese war on one or other of their seven or eight television channels have seen the war as a battle between white men, armed with big planes, throwing big bombs at under dog Asians — and people with Mongolian features at that — who squat down to eat rice out of bowls with chopsticks, and might, but for the grace of God, be themselves".4

This does not mean that most Japanese are anti-American. In public opinion polls more than half the sample will

generally choose Americans as their favourite foreigners, while the Russians are the least liked. The Japanese know that about a third of their foreign trade, in both exports and imports, has been with the United States, and that part of this trade has been due to special favours Washington has been prepared to give for political and strategic reasons. The Japanese are grateful to America for her moral support when Japan has sought membership of the UN, GATT, OECD and other international bodies. And there is little doubt that a good many Japanese, however doubtful about particular American policies, are glad to have the Security Treaty with the United States as a sort of insurance against the possibility of Russian attack, or of a long term threat from China. Hence most Japanese deeply value American friendship, but they want to influence American policy in Asia, since decisions made in Washington may have critical consequences for Japan. It is very hard to guess what will happen when the Security Treaty comes up for review in 1970 because so much depends on the Vietnam conflict. All that can be guessed with fair confidence is that the Japanese Government will want the sort of treaty which would deter a direct attack on Japan, but will try to avoid the sort of Treaty in which American bases in Japan might be used for military operations on the mainland which the Japanese might disapprove. When the renewal of the Treaty was being debated with such passion in 1960 the most important single issue was whether America was to have the right to operate from bases in Japan without the consent of the Japanese Government. The Americans were ready to agree that they would only use the bases “after consultation with” the Japanese Government, but could not agree that they would only use them “with the consent” of the Government. Un-easiness over this issue sharply increased with any escalation of the war in Vietnam.

It would be foolish to pretend that Japan’s attitude towards her own military security, or the security of South East Asia, is clear-cut and consistent. Ever since their creation at the request of General MacArthur in 1950, after the outbreak of the Korean War, the government leaders have had the greatest difficulty in explaining why they have their “self-defence” forces, and, since they do have them, why they spend a decreasing percentage of the national budget and the GNP on their maintenance. It seems that the Japanese Government and people make an important distinction between the security of Japan and the “containment of communism”. It is one thing to have a security treaty with America as a deterrent to the possible, if remote, danger of a direct attack on Japan. It is another thing to have a security treaty which may involve Japan in war, because of an American decision to contain communism on the mainland. Hence Japan does not want to spend too much on arms unless she is sure that the arms will only be used as a result of a decision in Tokyo, not a decision in Washington.

I believe that the general objectives of Japan’s foreign policy are very much in line with Australia’s national interests. It is therefore good to see increasing consultation and co-operation between our countries on the political, as well as on the economic level. I believe we have a lot to learn from Japan. The deepest national interests of both countries is to achieve understanding and co-operation between Asia and the West.

W. Macmahon Ball.