"Undermining the Rich Possibilities of Growth"

GOVERNMENTS, which should be giving leadership in the battle against inflation, and taking decisive measures to arrest the quickening price rise, are failing to do so.

The Premiers' Conference last June and the Commonwealth and State Budgets all shied away from the essential step needed—a substantial cut in the rate of increase of public sector spending at all levels of government. On the contrary, the combined effect of the Commonwealth and State Budgets and the spending programmes of government business undertakings will almost certainly mean that government, as a whole, will make a bigger claim on the national resources in 1971/72 than in 1970/71, or indeed in any previous year—this at a time of dangerously rapid inflation. Established Keynesian doctrine for the cure of inflation has thus been rejected.

It is clear from the Budget Papers that the Treasury itself does not expect any marked reduction in the rate of price advance in 1971/72 by comparison with 1970/71. The Budget estimates have been framed on the assumption of a rise in average earnings of 9 per cent, an increase in non-farm productivity of 2.5 per cent, and an increase in total employment of under 3 per cent. Gross National Product, at constant prices, is expected to rise by "something over 5 per cent". These figures would indicate a rise in prices over the current year of around 6 per cent—not significantly different from the rise in 1970/71.
The Treasury is clearly gravely concerned about the accelerating cost and price trend; the Budget Speech is full of bold phrases expressing this concern and the strong determination of the Government to do something about it.

"Australia is in the grip of inflationary pressures".

"The rate of increase in costs and prices is already fast and has tended to become faster . . . If allowed to develop unchecked it will . . . undermine the rich possibilities of growth which our future unquestionably holds. So far as lies in our power as a Government, we are concerned to combat this pernicious trend, slow it down and hobble it."

"We accept that the Government must take the lead — this we are doing, but we must have the co-operation of the community. We would be lacking in duty to ignore our responsibility or fail to take that action which lies within our hands as a Government".

But the measures which the Budget takes to crush inflation do not appear to match up with the brave words of the Treasurer's speech. Rather alarmingly, a careful study of the supporting documents to the Budget Speech leaves the reader with the impression that the Treasury brains-trust has serious reservations whether the Budget strategy will contribute in any strong way to the defeat of the inflationary forces at which it is directed. Much, more indeed, is to be learnt about the Treasury mind and the possible economic effects of the Budget in the intellectually admirable detailed supporting documents than from the Budget Speech itself.

One point is indisputable — the $210 million tax increase provided for in the Budget, and the higher charges to produce an additional $50 million of revenue for the Post Office (this is outside the Budget) will, of themselves, add immediately to prices. This fact has not escaped the man in the street and has led him to conclude that the Budget is inflationary.

Indirect taxes, government charges and company income taxes add directly to the cost of living. Personal income tax reduces the weekly take-home pay. Confronted with both higher prices and lower incomes, the mass of the people react in a predictably human fashion. They agitate for wage and salary rises and private employers as well as industrial tribunals invariably go part of the way to meet them. Thus tax increases intended to be deflationary, end up by being the opposite.

The Treasury, however, would maintain that, in order to ascertain its net effect, the Budget must be considered in its entirety — the expenditure proposals along with the revenue-raising measures. The Treasury attaches key importance to the concept of the "domestic surplus" — the amount by which the money the Commonwealth raises in Australia, largely through taxation, exceeds the amount which it spends in Australia. It also attributes some minor importance to the fact that the budgeted increase in Commonwealth expenditure on goods and services in Australia will rise at a slower rate than the actual increase in the preceding year — 12.2 per cent in 1971/2 as against 14.3 per cent in 1970/71. Statement Number 2 of the supporting documents says this

"could carry some implication that the Commonwealth's expenditure on domestic goods
and services in 1971/2 may expand at a rate somewhat lower than the rate of expansion of the total output of the economy... The outlays' side of the Budget is considerably less expansionary than was the case, in the event, last year".

Having, however, made this claim, the Statement then proceeds immediately to qualify it, even to raise doubts about its significance.

"... 1970/71 was a year in which Commonwealth domestic outlay... expanded at a rate substantially faster than the rate of total output of goods and services in the economy. It was, moreover, a year which saw a substantially higher rate of increase in the general price level than we have been accustomed to in this country. To some extent these circumstances make it more difficult to assess the initial impact of the outlay side of the 1971/2 Budget on a comparison with the preceding year."

To return to the "domestic surplus" concept! This is estimated for 1971/2 at $630 million which compares with the actual surplus last year of $460 million and $510 million in 1969/70. The significance of the domestic surplus, according to the Treasury, is that by withdrawing cash from the economy, it reduces liquidity and thus exerts "a strong restraining factor on expenditure by the private sector".

It is interesting to speculate whether the Budget would have been more deflationary (or less inflationary) had it refrained from imposing any increases in taxes—even though this would have reduced the domestic surplus by some $200 million. The higher taxes (States as well as Commonwealth) are a mistake on two counts. First, they add immediately and directly to costs and prices. Second, in so far as there has been a decline of confidence within the private sector, the tax increases will merely serve to aggravate the uncertainties. Rising government expenditure and higher taxes on the private sector are the recipe for the dreaded condition known as "stagflation".

A better test (than that of the "domestic surplus" concept) of whether the Budget is inflationary or deflationary in its impact on the economy, we suggest, is whether it contributes to an increase or decrease in total government claims on the resources of the economy. The real question here, however, relates not just to Commonwealth spending, but to all public sector spending, that is, including State and local and semi-government business undertakings. From details of prospective government expenditures in the 1971/2 Commonwealth Budget papers, and from those projected in State budgets, it appears possible that total public sector spending could rise from 32 per cent of Gross National Expenditure in 1970/71 to as high as 34 per cent in 1971/2. If this, in the event, proves to be the case, the impact of all government activities on the economy is likely to be more inflationary in the current year than in 1970/71.

Local governments have it in their power to finance increased expenditures by raising rates, and public business authorities concerned with such services as electricity, gas, sewerage and water supplies, transport and hospitals, can finance higher capital outlays by raising charges. Indeed, one of the most important influences on prices in recent years has been the rise in local council rates and in charges by government instrumentalities. Thus, the influence which the Commonwealth may exert on the economy by exercising restraint in its own spending can be undone should the remainder of the public sector increase the rate of growth of its expen-
ditures. Although they are affected by the decisions of the Commonwealth, State and local governments have a very considerable say in deciding what their own expenditures will be. No sooner was Payroll Tax handed over to the States at the Premiers' Conference in June, than the Premiers agreed to raise the rate by 40 per cent to produce nearly another $100 million of revenue. Most Premiers also indicated that there would be steep rises in the charges made by State public utilities.

Statement Number 2 of the explanatory documents attached to the Budget Speech gives what is clearly intended to be a warning to the reader attempting to assess the economic effects of Budget restraints on Commonwealth spending.

"The analysis here is, of course, concerned with the effects of increased Commonwealth Budget outlays. But it is also relevant to note that when the adjusted movements in payments to the States are considered, together with announced increases in State taxes and charges, a substantial increase in State expenditures is again in prospect."

State and local authorities carry the main burden of providing the facilities necessary to service rapidly increasing numbers of people. It is they who have to deal with the problems imposed by the migrant intake at first hand, not from the comfortable remoteness of Canberra. It is they who have to confront the realities of the developing urban crisis and the already deplorable inadequacies of most of the services for which they are responsible.

It is quite incredible that the Budget Speech, concerned as it must be, with analysing the economic background, and this year deeply involved with ominous inflationary pressures, should make not one reference to the rate of population growth. Has the rate of population increase, which in Australia's case is quite abnormally fast, no special economic effects at all, no influence on the size or rate of increase in government spending, no connection at all with inflationary pressures? Does the fastest rate of population increase in the Western world pose no distinctive economic problems for Australia and its governments? Does it impose no special burden or sacrifices on the Australian people by comparison with those that have to be borne by peoples in other countries?

One of the abiding mysteries of Australian economics is that these matters seem to have had so little attention by economists and policy-makers throughout the quarter of a century since the war. It is almost as if it were indecent to mention them. Common sense alone must surely suggest that an exceptionally high rate of population growth, by its very nature, must make the control of inflation peculiarly difficult. Whatever its benefits to the level of productivity in the long run, rapid population expansion must in the short term slow down the rate of productivity growth. If it did not, then Australia's position of twenty-second on the world productivity ladder would appear to amount to a damning indictment of management and labour in this country.

Rapid population increase slows down productivity growth because it absorbs a high proportion of the nation's savings for capital expenditures of a non-produc-
tive kind. A further large proportion
must be used for what the economists call
"capital-widening" rather than "capital-
deepening"; that is, to provide the basis
for employing increased numbers rather
than for employing present numbers more
effectively. Common sense, too, suggests
that rapid population growth, as we have
already indicated, compels an exceptionally high level of government spending
on capital projects. And, by the Com-
monwealth's own admission, the rate of
increase in government expenditure is
one of the main factors aggravating in-
flationary pressures.

We are not, of course, suggesting that
Australia would be better-off with a
virtually stagnant population as was the
case in the pre-war decade. It would
not. But a balance must be struck
between benefits and costs; where infla-
tionary pressures achieve dangerous
dimensions and a strong curtailment of
government spending is called for, the
population increase should be braked back, ruthlessly if necessary.

The Government might have assisted
private industry to improve productivity
by restoring the investment allowance.
This may well have been justifiable had
the Commonwealth and States placed
much stronger restraints, than they have
done, on the growth of their own expen-
ditures during 1971/72.

The reasoning behind the Budget
amounts to a flat rejection of the views
of most press commentators and econo-
mists. For weeks prior to the Budget
these people had been arguing that the
inflation was almost wholly due to cost-
push forces and that excess demand had
little or nothing to do with it. Indeed,
there were suggestions that if the Govern-
ment concentrated on curbing demand
pressures, the economy could be pre-
cipitated into a recession. It was widely
proposed that the Budget should, on the
contrary, provide some kind of stimulus
to the economy. The Government has
so far turned a deaf ear to these pro-
posals.

The Commonwealth Budget has made
an honest, although in our view mis-
guided, attempt to exert a disinflationary
influence on the economy. But the scope
for manoeuvre by the Government is
severely limited by the political imper-
ative of brim-full employment and the
self-imposed economic goals of mass im-
migration and maximum economic
growth.

Nevertheless, at the Premiers' Con-
ference, the Commonwealth should have
resisted the demands of the States much
more strongly and, in the Budget, re-
frained from imposing tax increases which
can only exacerbate inflation. With the
lucrative Payroll Tax now under their
control, the States have acted in a way
that verges on the irresponsible by in-
creasing the rate of the tax and also by
raising other taxes and charges of busi-
ness undertakings under their control, in
order not merely to maintain their expen-
ditures but to increase them. The Vic-
torian Government is a prime offender.

The conclusion is inescapable that
governments, considered as a whole, are
failing in their duty to curb inflation, which, in the Commonwealth’s own words, will “if allowed to develop unchecked . . . undermine the rich possibilities of growth which our future unquestionably holds.”

One must concede the pressures on the States for greater expenditures in practically all directions, but they and the Commonwealth have refused to stomach the one measure which could have relieved those pressures—a ruthless reduction in the migrant intake. If inflation is to be stopped, as it must be, sacrifices on the part of all sections of the community are inescapable. Members of the Commonwealth Parliament could not have chosen a worse time to contemplate increases in their own salaries. Salary adjustments should wait until the Government has demonstrated beyond doubt that it has inflation under control. If governments refuse to accept their share of the sacrifices necessary, how can they expect the community to accept theirs?

The pressures both on industrial tribunals and private employers for wage and salary increases will intensify as a result of these recent actions of governments. The outlook for the second six months of 1971 is for continued, sharp increases in costs and prices. Should the Commonwealth Arbitration Commission award any substantial increase in wages in the National Wage Judgment toward the end of the year— it will need an act of courage not to do so in face of steep cost-of-living rises and industrial pressures— then rapid inflation will carry well into 1972, at least.

Governments, either out of economic ingenuousness or obstinate refusal to confront stern economic realities, are failing in their prime responsibility to the nation to do battle with and defeat inflation. The problems which a continuation of rapid inflation would eventually create for Australia beggar the imagination.

The slowing down of the cost and price rise must take precedence over all other economic policy goals. If inflation is to be stopped, as it must be, then the inescapable conflict between exceptionally rapid population growth and national development on the one hand, and the irrepressible demands for rising living standards on the other, must be recognized and acted upon. Incomes policies, cost-of-living councils, rigor trade practices enforcement or tougher tariff policies, would merely amount to an attempt to escape from the unpleasant necessity of confronting the fundamental forces causing rising prices. As a solution to inflation they would be doomed to fail.
Business Leadership

The last two decades have seen an extraordinary growth in education for business leadership — through universities, institutes of technology, staff colleges and other advanced management courses. Even so, many of those directly concerned in this field point to the insufficiency of elite and competent managerial talent and are urging the expenditure of much more money by business and government.

A yet unanswered question, however, is whether management education is producing results that measure up with the concentration of effort and resources devoted to it. Some doubt has been thrown on this by an article, published some months ago, in the "Harvard Business Review". The article is noteworthy because its author, Sterling Livingstone, is Professor of Business Administration at the famous Harvard Business School.

Professor Livingstone's criticisms of present methods of management education are severe. Extensive studies carried out by the Harvard Business School suggest that there is no direct relationship between success in school or training programmes and records of practical achievement in business management. “Formal management training”, writes Professor Livingstone, “is not paying off in improved performance” . . . “Clearly what a student learns about management in graduate school, as measured by the grades he receives, does not equip him to build a successful career in business”. Scholastic standing in undergraduate school has proved to be an equally unreliable guide to an individual's management potential. Both businessmen and employees with distinguished scholastic records, Livingstone says, are over-estimating the value of formal education. He points out that in the United States there is an exceptionally high turnover among men holding masters' degrees in management. “Most of the men who leave their jobs have mediocre to poor records of performance. They leave not so much because the grass is greener on the other side of the fence but because it is definitely brown on their side”. Livingstone asks the question, “Do we really know what we are doing?”

One weakness of management education, Professor Livingstone states, is an over-emphasis on the development of problem-solving and decision-making skills. Graduates may acquire first-rate powers of analysis and reasoning, but this tends to be at the expense of their ability to take action and get things done. This ability, says Livingstone in an illuminating remark, can be developed only by doing what needs to be done.

Results in business clearly depend upon being able to understand other people and to inspire them to give of their best. Personal leadership and example are all-important, and training in business techniques and methods does not necessarily equip people with the qualities needed. According to Livingstone, “Management graduates suffer their worst trauma in business when they discover that rational solutions to problems are not enough; they must also somehow cope with human emotions in order to get results”.

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He does not decry the value of analytical skills, but rates them below what he calls “the perceptual skills” which enable the manager to discover the problems long before they can be found by even the most modern information systems. But even more important than the ability to sense our problems is the ability to exploit the opportunities available. In the words of Peter Drucker, “The pertinent question is not how to do things right, but how to find the right things to do . . .”

Both these skills, Livingstone claims, the opportunity-finding skill and the problem-finding skill, must be acquired by direct personal experience on the job.

What Livingstone is really saying here is that management is an art that can be learned only by practising it. Adlai Stevenson, the famous American statesman once said, “You have to live life to know it”: something overlooked by many young people who decry experience and by those who place too much faith in professional qualifications. In quite another place, and in quite a different mood, Stevenson expanded on this theme. “The knowledge man has acquired with age is not the knowledge of formulas, or forms of words, but of people, places, action — a knowledge not gained by words but by touch, sight, sound, victories, failures, sleeplessness, devotion, love — the human experience and emotions of the earth and of one-self and other men; and perhaps, too, a little faith, and a little reverence for things you cannot see.”

Another famous American, Vannevar Bush, the eminent engineer and former Chairman of the U.S. Atomic Energy Commission, affirmed that “the technique of management may be learned from books, but the art of management must be learned from life. The art is far more important than the techniques”. In other words, management must eventually be learned in the tough, and sometimes rough, school of experience, through doing things rather than through learning how to do them. This, of course, applies not only to business management but to most pursuits in life and is not, of itself, a condemnation of management education. Vannevar Bush writes, “The art of management has much in common with the art of painting. A painter can spend hours studying the mixing of colour, the techniques of applying it to canvas, the suggestion rather than the depiction of form, and still never be an artist. Similarly a man can spend years studying organization charts, balance sheets and operating statements, even the use of computers and the queer ways of Madison Avenue, and still never become a manager”.

This, of course, does not mean that experience is everything and specialist management or higher education is without value. That would be manifestly absurd. Indeed, in the complex world of today, people without advanced education up to university level are likely to find themselves less and less able to cope with the problems which have to be confronted at the higher levels of modern business management. Nevertheless, a university degree in management, or for that matter in anything else, does not provide a sure passport to business success. And, to be fair, the business schools themselves would be the first to concede that this is so.

Professor Livingstone’s argument is rather that the kind of education being given in management courses, “is, in fact, mis-education, because it arrests or distorts the ability of managerial aspirants to grow as they gain experience. Fast learners in the classroom often become slow learners in the executive suite”. He says, “Managers are not taught in formal education programs what they most need to know to build successful careers in management”. Livingstone, although clearly disillusioned with much of
present-day management education, seems to leave a little in the air what changes should be made.

An observation may be made here.

Perhaps more fundamental than the teaching of techniques and methods of modern management is the attempt to inculcate certain qualities and attitudes to life which will be of priceless value should the recipient rise to the lofty heights of the executive tower. The inculcation of these qualities and attitudes is, of course, the ultimate purpose of education, and opinions may differ on the type of education most likely to be successful. There is no doubt that higher education at a university should be of help. But even this does not mean that the qualities and attitudes of mind required for the best type of business leadership can be obtained only at a university. In fact, some outstanding business leaders, in Australia particularly, never had the benefit of a university education. These people of unusual native intelligence and perceptiveness took the pains to read widely and think for themselves, and became "educated" also as a result of their own experiences and struggles to rise to the top. Men of previous generations such as W. S. Robinson, Herbert Gepp and Walter Massy-Greene come to mind. These men all contributed notably to the industrial development of Australia. But they did much more than this. They played a prominent part in guiding their country on the highest plane of national policy, particularly during critical periods. They were true industrial statesmen, a designation applicable to only a tiny minority of businessmen.

What then, are the qualities or characteristics needed for success at the top levels of business management, the qualities that go to make up a great business leader or, at the highest peak, a business statesman?

There must, surely, first of all be the desire, the ambition. This is not just, or mainly, a matter of a desire to be successful in the narrow sense, or to make money. Great business leaders, admittedly, often amass riches, but the riches are invariably a by-product of their achievement and, in themselves, are often not greatly valued by the people concerned. But there are also many examples of men who achieved business eminence without accumulating personal fortunes. The driving urge of people such as these was to make an impact on affairs, to achieve something intrinsically worthwhile, to influence great events, to be leaders of men. W. S. Robinson’s recently published autobiography, “If I Remember Rightly”, is instructive here and could be read with profit by aspiring business leaders.

Men who rise to outstanding eminence usually do so because they are not content to settle for anything less. They would be unhappy anywhere but in “the big league”. This may seem all rather obvious, but the truth is that only a small minority of men desire to achieve eminence of this kind. Apart from whether they have the personal qualities needed, most are not prepared to pay the price that it demands. And the price is high—high in terms of burdensome responsibilities, in stress and strain and ceaseless work. There is no easy path to great achievement, using “great” in its best sense. It is a hard, exacting road along which few are prepared to travel. This driving urge is part of a person’s nature. A man either has it or he hasn’t and it is something that management schools cannot give him.

Another essential requirement for top business leadership is breadth of knowledge. A businessman who is content to know only business is not likely to become a great businessman. As his life progresses a man may achieve this
wide-ranging knowledge because of the peculiar nature of his own experience. But he is just as likely to achieve it through wide reading, through association with different castes of mind and with people engaged in pursuits far removed from his own. Advanced management courses usually of limited duration and attended by people of fairly considerable business experience may make an important contribution here. A top business leader must be an all-round man, something of a philosopher, a thinker as well as a man of action. Narrow specialists are unlikely to make first class-managers. It is a moot point whether management courses should be giving more emphasis to the creation of breadth of understanding and less to mere technical expertise.

A third quality needed in business leadership is vision, something rather elusive and difficult to define, but often associated with wide-ranging knowledge. Vision is the quality that enables a person to sense opportunities that otherwise might lie dormant — what Livingstone refers to as the opportunity-finding skill. The man with vision looks far beyond the immediate present and bases his decisions on long-range future assessments as well as on present demands. People of vision with an eye on the distant future are less likely, too, to be deterred by temporary setbacks. Their frame of mind is optimistic, forward-looking. They are prepared to back their assessments of the future and have the courage to keep pressing on when lesser men are overwhelmed by the difficulties of the moment.

A fourth quality needed is that of judgement, with which is associated wisdom. This, too, is almost inseparable from breadth of knowledge and life experience. A business leader needs to have at least a nodding acquaintance with many disciplines so that when all sides of a problem have been put before him, and perhaps many different recommendations from his advisers, he is able, almost by a kind of instinctive or intuitive insight, to come to a decision which is likely to be the best in all the circumstances. As Livingstone points out, analytical ability is not enough. When the computers and advisers have done their best, the man with the final power of decision is on his own.

All this is not to decry the need for management training. In many respects university and other business schools are giving valuable service. In their own interests, however, and in those of the community, they must look critically and frankly at what they are doing and ask themselves whether they are achieving the results at which they aim. Specialist education for business management is after all a relatively new development, yet only in its teething stages. It is still, to some extent, experimental as those concerned with the administration of the courses would be ready to concede. Clearly there is scope for improvement — as there is in all things — and leaders in management training should be actively seeking the directions in which improvements can be made.

One question that might fairly be asked is whether management education is keeping pace with events. The type of education appropriate in the 1950's could be quite inadequate for the 1970's and even more so for the 1980's. Times change and education for all professions must adjust, sometimes radically, to meet new demands and new conditions. The emphasis, some would say over-emphasis, on techniques and methods in some management education seems to be designed for a world in which productivity
and profitability were virtually the only objectives of business management. These objectives will always remain important, but business corporations even now, and certainly in the future, will need to satisfy much broader criteria if they are to meet new community needs, indeed if they are to survive.

To name one thing only: the impact of modern technology and industrialization on man’s environment and, more important, on man himself, will have to enter increasingly into the calculations of those who direct the operations of large enterprises. Business organizations in the future are going to be judged by the contributions they make toward a better life for all people. Top business leadership is clearly going to require new approaches and attitudes of mind.

Vannevar Bush comes close to the core of the management problem when he points out that “the hallmark of the true profession is ministry to the people, exercised with pride and dignity”—a principle perhaps most clearly exemplified in the medical profession. He goes on to say, “The profession of management is young and those in it will determine its form as it matures. The days of the manager whose eye is solely on the profit statements, who cares little for the community in which he operates, or for the welfare of those who labour, or the obligations to further the broad security and prosperity of his country, those days are numbered”.

The business leaders of the future will need to have above all else a breadth of understanding, a sense of national responsibility, and a deeply ingrained respect for humanity, even more than a knowledge of complex techniques and organization. One of the great philosophers of this century, Alfred North Whitehead, said many years ago, that “a great society is one in which its men of business think greatly of their functions”. That has now become vastly more important than when Whitehead said it.

“... the business enterprise must be so managed as to make the public good become the private good of the enterprise... that more and more of our managements claim it to be their responsibility to realize this new principle in their daily actions is our best hope for the future of our country and society, and perhaps for the future of Western Society altogether.

To make certain that this assertion does not remain lip service but becomes hard fact is the most important, the ultimate responsibility of management, to itself, to the enterprise, to our heritage, to our society and to our way of life”.

PETER DRUCKER — Noted American Authority on Management.
NEW BOOKLET

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Government Expenditure Analysed

TOTAL expenditure by governments in Australia is now over $10,000 million a year. Before the war it was a mere $400 million. In constant prices, government spending has multiplied six times, and, per head of population, three and a half times. In the last 10 years government expenditure in constant prices has risen by 75 per cent and, per head of population, by over 40 per cent.

Before World War II government spending occupied a comparatively minor part of Western free enterprise economies. Indeed keeping it to a minimum was regarded as wise economic policy and a hallmark of economic health. Not until the 1930's, as a consequence of the Great Depression, did increases become respectable and then only as a means of stimulating the economy and reviving business enterprise.

Today government expenditure has grown to massive proportions and is regarded as so important that private rather than public spending has become the balancing item in fiscal policies aimed at maintaining economic stability.

The reason for the huge expansion of the public sector lies in the responsibilities government has assumed for economic stability, full employment, social welfare and economic development. An additional major burden now seems about to fall on its shoulders: the protection and conservation of the Environment.

The growth of the public sector, far from being to the detriment of the private sector, has been to its inestimable advantage. Indeed, since the end of the war, private business enterprise in Australia and other countries has flourished as never before. No businessman in his right mind would wish to turn the clock back and confine government to the minor role it played in the economy three or four decades ago.

Nevertheless, there is mounting concern, even in government circles, at the sharp acceleration in recent years of the rate of increase of public expenditure which is absorbing year by year a growing proportion of national resources.

In 1949/50 government spending amounted to 27.1 per cent of Gross National Expenditure; in 1959/60, 28.0 per cent; and in 1970/71, 32.1 per cent. If transfer expenditure is excluded, (i.e. expenditure on such items as pensions which merely transfers income from one section of the community to another) then government demands on goods and services rose from 15.4 per cent in 1949/50 to 18.1 per cent in 1959/60, and to 21.6 per cent in 1970/71. Thus the public sector is slowly but surely increasing the claims it makes on total resources available.

In its 1967 Annual Survey of the Economy, the Commonwealth Treasury drew attention to some of the dangers of this trend. The Survey pointed out that "What the public sector takes the private sector cannot have", and that a reduction in the proportion of resources going to the private sector would deprive business not only of some of the capital needed for extending its productive capacities but also of capital needed for technological improvements. This would
result in a slower rate of increase of national productivity or output per man-hour. Although, it could be argued that the government need may be greater, and should take priority, pushed too far this would be to the detriment of the public sector itself. As the Survey emphasised "... there is a risk that the diversion of resources to the public sector, especially into non-economic uses however desirable in themselves, will slow down the growth of output that is the material foundation for most other advances in community well-being".

For some years the I.P.A. has argued that a major cause — not the only one — of continuous inflationary pressure in the Australian economy is the competition for resources between the private and public sectors. This competition becomes more intense the greater the inroads of government demands on the resources available, that is, as public sector spending appropriates an increasing proportion of Gross National Product. As taxes at all levels of government increase, and as monetary policies apply restrictions on personal and business borrowing, the private sector counters by "pressurising" for higher incomes, by raising prices, and by seeking finance outside the controlled sources. The traditional method of curbing inflation by increasing taxes then ceases to be effective; on the contrary it stimulates further inflation.

Opponents of this view have countered by pointing out that government spending, and consequently taxes, are lower as a proportion of GNP than in most other Western economies, implying that there is scope for a further expansion of the public sector without detrimental effects on the economy. This argument skates over the fact that these other economies are also suffering from serious inflation. But, much more important, it ignores some crucial distinctions between the pattern of public spending in Australia and that of other Western countries. It is, indeed, quite extraordinary that some Australian economists have disregarded this difference and have rested content with superficial and misleading general comparisons.

The all-important distinction lies in the fact that public expenditure in Australia has an exceptionally high capital component. In 1967/8, the proportion of capital expenditure to total government spending was 33 per cent. This compared with 23 per cent in the United Kingdom, 19 per cent in Canada, and 18 per cent in France and Western Germany. The proportion of spending on government capital works to Gross National Expenditure (GNE) was also very much greater in Australia than in other Western economies. In these other economies, transfer — mainly social welfare — expenditure, and current expenditures, make up a much greater proportion of government budgets than in Australia. Transfer expenditures, unlike capital expenditures, make no direct additional demands on resources since they merely represent transfers of spending power from one section of the community to another. Unlike capital expenditures, they do not involve any immediate subtraction from average current living standards, and therefore do not tend to trigger off compensatory action by the community as a whole.

THROUGH the 1950 decade government expenditure, as a proportion of GNE, rose only slowly — in total, from 27.1 per cent to 28.0 per cent. But in the 1960's public sector spending accelerated markedly and by 1969/70 amounted to 32.4 per cent of GNE. Three items were largely responsible for this increase — education, departmental administration and defence. As a proportion of GNE these items increased as follows: —
Government Expenditure Analysed (continued)

<table>
<thead>
<tr>
<th></th>
<th>1959/60</th>
<th>1969/70</th>
<th>1970/71</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of GNE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education &amp;</td>
<td>3.0</td>
<td>4.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Culture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental</td>
<td>3.0</td>
<td>3.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Administration,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defence</td>
<td>2.7</td>
<td>3.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>

The increase in expenditure on education, which maintained a fairly constant proportion of GNE throughout the 1950's, is perhaps the most striking. In 1959/60 we were spending on education (in 1966/7 $'s) $50 per head of population. By 1969/70 we were spending $90 per head of population. Over the same period departmental expenditure increased from $50 to $80 per head of population, and on health from $30 to $40. The big jump in spending on education is all the more noteworthy because governments were coming under heavy fire at the end of the decade, particularly from educationists, for not devoting a much higher proportion of resources to relieve serious deficiencies in the schools and elsewhere. Notwithstanding the great increase in education expenditure, it is clear that educational demands have continued to far outstrip the facilities available and the supply of trained teachers. This is traceable in large part to the scale of the immigration programme, but has no doubt also been affected by rising living standards, which have led to increasing demands for secondary and tertiary education. Enrolments for secondary schools and universities more than doubled over the 1960 decade. Education dominates the budgets of the State Governments, absorbing some 40 per cent of their total expenditures.

Almost as remarkable as the increase in spending on education, but less comprehensible, is the jump in the administrative costs of government. During the 1950's these costs remained steady around 3.0 per cent of GNE; by the end of the 1960's the percentage had soared to 3.7 per cent. Over the 1960's the number of administrative public servants rose by 40 per cent, although population by only 22 per cent. Public service salary scales, because of the emphasis on the employment of university graduates and highly skilled staff, were increasing at a much faster rate than average salary scales in private industries.

No great change in public sector capital expenditures occurred during the 1950 decade — proportionate to GNE, 9.4 per cent at the beginning, 9.7 per cent at the end. However, during the 1960's the pace quickened and capital spending reached 10.6 per cent by 1969/70. The table in the Appendix shows that with the exception of expenditure on roads and railways, which in relation to GNE have declined quite precipitously since 1938/9, all other items of public capital expenditure have remained at a consistently high level over the past two decades. Compared with before the war, capital expenditure on power, fuel and light, the Post Office, education, urban water supply and sewerage has more than trebled as a percentage of GNE. This is indicative of the great demands for infra-structure development to cope with the massive post-war population expansion.

Transfer expenditure — expenditure that does not make additional demands on goods and services — increased from 8.8 per cent of GNE in 1959/60 to 9.5 per cent in 1969/70. The increase was due to a sharp rise in government grants, including subsidies to the primary industries — from 0.9 per cent to 1.7 per cent of GNE. Interest payments fell slightly, while expenditure on social welfare benefits remained steady at 5.4 per cent.

From time to time Australian Governments have come under heavy fire for their failure to spend more on social welfare, particularly on cash benefits for
elderly people and other needy sections of the community. Unfavourable comparisons are frequently drawn with expenditures in these fields in other Western countries.

The reasons for the slow improvement in social welfare benefits in Australia are, however, not far to seek, although invariably overlooked by the critics. These reasons stem from the fact that Australian Governments have pursued policies of rapid development based on a rate of population growth unapproached in the Western World. An unprecedentedly high proportion of government budgets is necessarily committed to capital expenditures, much of which are required to provide the infra-structure facilities needed for expanding numbers of people. As most of these expenditures have to be financed from taxation, or from charges by public utilities over and above those needed to cover operating costs, the scope for providing welfare benefits has been limited. In fact, the choice has been — although it has never been stated — between more people or more cash benefits for the existing population; or, to put it starkly, between more migrants or higher pensions.

* * *

The table in the Appendix suggests that the scope for major cuts in government spending is virtually restricted to the capital works' sector.

In view of Australia's responsibilities in the Pacific area, a substantial reduction in defence expenditure seems out of the question. Also, despite remarkable increases in government expenditure on education, particularly in the last decade, the critical situation in this area would seem to render reductions out of court — indeed, increases are much more probable. The same considerations would apply to government spending on health, even though substantial economies could and should be effected by eliminating some of the farcical wastes of the "free" pharmaceutical benefits scheme and by rationalization of private health insurance. The steep rise in costs of governmental administration is certainly cause for concern and should be capable of being drastically curbed; but the economies possible in the total context of government spending may not be great. There is a widespread consensus that more needs to be done for elderly retired people and this alone would suggest that increases, rather than reductions, in expenditure on social services are the more likely. The parlous position of some of the primary industries and the announced assistance to wool-growers, which could involve around $100 million, will result in increased expenditure on subsidies.

One is forced to conclude that if really meaningful curbs are to be placed on government spending, the axe would have to fall on capital works. This could only be done concurrently with the acceptance of much more modest immigration targets than those to which we have been accustomed. This may seem strong medicine but unless it is swallowed by governments and people, competition for limited resources will intensify and inflation will go on.
Government Expenditure Analysed (continued)

**APPENDIX**

**PUBLIC AUTHORITY EXPENDITURE**

**AS PER CENT OF GROSS NATIONAL EXPENDITURE**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT EXPENDITURE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Goods &amp; Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defence</td>
<td>1.4</td>
<td>2.0</td>
<td>2.7</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Education, and Culture</td>
<td>1.3</td>
<td>1.4</td>
<td>2.2</td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Health, Repatriation</td>
<td>1.1</td>
<td>1.5</td>
<td>1.6</td>
<td>1.9</td>
<td>2.1</td>
</tr>
<tr>
<td>All Other — mainly Departmental Admin.</td>
<td>2.4</td>
<td>3.0</td>
<td>3.0</td>
<td>3.7</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Total Goods and Services</strong></td>
<td>6.2</td>
<td>7.9</td>
<td>9.5</td>
<td>12.3</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Transfer Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Services</td>
<td>3.3</td>
<td>4.7</td>
<td>5.4</td>
<td>5.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Grants to Rural and other Inds. etc</td>
<td>0.3</td>
<td>1.6</td>
<td>0.9</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Interest</td>
<td>5.8</td>
<td>3.5</td>
<td>2.5</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total Transfer Expenditure</strong></td>
<td>9.4</td>
<td>9.8</td>
<td>8.8</td>
<td>9.5</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Total Current Expenditure</strong></td>
<td>15.6</td>
<td>17.7</td>
<td>18.3</td>
<td>21.8</td>
<td>22.3</td>
</tr>
<tr>
<td><strong>Capital Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roads</td>
<td>3.2</td>
<td>1.2</td>
<td>2.0</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Power, Fuel, Light</td>
<td>0.3</td>
<td>1.5</td>
<td>1.7</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Post Office</td>
<td>0.4</td>
<td>0.6</td>
<td>0.8</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Urban Water, Sewerage</td>
<td>0.5</td>
<td>0.6</td>
<td>0.8</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Education</td>
<td>0.1</td>
<td>0.3</td>
<td>0.7</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Railways</td>
<td>1.2</td>
<td>0.6</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Other Transport</td>
<td>0.1</td>
<td>0.4</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Irrigation, Land Settlement, etc.</td>
<td>0.2</td>
<td>0.7</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Other Fixed Capital — mainly Public Bldgs.</td>
<td>0.8</td>
<td>1.6</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>All Other Capital Exp. — Advances War Service Homes, Land Settlement, etc.</td>
<td>1.9</td>
<td>1.1</td>
<td>1.5</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Capital Expenditure</strong></td>
<td>6.8</td>
<td>9.4</td>
<td>9.7</td>
<td>10.6</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>GRAND TOTAL PUBLIC AUTH. EXPENDITURE</strong></td>
<td>22.4</td>
<td>27.1</td>
<td>28.0</td>
<td>32.4</td>
<td>32.1</td>
</tr>
</tbody>
</table>

**Source:** — Australian National Accounts and National Income Estimates by Commonwealth Statistician. 1938/9 data derived from estimates of National Income & Expenditure by Commonwealth Statistician; where details in group totals for 1938/9 not published these are approximations based on various private estimates.
Building the New Europe

by

NORMAN MACRAE

Deputy Editor of “The Economist”

Except when British membership has been under consideration, it is probably fair to say that Australians have shown little interest in the great development in Western Europe known as the European Economic Community. Even then the interest has been mainly confined to the effects on our primary industries. The fact that the founding and evolution of the Common Market represents perhaps the greatest historic development of our time seems to have largely escaped the attention of Australians.

As far back as 1962, when Britain first applied for membership, the IPA insisted that the vision behind this great concept could not be properly realised unless Britain became a part of it.

An editorial in the April/June, 1962, “Review”, said: —

“The Common Market is a watershed of history, a climacteric in historical evolution. Jean Monnet, one of the great architects of a United Europe, in a recent article in the French journal, ‘Realities’, says that the state of the world’s 3,000 million — soon to be 5,000 million — depends on what the 500 million in North America and Europe do. ‘Upon their actions, upon their unity, upon their progress, depend, at one and the same time, their future and that of the whole world’. Failure to bring to full fruition the unity of Europe could set humanity back centuries in its struggle for world security and order. That would be a disaster immeasurable’.

This article by Norman Macrae, Deputy Editor of “The Economist”, puts the Common Market in its true historic perspective.

The article first appeared in the “The Lamp”, a quarterly journal published by the Standard Oil Company (New Jersey). It is reprinted here with the kind permission of the Company and the author.

A huge thing is happening in Europe. In a star-shaped modern building called the Berlaymont in Brussels, a group of founding fathers is hammering out — a bit uncertainly, a bit clumsily, but with rising conviction — what is likely to be the constitution of the coming United States of Europe. There are sober grounds for supposing that this may have as great an effect on the future history of the world as did the creation of the United States of America by those other founding fathers one hundred and ninety years ago.

As with all really great events, most of the participants themselves only dimly realize what is occurring. The mood in Europe as we enter the last three decades of this tumultuous twentieth century is not euphoric, but it is again confident. In the first sixty years of this century many of the countries of Western Europe were losing an empire. Now they are rediscovering a role in their own conce-
Building the New Europe (continued)

There is every reason for supposing that in these next thirty years the United States of Europe will be achieving a very large increase in material prosperity: that it will quickly follow the United States of America in attaining the most productive use of industrial resources ever secured by man. It remains to be seen whether Europe will repeat some of America's mistakes for the pattern of life in an affluent society.

The kernel of a West European confederation already exists in the six countries now joined in the European Economic Community: the 190 million people of Germany, France, Italy, Belgium, the Netherlands, and Luxembourg. In the Treaty of Rome, signed in March, 1957, these countries declared their intention of moving during the nineteen sixties to a "common market" in which they would levy no tariffs against each other's goods. They achieved this objective slightly ahead of schedule, and now their objective for the nineteen seventies and nineteen eighties is to move toward a full economic and monetary union. Once this union is achieved, member countries will have a common currency, a common tax system (with some separate national taxes, like the separate state taxes in the USA), pooled foreign exchange reserves, and free movement of capital and labor across their diminishing frontier posts. The free movement of labor — and, indeed, of all inhabitants of the new European Community — is likely to be the clinching point for full political union. Once it becomes the ordinary thing for people in Germany and Britain to move to the Mediterranean when they retire — and for people leaving school or university in France or Italy to consider equally job offers from Paris or Amsterdam or Glasgow or Milan — then some sort of central government will have to be set up for Western Europe. The big question for the next two decades may be whether it is going to be a central government with the right powers.

People at present seek three main things through and partly from their governmental systems: peace, prosperity, and what may be called a more cohesively gracious form of living together. There now seems little doubt that the move toward European unity will advance the causes of peace and prosperity. That, indeed, is why the European Economic Community is almost certain to have considerably more than its present six members by the early nineteen eighties. Applications to join the six have already been filed by four other European countries with a present combined population of over 70 million (Britain, Norway, Denmark, Ireland). The expectation is that their initial entry will be in 1973 and that they will become full members by 1978. Four more countries with a combined present population of 30 million (Sweden, Switzerland, Austria, Portugal) have indicated that they will want to negotiate free trade terms with the EEC if it swells from six members to ten; although some such interim terms will probably be agreed, the men at Brussels are likely to set a time limit by which any new half-members will have to apply for full membership. Two other countries with a combined population of 45 million (Greece and Turkey) already are half-members, with a firm intention of becoming full members in the early nineteen eighties, once their economic development has reached a sufficiently advanced stage; the 32 million people of Spain also are expected to join this category.

If all these countries join, the present community of six will become a community of seventeen before the end of the nineteen eighties, with a population of well over 400 million people. The average income per head of these 400 million may continue to be just over half that of the Americans (who are likely to
number about 240 million by 1980), but it will continue to be much higher than that of the Russians (who will number about 280 million in 1980). So cold logic suggests that these much more numerous and wealthier West Europeans should surpass the Russians in both power and influence and become within the next two decades the second superpower on earth.

Where in Europe is the hub of this huge industrial power likely to develop? People who know Europe today may guess that it will be West Germany, whose modern industry has most successfully emulated America's managerial revolution during the last two decades. But experience in the USA suggests that there is not likely to be just one centre of industrial power in a technologically advancing continent, and it will be surprising if the United States of Europe does not rest on three or four centers also. Rhineland Germany will clearly be one of these. Britain should have a good opportunity to become the new Europe's financial center, and the Mediterranean will become Europe's California as those who work in modern scientific industries seek sunny living places. The Paris region will struggle to remain a fourth focus of power, aided by the city's long tradition as a cultural and intellectual center. But that raises another question: can there be a cultural center — or even a union — inside a Tower of Babel?

Some forty different languages are spoken in the continent, if one includes small languages like Welsh. Pessimists fear that people will not move to areas where language differences will impede their daily life. But there are some cheerful pointers on the other side.

First, the last two decades have already seen a far bigger migration of Italian, Greek, Turkish, and other foreign workers to the booming factories of Germany and France than most people expected. Secondly, Europe is not new to the task of managing multilingual federations. In Switzerland there are four official languages, and in Belgium and Finland two. In the Berlaymont, business is conducted with extraordinary expedition with everybody using whichever of four languages he likes. Moreover, the problem of communication is less serious with the new generation than with the old. In part, this is because languages are being taught better in the schools, especially with the spread of language laboratories. In even greater part, it is because the young generation is so mobile in its free time; most young Europeans will spend a holiday in other European countries before they are twenty-one, and many students take vacation jobs abroad. This carefree mobility has another useful consequence as friendships and marriages across international frontiers become a cohesive force.

Europe's march toward unity has been a supreme peacemaking achievement and one that most people would not have dared to forecast in 1945. The peoples of the present six member states of the European Economic Community — particularly those of France and Germany — have already so unified their economies as to make it virtually impossible that they will ever go to war with one another again. This is a dramatic reversal of more than 2,000 years of history, and it has come in the nick of time. With nuclear weapons, another major European war could presumably have destroyed the planet. It was this realization that drove the passionate advocates of European unity to forge the Treaty of Rome in 1957. The men who paved the way for that treaty were a dynamic private pressure group of idealists, master-minded by an extraordinary Frenchman called Jean Monnet. More than any other man of our time, Jean Monnet delivered us.
Building the New Europe (continued)

With Western Europe itself no longer the threatened cockpit, the danger point is obviously Western Europe's frontier with the East. One of the reasons for the drive to West European unity has been the realization that the United States of America is unlikely to keep 300,000 troops in West Europe forever, defending rich nations which ought to be very well able to defend themselves. This thought has also been one of the barriers in the way of some neutralist European countries (such as Sweden, Switzerland, and Austria) joining the community; some of them have been afraid that a new West European superpower might eventually be too hawk-like, or at least (from their viewpoint) insufficiently dove-like, toward the Communist East.

This fear, felt by Sweden and others, should have calmed a great deal in the past year. The one West European country which must be unhappy with the frontiers created by World War II is divided Germany; but the West German government, mostly with popular approval in Germany, is set upon trying to improve trade and other relations with the East. There is still hope in Europe that the growth of consumer societies in the present Communist bloc will help to melt the Iron Curtain; and that the proved advantages of the Western economic system may lead to a gradual fusion within one community of a Europe from the Atlantic to the Urals.

The economic prospects before Western Europe look almost incredibly good. Although productivity per man in U.S. industry is almost twice that in West European industry, Western Europe has an increasingly well-educated young labor force; and the crucial point is that knowledge, which is transferable between peoples, has become by far the most important world economic resource. The task of observing how the Americans organize their production, and then copying them, is not immensely difficult.

In the next thirty years there is every reason to expect that the American managerial revolution will spread across Western Europe and will continue to help raise productivity in the old continent at an accelerating pace. What could prevent this from happening?

One snag would be if Europe's labor force remained tied to declining and low-productivity industries for various social reasons. The classic example here is agriculture. Agricultural policy in the six countries of the existing European Economic Community still keeps about 12 per cent of their labor force in agriculture, although everybody knows that they could feed themselves if they had only about 6 per cent there. The proportion has in fact come down from as much as 25 per cent in 1955, and it will certainly go on falling. As in other declining industries, a very large number of those still on the farms in the six countries are elderly people — more than half of EEC's farmers are above the age of fifty-seven. The community has felt obliged, as a sort of social service, to keep agricultural prices high enough to give these inefficient old farmers a decent income in their remaining years. And the maintenance of high agricultural prices has made it necessary to keep out imports of cheap foreign food.

This creates a special problem for Great Britain, which has hitherto imported cheap food from all the world and has run down the proportion of its own labor force in agriculture to a bare 3 per cent. Once in the EEC, British housewives will find themselves paying more for high-priced European food. If some satisfactory compromise is not reached, the British may stay out of the EEC until those elderly farmers die off and bring Europe's farm population down to only about 6 per cent of the working population. But I think the British will be unlikely to break off negotiations on this point. British farmers will certainly
increase their output as soon as they receive EEC higher prices; simultaneously, the structural reforms in which the EEC is engaged will reduce the army of redundant farmers.

A main feature of Europe's economic growth in the last decade and a half has been the spread of investment there by big American corporations. These corporations had various managerial, technological, and other advantages. In Europe they saw rising prosperity creating good local markets. They also saw reasonably well-educated labor forces drawing wages below the American average. They therefore came on over, and that is how the multinational company has spread.

Some people foresee a possible check to this American investment in Europe because of nationalistic reactions from the European side. But Europe's fears are likely to diminish as European industry itself moves to a continent-wide scale. The nervousness has been greatest in countries which have felt that, while contained within their own national boundaries, they cannot build up big enough firms to meet American competition.

For example, in the automobile industry in Britain today there are three firms owned by Ford, General Motors, and Chrysler, plus one English firm, British Leyland. There probably would be British government resistance if an American bid were made for this last British contender, even if British Leyland seemed too small to meet world competition. But once Britain gets into the EEC, it seems highly likely that there will be a tie-up between the British company and some continental motor manufacturer.

Large American multinational firms operating in Europe in the nineteen seventies will probably find themselves competing against an increasing number of large European multinational firms. This competition will be healthy for all concerned. There will probably be a diminution of European protectionism against American investment, because laws about mergers and take-overs will be codified on a European basis. Such codification generally moves policy to the more liberal end of the spectrum.

It is recognized in Germany, Britain, and other big industrial countries that the Americans can bring to Europe the fruits of the best-tested research and the best modern managerial techniques. It would be very silly of Europe to lock them out; and in economic matters Europe does not seem likely to be very silly during the nineteen seventies and nineteen eighties.

There may still be reason to question whether Europeans will find a cohesively gracious form of living together. As West Europeans gradually attain free movement of labor across each others' frontiers—aided by the multinational corporations with their plants in different countries—there will be a need for some unification of criminal law and sociological policies in a united Europe. In a Europe where people move freely, great difficulties will arise if there are important differences between countries in the way civil liberties are interpreted; the way police forces and the judiciary are run; in the interpretations put on laws controlling gambling, drug use, or any other morally controversial activity; in the level of social security benefits; in the way universities and the affairs of cities are managed. It can be argued that the United States of America has run into difficulties because of differences in regulations between separate states; but the USA has had a tolerably strong federal government from the beginning. Now the United States of Europe is being slowly formed, yet many politicians in the separate states still pretend that it will have no need for a central federal government at all.
At present the embryo government of the European Economic Community is a tripod, resting on three legs. One leg consists of the European Commission, which means the 5,000 European civil servants who work in the Berlaymont building in Brussels. The second leg is the Council of Ministers, made up of the external affairs ministers of the member states who meet regularly in Brussels. The third leg is the European Parliament, which consists of nominated members of parliament of the separate countries who meet once a month at Strasbourg in France.

The founding fathers of the European Economic Community — Jean Monnet and his devoted disciples — deliberately set out to make the European Commission the most important of these three legs. It is the Commission which makes the policy proposals for the new Europe. The Council of Ministers then has to meet to approve or disapprove these policy proposals. Because the commission was created as a forcing house for ideas, it was from the beginning an exciting place in which to work. Immediately after the Treaty of Rome was signed in 1957, there flowed into this commission possibly the brightest collection of young public servants to be found anywhere in the world.

The next democratic advance in Europe may be the direct election of members of the European Parliament, instead of their nomination by the national parliaments as now. These direct elections may very well happen before the end of the nineteen seventies. But it is doubtful if the European Parliament will ever become the strongest leg of the tripod.

In successful parliamentary democracies in Europe, like Britain and West Germany, the parties stick together through thick and thin. In a European Parliament they would tend to be less cohesive; just as southern Democrats in the US often vote differently from northern Democrats, so Italian and British and German members of a European Parliament would often vote on regional or national grounds rather than obeying a party whip.

For this reason it is almost certain that the eventual United States of Europe is going to have to be a presidential democracy like the USA, not a parliamentary democracy like Britain. Someday a president of Europe will be elected by direct popular vote. He would probably take up office in Brussels, bringing some personally chosen members of his administration with him, but also relying considerably on the permanent civil service already in the Berlaymont. Unfortunately, the politicians of Europe are not yet ready for a president of Western Europe. Even optimists like myself think that it will be twenty or more years before Europe takes this final step to political union.

In the meantime, economic and monetary union is going to come; and in the process this newfound Western Europe is likely to mark up some extraordinary economic and industrial advances.

Twenty-two years ago, when Jean Monnet was beginning to found his European movement, Winston Churchill came to a congress at The Hague and made one of his most memorable speeches:

"We must proclaim the mission and design of a United Europe whose moral conception will win the respect and gratitude of mankind and whose physical strength will be such that none will dare to molest her tranquil way . . . I hope to see a Europe where men and women . . . will think as much of being European as of belonging to their native land, and wherever they go in this wide domain will truly feel, ‘Here I am at home’.

During the nineteen seventies and nineteen eighties there is a real prospect that that sort of Europe may be coming up through the bud.