The Australian economy is poised at a critical point. The next six months will be crucial in determining whether we will re-establish the conditions essential for stability, recovery and the resumption of growth in 1978; or whether the economy will slide further into the morasses of inflation, unemployment and international uncompetitiveness.

There are some good signs. There are indications, faint as yet, of returning confidence on the part of businessmen and the consuming public. But this confidence could easily be dissipated. Although inflation, for the moment, seems to be slowing, the September quarter results will be awaited with trepidation, when the effects on prices of the last two wage judgments and the November devaluation will manifest themselves.

The wage and price freeze — which was greeted with remarkable acclaim by the majority of the community — has been destroyed by the May decision of the Arbitration Commission. This time, at least, the Commission seems to be out of touch with the public mood. A large part of the community would probably have welcomed a continuation of “the freeze”, for it has come instinctively to realise that this is the only way of getting rapidly on top of inflation. The Australian people, when it comes to the point, have a keen nose for the realities. They have begun to understand that, unless and until inflation is beaten, the economy will not be restored to health.

It is safe to say that people generally are no longer impressed with the principle of indexation — that every time prices rise, wages should follow in roughly the same proportion. They feel that this process will ensure the indefinite prolongation of the inflationary spiral, and that this will mean that, in the end, all will lose out. Indeed, the mood of the
public today is remarkably akin to the climate of opinion which existed during the last great post-World War II inflation in the early 1950's. The quarterly adjustment of wages to prices at that time — although it applied only to the basic wage and not the total wage — was resulting in a futile leap-frogging process in which wages were chasing prices, and prices were responding to wages. Inflation was running at all-time record levels. This caused the Arbitration Court to terminate the quarterly cost-of-living mechanism, and it did so in a climate of overwhelming public approval.

The Arbitration Commission itself now has serious doubts whether indexation should continue, at least in its present form, as evidenced by its decision to conduct a comprehensive inquiry into methods of wage fixation.

At the risk of patting itself on the back, the I.P.A. feels entitled to draw attention to two things.

First, right from the time it was first mooted, we fought the principle of indexation, insisting that whatever early benefits it might bring in the way of introducing some order into wage adjustments, it would, in the end, lead to the perpetuation of rapid inflation.

Second, once it became clear that this was what, in fact, was happening, we argued that inflation could only be defeated decisively by imposing a temporary ceiling on annual wage increases — we suggested a figure of 4 per cent: in other words a near wage-freeze. In the meantime, that is, during the temporary period, the Prices Justification Tribunal should continue in order to exercise a close supervision over prices.

The unanimous decision by the heads of all Australian Governments in April to introduce a voluntary three-months wage-price pause amounted to a near acceptance of the I.P.A. position and to a vindication of the stand we had taken — almost alone.

It is clear that, in the remainder of this year, wage policy and budgetary policy will be crucial if the economy is to be restored to the path of sustainable economic growth.

On this there are broadly two schools of thought. One, which has fairly widespread support, is that the economy should be stimulated immediately by substantial tax cuts, which would also serve the purpose of curbing wage demands and thus inflation. This school could fairly be described as the "deficit doesn't matter" school. This viewpoint is backed by the A.C.T.U., some sections of business and quite a few economists and media spokesmen. The Labor Opposition would go even further. It has suggested that tax reductions should be accompanied by large increases in government expenditure.

To the other school the deficit is all-important. This school therefore opposes large tax cuts for the time being and urges a tight rein on all Government spending, Federal and State. It also supports a severely restrictive wage policy. This is the line taken by the Federal Government and its senior advisers. It is supported by many economists outside the public service.

According to this view, the two basic conditions precedent to a sound economic recovery are the further reduction of real wages and a fall in interest rates. Real wages must continue to decline until the profit share of the Gross National Product has been restored to a level which will encourage businessmen to undertake new investment. During 1976 profits increased quite markedly, but the overall profit
share still falls far short of its historical long-run "norm"; moreover, present prospects are not such as to cause businessmen to go wild with excitement.

Interest rates are crucial. While interest rates remain at present high levels, there is no prospect of a sound well-based recovery. They will remain at or near these levels until it is clear that inflation has finally been brought under control. Interest rates are not something that the Government can alter at will, as many people seem to believe. They are the product of underlying economic forces, particularly the level of spending in the Government sector.

When interest rates start to fall, there will be a resurgence of confidence among businessmen and investors, and among the consuming public. Projects which at present are not viable will become feasible and the people will be more disposed to spend their hoarded-up savings, particularly on housing and consumer durables.

The I.P.A. supports this line of reasoning and therefore the stand taken by the Federal Government and its Treasury advisers. It is imperative, in our view, for the Government to place the strictest curbs on spending and to be strong enough to say "no" to the numerous sections — including people within its own ranks — irresponsibly clamouring for increases. In the 1976/7 Budget the Government made a serious mistake in providing for a real increase in expenditure on education — a vested interest sector which is clearly ripe for the axe. (In real terms education expenditure per head of population is eight times what it was before World War II and five times expenditure in the early fifties).

The Government has now announced its intention of restricting education expenditure to the same real level as in 1976/7. This has brought strong protests from highly placed educationists. The attitude of these people is one of irresponsibility and should be viewed with alarm. One would think that highly educated people would realise more readily than most that if inflation is to be beaten, every section of the community must be prepared to make its contribution. There is a clear need for educationists to demonstrate their concern for government funds to be wisely and not wastefully spent.

The policy of wage and budgetary restraint described above will not produce a recovery tomorrow morning. That may have to wait for another six months, possibly longer. The interim period should be regarded as one for establishing the foundations necessary for a strong sustainable expansion of the economy.

Only when the economy provides for an increase in the resources available will it be possible for real wages to rise and for government spending to increase in the directions deemed desirable.

In other words, real wages must continue to fall now, in order that they can be increased later on. Further substantial tax concessions must be resisted now, in order that they can be made later. Government spending must be restricted now in order that it may be expanded later.

The alternatives proposed by such people as Mr. Hawke, who seems to claim a kind of superhuman infallibility in economic matters denied even to Lord Keynes, are a recipe for disaster.

The crux of the Hawke argument is that a revival of consumer spending, which is necessary to economic recovery and a reduction in unemployment, will not occur unless the level of real wages
is maintained. This argument is fallacious in two respects. People have ample funds in savings accounts and elsewhere which they can spend if they wish. They are refraining from doing so because of their fear of continued inflation. The more important second flaw in the argument is that businesses cannot afford to employ more labour while wage costs continue to rise. (In the last few weeks they have been faced with an addition of nearly $10 a week in average wages).

What Mr. Hawke and those who think like him are really arguing for amounts to more inflation. Even if such a policy gave a temporary illusion of recovery, the recovery would peter out before it had barely begun. It would lead straight to a collapse of internal confidence, the further impairment of Australia's competitiveness, a decline of confidence in the economy on the part of overseas financial interests, and, in the not distant future, another devaluation of the Australian dollar — a prospect to be dreaded. It would amount indeed to an abandonment of economic sanity.

Mr. Hawke and many of his colleagues do not understand — or at any rate are not prepared to concede — that an economy such as Australia's, in which nearly three-quarters of all jobs are provided by private enterprise, will simply not function effectively unless there is a prospect of healthy profits. It is profits that induce investment; it is investment that provides jobs; it is investment that makes possible higher productivity; and it is higher productivity, and only higher productivity, that provides the basis for higher real wages and better social services.

The Arbitration Commission's faith in indexation, in the adjustment of wages to prices, seems to be on the wane. It is to be hoped that out of the inquiry it is about to conduct, some method of wage fixation will emerge which will give pre-eminent importance to the part of productivity in establishing wage levels. We would then be on the way to a sound and constructive system of wage fixation.

In the meantime, through the remainder of this year, it is absolutely essential that the Commission should adopt a hard-line stance on wage increases. We do not believe that this would prove to be inconsistent with the Commission's responsibility to promote industrial peace. Moreover, the Commission could rightly point out that if real wages are to rise in 1978, only minimal wage rises are possible for the rest of 1977.

On its part, the Commonwealth Government, no matter what the pressures upon it, must not weaken in its resolution to reduce the Budget deficit.

One consideration should be paramount in the minds of Cabinet when the Budget strategy is being finally decided. It is that overseas financial centres will be watching the Australian Budget this year with more than usual interest. An increase in the deficit, or even a failure to substantially reduce it, is certain to be viewed sourly, and could be taken as an indication that Australia has abandoned the fight against inflation. This could precipitate another run against the Australian dollar resulting in the certain prospect of a further devaluation. The economic consequences of this are too appalling to be contemplated.

But more than that, a devaluation, and its accompaniment of continued inflation, would almost certainly set the stage for the defeat of the Government at the next election. Those in the Government ranks who are urging a lessening of the restraints might ponder upon this.
INVESTMENT THROUGH THE LIFE OFFICES

The following figures taken from the Australian Bureau of Statistics show the total premiums received by the Life Offices over the last six years and compare the percentage change over each previous year with the percentage change in the C.P.I.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Premiums $'000</th>
<th>% Change from Previous Year</th>
<th>% Change in CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>796,217</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971-72</td>
<td>933,578</td>
<td>+17.2</td>
<td>+6.8</td>
</tr>
<tr>
<td>1972-73</td>
<td>1,055,340</td>
<td>+13.0</td>
<td>+6.0</td>
</tr>
<tr>
<td>1973-74</td>
<td>1,146,143</td>
<td>+8.6</td>
<td>+12.9</td>
</tr>
<tr>
<td>1974-75</td>
<td>1,313,167</td>
<td>+14.6</td>
<td>+16.7</td>
</tr>
<tr>
<td>1975-76</td>
<td>1,465,752</td>
<td>+11.6</td>
<td>+13.0</td>
</tr>
</tbody>
</table>

It is clear that the life insurance industry has been undergoing a negative growth rate in real terms since 1973, a conclusion which is reinforced by figures showing the increasing numbers of surrendered policies and the negative rate of growth in assets.

The figures give credence to the concern shown by the Life Offices’ Association as reflected in their campaign for government legislation to help reverse the trend. The two questions that arise are, firstly, what is causing the decline, and secondly, is government assistance of any kind compatible with current economic policy.

There can be no doubt that persistent inflation is a major cause contributing to the disincentive to invest in long-term contractual funds. Individuals are spreading their funds and looking for short term security and non-contractual saving through such avenues as: short-term debentures, notes and government securities, Australian Savings Bonds, savings bank deposits, building society accounts, and deposits in credit unions.

This is clearly detrimental to growth by life offices, but more important, life offices have played a major role over the last twenty years as a source of local long-term investment funds to industry, and the negative growth of the life offices affects adversely the business environment which needs to make the kind of long-term investment plans which are so necessary for economic recovery.

Put simply, inflation affects the level of interest rates which have a marked effect on profitability. This, in turn, affects the demand for investment funds. As the A.N.Z. Bank said recently:—

“In particular a reduced level of inflation would enable interest rates to be lowered and greatly enhance the outlook for local and overseas investment in construction and basic resource developments, with significant flow-on to the whole economy.”
The Government's determination to beat inflation by closing the budget deficit is matched by its awareness of the need to encourage investment, as evidenced by the emphasis given to investment allowances since it came to power. Critics of the Government's "obsession" with closing the deficit have rarely conceded that investment allowances have the immediate effect of widening the deficit. The point is that the apparent widening of the deficit in this case can only be justified because the resulting increase in productivity will off-set the initial inflationary effects and in time contribute towards closing the deficit and promoting economic recovery.

Under the circumstances it is unfortunate that the effects of inflation on the growth of the life offices and the consequent lessening of their ability to contribute to investment funds has been exacerbated by the previous government's fiscal aggression. There is a strong case for amending at least some of Labor's legislation which has unnecessarily contributed to the decline in the growth of the life offices.

*Labor's Fiscal Aggression*

The particular legislative actions referred to are the changes in the Income Tax Assessment Act in the Budgets of 1973/74 and 1974/75 and the adoption of the general rebate in the 1975/76 Budget which was introduced in such a way as to reduce the incentive to buy life insurance.

In using its muscle against the life offices, the Labor Government was not attacking a few of the more disreputable 19th century-style industrialists — if there are still such people around — it was disadvantaging 3 million individual Australian policy holders. Almost 70 per cent of all life business undertaken in Australia is through mutual life insurance companies and a mutual company is a co-operative, not a Welsh coal mine of the 1920's. Even those life companies which are not mutuals distribute about 97 per cent of their surplus to policy holders in the form of bonuses.

The effective change in the special formula under which life offices had been taxed for more than 40 years has cost policy holders, during the last three years, an estimated 350 million dollars in lost bonuses. Where is the justification for this attitude towards three million Australians trying to provide for their own and their families' future — especially when the principal beneficiaries are widows, orphans and retired people? A more fundamental question is this: Where is the justification for dissuading all Australians of the value of thrift and foresight through contractual saving?

The answers to these questions lie in the deep-seated socialist ideal of equality which can be achieved through a redistribution of wealth from the rich to the poor. Such a vision of the future has, in the past, been a useful ideal for correcting gross injustices inbuilt in society, but as that vision progressively becomes reality it is becoming clear that in legislating to make all people equal, the rights and privileges of all individuals are being reduced to the same minimal level. A new ideal is needed, and it lies in the belief that the rights and privileges of the more affluent should be made available to everybody. Government action through welfare and education should be directed to those who need it so that the poverty line can be eliminated and the underprivileged raised to a position where the rewards of hard work and thrift are within the reach of every able-bodied citizen.
The general rebate continues the process of erasing the poverty line and eroding the curse on the underprivileged, but to argue that the gap between the rich and poor is widened by the ability of the rich to take advantage of concessional rebates for insurance premiums is to overlook the fact that we are rapidly reaching a stage where most of the population can afford to take out ample life insurance. In educating the formerly underprivileged in the advantages of a prosperous life we need to encourage the virtues of thrift and foresight — not discourage them.

Coalition Government Record

The Government is clearly determined to beat inflation and lead the country out of economic recession. Essential to this policy, as the Government has shown it knows, is the encouragement of domestic investment, and one of the most encouraging signs of impending economic recovery can be seen in the number of plans for large-scale investment released over the last few months. Since December, 1976, some ten or more projects in the mining sector have been announced which, if they were to go ahead, would involve a total investment of over 2 billion dollars.

The mining sector has traditionally looked overseas for investment capital and, whilst there are those who would decry foreign ownership, there is no doubt that many of the developments that have taken place would not have been possible without a large measure of overseas ownership.* But if Australians are to play a maximum role in the provision of funds for our own development, and if we are to extend the potential recovery into other sectors, then something needs to be done about the growth rate of the funds of our life offices.

As Mr. Wran, Labor Premier of New South Wales, said recently: “The other crucial factor (apart from government finance policy) is to encourage a recovery of investment in the private sector.”

One might have expected a Liberal/National Party Government to have reversed the previous Government’s aggressive legislation against the life offices at the first opportunity. In fact, the contrary was the case. Indexation of personal incomes was introduced in May 1976 together with a lift in the general rebate, but there was no corresponding increase in the amount allowed for the individual components of that rebate — or in the $1,200 overall limit applicable to combined life insurance and superannuation contributions. This made it even harder for such contributions to qualify for any taxation relief.

The August 1977 Budget

The unique position of life offices in their primary function of receiving premium income and investing it on behalf of policy holders makes taxation of life offices an extremely complex question which can only be dealt with as part of a com-

*In fact, the degree of foreign ownership is considerably less than many economists have suspected. The Industries Assistance Commission’s Report on Petroleum and Mining Industries suggests that during the period 1964-74, share issues accounted for about 30 per cent of capital raisings by the mining sector and debt capital accounted for the remaining 70 per cent, 57 per cent of which was raised overseas and 43 per cent locally.
prehensive tax reform programme. But even if, in the coming Budget, the Government still feels unable to introduce significant tax reforms — a long-awaited commitment which the Government nevertheless has been wise to defer — at least some tax changes along the following lines are needed to arrest the negative growth trend of life office funds:

1. Since the concessional allowance figure of $1,350 was indexed — it is now $1,525* — it follows that the component parts should also be indexed. For most taxpayers — all but 8 per cent according to "The Australian" editorial of 18th May, 1977 — the actual expenses in the categories concerned (life insurance premiums and superannuation contributions, medical and hospital expenses, medical fund contributions, education and self-education expenses, rates and land tax) do not exceed this limit. Tax concessions serve a useful function in relation to personal expenses where choice and freedom of the individual is important, but this advantage is lost when there is no incentive to increase sums spent on concessional items. The $1,200 concession for life insurance and superannuation payments has not changed since 1967. (On to-day's money values this concession would now be about $3,000). It would be consistent with this proposal to reduce the general rebate to a more realistic level and make a corresponding adjustment to the overall tax scale.

2. The current legislation discriminates against self-employed people — including many small businessmen — in regard to the $1,200 concession for life insurance and superannuation. The self-employed person should be treated as a combination of employer and employee and be allowed tax deductions for superannuation contributions for schemes "providing reasonable benefit" — to quote an official criterion of the Tax Commissioner.

If such action were taken it would increase the flow of funds into and not out of private investment. It would help restore the incentive for long-term contractual saving and hence tap a major source of private funds for investment. It would encourage people to provide for their own future, and in so doing reduce the government need to make additional welfare provisions.

Finally, it would facilitate the financing of economic recovery and complement the Government's existing investment policies. The good signs which are surfacing in the mining sector will, all the sooner, become apparent in other sectors.

*This figure applies for the 1976/77 financial year.
A BASIC FIRST LESSON IN ECONOMICS

There has been, since the end of World War II, an almost universal adoption of Keynesian economic principles by governments of all persuasions throughout the western world.

Keynes proposed a policy which was specifically designed to deal with the kind of situation that existed during the Great Depression. It was a deflationary situation.

This means that the value of money was rising — quite the reverse of the inflationary situation that we have today where the value of money is falling.

Prices were falling — not rising as they are today.

Those who had jobs were able to buy more and more goods with their wages — not less and less as they are today.

When wages, the major cost of industry, remain static, when unemployment is increasing, and when prices are falling, then businesses tend to collapse.

Keynes' solution was obvious and basically simple. In a deflationary situation, a government should adopt "inflationary" policies.

An awful lot of nonsense is talked about inflation. The fact is that inflation is one of the most documented of economic phenomena. We know exactly what it is. Every period of inflation in the history of mankind, from the Egyptian Pharaohs to the present day, has been associated with governments cheapening the value of money by increasing the growth of the money supply.

Karl Marx acknowledged that if you double the supply of money you halve the value of money. Prices double and wages double, and the wage earner achieves nothing by having twice as much money in his pocket.

To achieve a situation in which the value of money remains constant a government would only increase the supply of money by an amount justified by an increase in national production per head of population — assuming a static population — and that means an increase in productivity.

When a government increases the supply of money by spending more than it receives, then that is, by definition, inflationary.

Keynes' answer to a deflationary situation was very basically this. Governments should spend more than they receive. They should operate a deficit in the budget and thus increase the money supply. They should stimulate the economy by spending and create jobs to reduce unemployment.

What Keynes' followers have done in recent years is propose the same policy in a situation of inflation. To suggest that the deficit does not matter and that we should spend our way out of this recession is to pile inflation upon inflation. We do not need to create inflation — we already have it.

In baring the bones of economic theory in this way, it is, of necessity, impractical to discuss all the inflationary influences. The mechanics of cost-push and demand-pull inflation, and the effects of external influences such as the sudden increase in the price of oil, are all properly a battlefield for the academics and professionals. But it nevertheless remains true that the effect of such economic movements is, sooner or later, to influence governments towards coping with the situation by increasing the supply of money beyond that justified by an increase in productivity.

We have witnessed in the last thirty years a curious marriage between socialism and Keynesian economics. Even those of less radical non-socialist persua-
sions have engaged in extended periods of flirtation with this post-war phenomenon. One does not have to look far for the reason. Politicians gain power by promising benefits to the people. Deficit financing is a heaven-sent means whereby expensive social reforms can be paid for and delivered. It has been convenient for all politicians, and well-meaning socialists in particular, to overlook the long-term effect of such activity.

In no sphere of economic activity can more be given than can be afforded without facing inevitable bankruptcy. The benefits achieved through deficit financing are short-lived simply because the consequent inflation reduces monetary values. Perhaps the most alarming effect of such irresponsible government activity has been to create a generation of people who have grown up to believe that governments are capable of giving away such benefits without due regard to the costs.

It would now take a brave government to reverse this trend, but there are hopeful signs. The recent economic summit meeting in London attended by President Carter issued a joint communique which said, in part:

“Inflation is not a remedy to unemployment but one of its major causes.”

All governments of the major western countries are thus agreed that unemployment cannot be solved without first solving inflation. President Carter himself has a stated policy of closing America’s Budget deficit by 1981 — it takes that long to undo the extended years of built-in damage caused by inflationary policies based on deficit financing.

We, in Australia, also have a government determined to close the Budget deficit, although there is a danger that they may soon feel obliged to pander to demands to stimulate the economy in order to win votes to gain re-election. Australian governments do not have the advantage of America’s 4 year term to pursue long-term policies.

In Britain there is a Labour Prime Minister who, perhaps too late, expressed his disillusionment with Keynesian economics when he said recently:

“We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists and that insofar as it ever did exist, it worked by injecting inflation into the economy”.

This confession of Mr. Callaghan’s echoes the words of our own former Labor Federal Treasurer, Mr. Hayden, when he tried to repair the damage of the Whitlam years:

“It is not possible to provide more and more government services without ultimately having to pay for them via increased taxes. Restraint needs to be shared throughout the whole community. There must be a community will to combat inflation”.

If the Australian Labor Party really want to promote “a community will to combat inflation” then they must be politically honest in admitting the disaster of their own Keynesian economic policies — and persuade the A.C.T.U. to do likewise. If ever there was a time for the whole Australian community to back a government’s anti-inflationary economic policy, it is now. Any reversal of policy will merely postpone the day of reckoning when such a policy will be continued through to its conclusion at some future date, and in the meantime Australians would continue to suffer while the rest of the world gets on top of inflation and unemployment.
THE JAPANESE BREAK-THROUGH

Japan is an industrial power second only to the United States in the free world. She is Australia's biggest export market taking $2,400 million of Australian goods in 1975. It is important therefore for Australians to know as much as possible about Japan's remarkable economic progress. This article reviews a book "How Japan's Economy Grew So Fast" published by the Brookings Institution, Washington, in 1976. The authors are E. F. Denison and W. K. Chung. The Brookings Institution is a well known independent organisation devoted to non-partisan research and education in economics, government, foreign policy and the social sciences.

The authors' research benefited greatly from its integration into another Brookings Study on "How the Japanese Economy Works" and from the co-operation of the Japanese authorities. It is a very worthwhile book. Some readers may be daunted by the wealth of statistics. But this indicates the depth of the research and analysis.

The book reflects the authors' admiration for Japan's economic achievements. Yet it stresses that the extraordinary rapid growth of the Japanese economy, in the post-war period, was made possible to a significant extent by the economic backwardness of Japan in relation to the United States, at the beginning of the period.

The war deprived the Japanese Empire of much of its land area. Japan lost nine-tenths of its merchant marine, one-fourth of its housing, and one-fifth of its industrial plant. In all about one-fourth of the national wealth vanished in 1941/45. It was not until 1953 that Japanese output regained its pre-war peak.

Since then Japan has been the "miracle" economy. From 1953-1973 total national income multiplied 5.43 times and national income per person employed 4.06 times. This growth performance is unmatched in any other country, free market or socialist, provided one excepts some of the oil States and Israel, whose economies were stimulated by unusual economic factors. The rapidity with which output increased in Japan after World War II surprised Japanese and Western observers alike.

Although post-war Japanese growth was broadly based, manufacturing showed the way. The growth of various manufacturing industries is shown in the following table. The "leading sector" was machinery — which includes electrical, transport, equipment, automobiles and precision instruments.

### PRODUCTION INDEXES OF MANUFACTURING INDUSTRIES

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<tr>
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<tbody>
<tr>
<td>All Manufacturing</td>
<td>311.4</td>
<td>1056.9</td>
<td>14</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>337.2</td>
<td>1060.0</td>
<td>14</td>
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<tr>
<td>Machinery</td>
<td>516.0</td>
<td>2489.6</td>
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<td>Chemicals</td>
<td>302.7</td>
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<td>Petroleum and Coal Products</td>
<td>404.4</td>
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<td>Textiles</td>
<td>210.7</td>
<td>463.6</td>
<td>8.9</td>
</tr>
</tbody>
</table>

The closing of the Suez Canal in 1956 created a booming demand for supertankers and Japan soon became the world's leading ship builder. Japan's production increased from 500,000 gross tons in 1955 to 12,000,000 tons in 1971 — almost half the world's tonnage. Japan has become such a dominant ship builder that the EEC is trying to persuade Japan to reduce its number of launchings.

By 1972 Japan had replaced France as
the world's largest motor-cycle manufacturer. Passenger car production grew more than 155 fold from 1955 to 1970, as the Japanese aided by cheap labour, technical competence, and economics of large scale production moved into overseas markets and became the second largest producer after the United States.

In the mid-1950's hardly any Japanese people owned vacuum cleaners, washing machines, refrigerators, and television sets. In the 1970's nearly everyone did. The production of TV sets increased dramatically from 137,000 in 1955 to over 13,000,000 in 1972. By 1967 Japan was the world's largest producer of TV sets, radios, cameras, and sewing machines, and held or was approaching second place in washers, refrigerators, cleaners, and watches.

The enormous growth in the sales of these products stemmed from the increasing affluence of the Japanese, lower unit costs, and price reductions, made possible by sharply rising volume. Domestic and export markets expanded at an almost incredible tempo.

Steel production grew rapidly to supply the needs of shipbuilding, automobiles, consumer durables and the construction industry. Steel ingot production leaped from 7.7 million tons in 1953 to 97 million tons in 1972 and shipments of Hamersley, Mt Goldsworthy and Mt Newman iron ore increased rapidly to feed the Japanese blast furnaces.

As one would expect the authors devote many pages to a consideration of the factors which enabled Japan to achieve its spectacular growth rates.

The largest contribution to growth was made by capital investment which increased at an annual rate of 9.2%. This was made possible by the increase in national income (or output), a rise in the proportion of income saved and a relative decline in the price of capital goods. The level of Japanese gross private saving is extraordinary, exceeding the rate of any other major country. It averaged 28.8% in Japan 1961-71, compared with 15.8% in the United States.

Japanese business has sought to duplicate the production conditions and the use of capital, found in efficient Western firms, particularly those in the United States. The effort to raise output per worker, appears to have been pursued more consciously and energetically than in other countries.

Yet the investment in capital per worker in Japan 1960-71 was less than in the United States, France and West Germany. But Japanese labour was becoming much more expensive relative to capital and the incentive to increase the use of capital was great.

The next largest contribution to growth was made by advances in knowledge — improvement in the techniques of production, business organisation and management. The Japanese people are exceptionally receptive to new and foreign ideas. Workers resistance to the introduction of labour saving procedures seems rarer than in most Western countries. And with management determined to reduce costs by innovation, this can be an important advantage. Employee co-operation was also encouraged by a labour relations package that included guaranteed employment to the age of fifty-five for permanent employees of large companies, and paying employees much of their compensation in semi-annual bonuses. Other factors helped too — an unusual degree of paternalism, employee loyalty to the enterprise and unions organised on a company rather than an industry-wide basis.
The standard of education made an important contribution. By 1970 about 10% of the work force, male and female, had received an average of ten years education and over 9% of males had received a university education.

Management is a key element in efficiency. A characteristic feature of management in large Japanese firms is decision making by consensus. Although it may delay decisions, it is said to facilitate wholehearted implementation by all concerned.

Economies of scale made possible by expanding home and export markets were the third largest source of Japan’s growth. Longer production runs for individual products became possible and almost all industries did large transactions in buying, selling, and shipping.

Rather surprisingly, labour is ranked fourth as a source of growth. The Japanese work force increased by 31% to 51 million in the years from 1953 to 1971. The work force was then equal to 65% of the population aged fifteen years and over. While the working week has been shortened in most countries, reduction in hours in Japan was only moderate. The reductions which did take place were almost entirely offset by higher output per hour, the consequence of reduced fatigue. In 1971 the work week for non-agricultural wage and salary earners was 51.1 hours for males, about 8.7 hours longer than in the U.S.

Although the Japanese population is roughly only half that of the U.S. the total number of hours worked in the business sector (including agriculture) was equivalent to no less than 91% of the number worked in the U.S. This is the result of having a much larger percentage of the population in the labour force, lower unemployment, a smaller percentage of people working in general government, households and institutions and far longer average hours.

Although average hours worked in Japan were about 25% longer than in the U.S., national income per hour worked was only 44% of that achieved in the U.S.

The book makes only passing reference to the Japanese trade unions. Without doubt they contributed to the Japanese success story, because they are productivity conscious. It is surprising also that the authors do not mention the Japan Productivity Centre which has sent many productivity teams overseas in search of new ideas. Over a period of twenty years the Japan Productivity Centre has promoted the philosophy that productivity is a belief in human progress, a ceaseless effort to apply new technology and new methods for the welfare of mankind. It is concerned with the spirit which aims at constant improvement, the training of minds and attitudes of the people which determines whether the nation will realise high productivity and an affluent life, or low productivity and poverty.

Can the Japanese Growth Rate be Sustained?

The authors of this book have confined the scope of their study mainly to a description of the actual post-war growth of the Japanese economy. National income grew at a very high rate of 9.56% p.a. in the period 1961-71. The authors’ estimates show that future growth rates in Japan will be lower.

The Mitsui Bank in its monthly review for November, 1976, says that Japan's economic growth has begun to slow down. Its findings are based on estimates for the period 1975-85, of the Economic Planning Agency and the Ministry of Finance. The Bank gives a number of
reasons why future growth may be slower.

1. Resources and energy problems. Raw materials accounted for 79.7% of Japan's imports in 1975. Oil represented 34% of imports. The steep escalation in oil prices was a severe blow to the Japanese economy. Japan is concerned about the shift in control over resources from the consuming countries and multi-national enterprises, to the producing countries under the pressure of "resource nationalism".

2. Owing to pollution and environment problems some industries have found difficulty in finding sites for new factories in Japan and they have been forced to look for sites overseas.

3. Japanese technology has reached a level equal to that of other major industrial powers and the tempo of technical innovation is destined to slow down.

4. The growing instability of the world economy is very disturbing to Japan which relies so largely on imported materials and export sales.

5. Inflation, especially soaring prices of primary products and higher labour costs.

In the post-war period Japan's exports increased at about double the rate of the increase in world trade. The Mitsui Bank believes it will be difficult for Japan's exports to continue at this rate of increase in the future. They say that exports of ships, passenger cars and steel are destined to decline.

Global demand for container ships is likely to increase with the expansion of world trade. However, the demand for tankers is bound to mark time because of the expected standstill of oil consumption and the increasing rate of oil transportation by pipelines.

Therefore, the Bank expects Japan's imports of metals and coal will tend to decrease. It is obviously too early to assess the repercussions on Australia as a leading supplier of raw materials to Japan.

Labour troubles in Australian mines and ports is a matter which greatly concerns the Japanese. Australians cannot afford to lose to other countries any part of this vital market through short-sighted folly. Australia's economic future is likely to be bound up with Japan and also China, whose emerging power should be a feature of the next fifty years.

About seven years ago Herman Kahn published a book "The Emerging Japanese Super State". He forecasts that within a quarter of a century Japan could take over from the United States as the greatest economic power in the world. Kahn said that Japan will probably pass the U.S. in per capita income in 1980 and in total GNP by the year 2000. This would make the Japanese the richest people on earth.

In the light of events it may be that Kahn's forecasts are over-optimistic. But Japan's economic success can be expected to continue because the productivity drive is strong, management is able and well trained, and above all because of the dedication of the Japanese, people and their sense of obligation to their employers and the nation.

The expectation is that growth will continue, but at a slower pace. The growth rate will probably be higher than in other developed economies but slower than in the past.

"How Japan's Economy Grew So Fast" —Edward F. Denison/William K. Chung Published by —

The Brookings Institution,
1775 Massachusetts Avenue,
N.W. WASHINGTON, D.C. 20036
The Institute of National Affairs
Papua New Guinea

The I.P.A. has been kept informed of the formation of the Institute of National Affairs in Papua New Guinea. The founders of the I.N.A. believe that private enterprise can play a valuable role in the development of Papua New Guinea.

The aim of the I.N.A. is to foster the development of Papua New Guinea by contributing to public knowledge of issues which are important to private enterprise. This is to be achieved through the following activities.

(a) Objective research on behalf of private enterprise. The findings of such research are to be communicated to businessmen, Government policy makers, leaders of the national workforce, educational institutions and other interested members of the community.

(b) Encouraging an exchange of information and points of view between private enterprise, the Government and the national workforce.

(c) The preparation and publication of information and commentary aimed at improving an understanding of the national economy.

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The I.P.A. believes that Australian companies and individuals with an interest in Papua New Guinea would wish to support this worthwhile venture.
LOVE THOU THY LAND

by

Prof. J. B. Condliffe

Professor Condliffe is an American citizen born and brought up in Australia and educated in New Zealand. After serving in the First World War he returned to the University of Canterbury as Professor of Economics in 1920. In 1927 he became Research Secretary of the Institute of Pacific Relations at Honolulu and later moved on to the University of Michigan. From there he went to Geneva where he wrote the first six World Economic Surveys for the League of Nations Secretariat. In 1937 he was appointed to the London School of Economics, and prior to the outbreak of the Second World War he moved to the University of California where he taught till his retirement in 1958.

Professor Condliffe is active in retirement and has worked in association with the Indian National Council of Economic Research and the Stanford Research Institute. He has published many books and received many honours, including his election as Honorary Life Member of the General Labourers Union of New Zealand, early in his career. In the 1977 Queen's Birthday Honours list for New Zealand Professor Condliffe was awarded a K.C.M.G.

I hope you will forgive me if at first I seem a little sentimental and reminiscent. My main purpose is to speak about the future — not the past. But I was born in Melbourne and have very happy memories of my childhood in Bendigo. Though I went to school and college in New Zealand and have lived in many countries since then, these early memories are still vivid. I am now a citizen of the United States, but I no longer take much stock in nationalism. I suppose you could describe me as Kipling described the Royal Marine Corps — a bit of a blooming harumphrodite, soldier and sailor too. I try to see the world as a whole; but I shall never lose my affection for the land of my birth.

Of course Australia now is very different from what it was 85 years ago when I was born. Elgar wrote Land of Hope and Glory for the good Queen’s Jubilee in 1897 and in my youth we were moved by Dame Clara Butt’s magnificent contralto as she sang “God who made thee mighty, make thee mightier yet”. We sang Rule Britannia without ever imagining that in our lifetime Britannia would cease to rule the waves. I saw the first horseless carriage and the first movie that came to Bendigo. Since then I have lived through many critical events in many lands and some of them at close quarters. As I recall them they all seem to have a common origin in the activities of scientists and engineers. The collapse of London’s dominance over world trade, money and economic development, the decline of the Royal Navy and the disintegration of the Empire, the enormous
growth of the United States and the Russian challenge to its power, the automobile, the telephone, the airplane, the computer, the beginnings of the nuclear age and space exploration — all these have come in my lifetime and they are all the result of the application of scientific discovery to practical affairs. Economists and political scientists and historians came in after such things happened — not before.

Old men are always tempted to be reminiscent — not to say garrulous — and we all cling to the ideas imbibed in our youth. But Tennyson had the right attitude to history when he wrote:

Love thou thy land with love far brought From out the storied past, but used Within the present and transfused Through future time, by power of thought.

This I shall try to do tonight. But first I should add that I have also lived through a transformation of the discipline in which I was trained. When I was a graduate student at Cambridge in 1918, I heard Keynes give the lectures that made him famous when he wrote them into “The Consequences of the Peace”. I shall never forget the terrifying lines he quoted from Thomas Hardy’s Dynasts. They seem even more pertinent now than they did then.

*Spirit of the Years:*
Observe how all wide sight and self-command Deserts these throngs, now driven to demonry, By the Imminent Unreeking. Nought remains but vindictiveness here amid the strong, And there amid the weak an impotent rage. *Spirit of the Pities:* Why prompts the Will so senseless — shaped a doing? *Spirit of the Years:* I have told thee that it works unwittingly As one possessed, not judging.

Like all my generation I was deeply influenced by this extraordinary man. But I have since watched, with increasing dismay, the evolution of economic theory, which now deals mainly with numbers and symbols rather than goods and services. In his later work which he presented as “The General Theory” but which was really an attempt to solve Britain’s depression problem, Keynes dealt primarily with monetary theory in a nationalist setting, belittling its international consequences. He ignored the micro-economic analysis of the marketplace. If he were alive today I believe he would stand aghast at the use of his theory by the neo-Keynesians. He once rebuked one of these disciples by saying “the difference between you and me is that I’m not a Keynesian”. It is the attempt to apply his doctrines in totally different circumstances that has led us into our present dilemmas.

I do not pretend to foresee the future. Nor do I have any direct line to the Power that shapes our ends. I have heard it said that those who do have such a line find it increasingly difficult to distinguish the Deity’s voice from their own.

So I do not know what is going to happen to the £ or to the $A — or which currency will be next to fall — because I don’t know what the politicians and their advisers — or the Labor leaders — will do next.

I do know, of course, that the exchange rate of any currency is a ratio. Any government can set a value on its currency; but not on the other currencies in which this value is expressed. So there is no such thing as free floating in the currency market — this is a dream of monetary theorists and even in Australia we do not live in “the dreamtime”. In the harsh world of monetary reality, governments try to negotiate levels at which their currencies can be maintained.
In periods of inflationary stress, the result is often competitive depreciation. So the international trader shares the fate of Gilbert’s billiard sharper — condemned to play “interminable matches; on a cloth untrue, with a twisted cue, and elliptical billiard balls”.

I do not presume to advise those who must manage not only international but domestic production and commerce — except perhaps by quoting the lines that Robert Bridges wrote in his “Testament of Beauty”.

We sail a changeful sea
Through halcyon days and storm
And when the ship laboreth
Our steadfast purpose trembles
Like as the compass in a binnacle
Our stability is but balance and conduct lies
In masterful administration of the unforeseen.

I have recently seen the advice offered by a distinguished American economist through the media. It seems to show that McLuhan was right when he said the medium is the message. Some of you may recall Bairnsfather’s cartoon in which a charlady said, “My husband, ’e told me” and the other lady replied “’E must uv give yer a gargled version of it”.

It is possible, however, to foresee some long-run changes because they begin to be evident in practices that cannot now be reversed. Primarily they are caused by the progressive enlargement of human knowledge and its application to the control of natural forces by science and invention. This has been so throughout history. The invention of the stirrup enabled the Mongols to conquer most of Asia and eastern Europe because their horsemen could sustain the thrust of a long spear at full gallop against even armored infantry. In the 15th century better built ships and increasing knowledge of the stars enabled the seamen of western Europe to venture out of sight of land and so to discover a new world. Three centuries later Adam Smith protected James Watt against persecution by the equivalent in his day of trade union monopoly. So steam power on land and sea enabled British trade and investment to spread over the globe.

We are now passing through another climactic period of history, accompanied as always by wars and rumors of wars — and by monetary disorder. In the Elizabethan age, the European powers fought for access to the fabled riches of Asia and the newly discovered Americas. The monetary inflation of the time led my benefactor Sir Thomas Gresham to restate the truth first enunciated by the Bishop of Lisieux in the 14th century — that bad money drives good money out of circulation. This, the oldest economic law, still operates. The I.M.F. sells gold and issues S.D.R.’s which are not even paper money but merely accounting symbols.

In the Elizabethan period of world strife, the ancient city states yielded their power to the centralized nation-state. England led the way and won the struggle for sea supremacy.

British trade expansion and national consolidation were continued in the period of the Industrial Revolution. Nelson's victories set the seal on those of Drake. What made these victories possible was the increased productivity that resulted from England being an asylum of freedom, welcoming the immigrants who fled from religious and political persecution — and the ideas and inventions they brought with them. First in agriculture. And then came the mechanical inventions and Adam Smith's protege — James Watt — and steam power.

So it is today. Science has opened new frontiers. It has always been so since Prometheus stole fire from the gods. Be-
cause of improved communications and
the harnessing of new power, we live in
a shrinking world, but one which has
vast potential for improvement of living
conditions — or for a holocaust of de-
struction. How we use our newly de-
veloped control over natural forces will
determine the kind of world our grand-
children will inherit.

Some developments seem inevitable.
First, let me state what may seem to you
a paradox. Nationalism has never been
as powerful as it is today, but it is fight-
ing a losing battle. The forces of national-
ism have never been so strong, but they
are struggling to survive. The world is
divided into more nations than ever be-
fore. The United Nations is more
nationalistic than its predecessor, the
League of Nations. And national
sovereignty is claimed over a far wider
range of individual and social activities.
It has been extended beyond the land to
the adjoining coastal waters and we are
in danger of losing the freedom of the
open seas.

Nationalism has also been extended to
control of the resources beneath the sur-
f ace of the land and the sea. It is curious
to reflect that these concepts of property
and national sovereignty which lie behind
our energy and raw material problems
were developed in Europe. In the
colonial age no one expected that the
people who lived or roamed where
petroleum and minerals were later dis-
covered would be able to hold their dis-
coverers to ransom. Their discovery and
still more their extraction and use are the
products of science allied with invest-
ment. A good argument could be made
that the Western peoples who found these
natural resources and developed them
have at least some property right in them.

But a few — a very few — of the
descendants of the people who roamed
and hunted or led their camels over
these lands have been trained and edu-
cated in the West, and they now apply
Western concepts of property and
sovereignty to the lands. The Indians of
North America and the Maoris of New
Zealand are trying to regain their land
rights.

This might not have proved trouble-
some to us if we had educated and
trained more of them. But most of these
countries were divided among the
colonial powers by drawing lines on the
map without regard to tribal boundaries.
The more humane colonial powers ruled
through the tribal chiefs and tried to pre-
serve tribal institutions but did little to
educate the masses of the people. In fact
it was the oil companies who in recent
years did most to introduce their workers
to modern science and industry. This is
why the Saudi Arabs exercise a moderat-
ing influence in the energy situation — a
middle class now numbering hundreds of
thousands has grown up through the ad-
mirable system of worker training in the
oil fields.

Contrast the situation in African coun-
tries where a handful of foreign-educated
leaders claim the same rights for people
who still live in a pastoral age. Sover-
eignty exercised on a democratic basis is
only too likely to result in tribal conflict
as we see now in Angola and Rhodesia.
The issue of such conflict can throw up
strange characters like Amin and Khadafii
rather than cultivated and intelligent men
like Nyerere and Kaunda. Plato would
have called this form of democracy mob-
rule. And indeed I believe he would have
thought the same about the American
emphasis on the introduction of parlia-
mentary institutions to peoples who have
not had to win them over centuries of
struggle.
These questions must ultimately be resolved by some modification of the concepts of national sovereignty and property. So my paradox is that while nationalism is now so strong, it is fighting against its impending modification or destruction. These manifestations of nationalism in fact signal the onset of its death-throes.

Science and invention are making the nation-state obsolescent. Embryonic world government is already with us in many areas of economic activity. Communications have developed to the point where we can no longer live in isolation. National governments may proclaim their sovereignty but they have already lost control of vital functions—of which money is not the least important. Air traffic is regulated by international agreements administered by a cosmopolitan bureaucracy. Health is a matter of international concern. Multi-national corporations now dominate international trade and have a powerful impact on many areas of domestic production and trade. Their activities escape national regulation and often taxation. I.B.M., for example, was able to develop specialization of its European factories, making parts in one country and assembling them in another, while keeping within the quotas and exchange restrictions imposed by national governments. It was able to do so because of its admirable system of internal and intracompany communication. Communication is the key!

Despite their imperfections, their failures in some areas to adapt to local needs, their obsession in some cases with quick profit and the bribery that has resulted, there is no doubt in my mind that the Multi-National Corporations will grow in importance and will be self-regulating in large measure. Ultimately codes of conduct will develop as the Law Merchant developed out of the practices that the medieval merchants found useful and profitable in the long run. Ultimately these codes may be enacted into law—national and international—but this is less important than the efficient and honest behaviour of corporations in their own best interest as well as those of the host countries.

I have one more major point to make. It was succinctly stated by Alfred Marshall, the great 19th century economist and teacher of economists—including Keynes. Marshall was a mathematician as Keynes was; but he dealt with the basic realities of economic organization—what we now call micro-economics—and above all he was a humanist, concerned with human beings and their welfare. He once wrote that "the only important thing to know about money is that it isn't important". By this he meant that money in any form—metals, or paper, or credit—was only the measurement by which to compare and sum up the goods and services which are the real objectives of human desires and efforts.

The most dangerous legacy that Keynes has left us is the concentration on monetary measurements of economic activity—to the exclusion only too often of the intangible but very real values that Marshall was concerned with. The satisfaction to be gained from honest effort, quality of workmanship, the consumer's appreciation of lasting beauty have been almost lost. The ultimate result of this econometric valuation was described to me by Geoffrey Crowther many years ago when he said "My people have ceased to connect reward with effort".

Governments can increase the money supply and thus stretch the measure-tape. There are, as Keynes showed us, some circumstances in which an expanded
money supply may increase real demand for goods and cause a temporary increase in the return to labor and capital. But these gains are fleeting and always constitute transfers of purchasing power from one social group to another. Those who gain are those able to contract new debt. Those who lose are the disadvantaged — the old and the young, the sick and the poor. Inflation of the money supply is the cruellest form of deceit yet devised. The speculators and monopolists profit from it and among the entrenched and privileged monopolists are those who control the supply of labor to critical economic services. The rank and file of labor never wins in these encounters.

The money illusion operates both nationally and internationally. The economic development of the poorer peoples of the world cannot be bought by what their leaders call “transfers of resources”. It can come only from national effort to improve productivity. The richer peoples can help by working with them to improve the efficiency of labor and make it familiar with modern technology and its instruments. Little is gained by monetary grants except perhaps increased population.

Nor can unemployment be cured in the advanced industrial countries by government expenditures on makework projects. The problem is mainly structural. We have created large groups of people unable to operate in the new technology for lack of rudimentary skills, and have sapped their will to work by what is euphemistically called welfare. The market for routine manual and clerical labor constantly shrinks.

The fact is that attempts to solve our social and economic problems by manipulating monetary measurements have failed and we must get back to the fundamentals and rethink our educational systems, learn again the values of honest work at all levels and face the future rather than the past. It will not be long before money will disappear as a medium of exchange — replaced by electronic transfers. We shall need to devise a new standard of value. It will probably not be gold; but it certainly cannot be the national credit systems that displaced gold. The gold standard was denounced and renounced because, as Schumpeter argued, it prevented politicians and bureaucrats from increasing government expenditures beyond what their country could afford. Their currency relations could not be maintained without borrowing, so the international financial system staggers under a cumulative load of indebtedness, much of which can never be repaid. The advances for economic development and such loans as Britain is now raising to continue levels of consumption beyond its productive powers can never be repaid at their real value. They must be written down in real terms by further inflation or repudiated or forgotten like the debts of the first World War.

These may perhaps seem to you the pessimistic conclusions of an old man lamenting a bygone age; but I am not interested in what has gone and cannot be recalled. Nor am I trying to denigrate my economic colleagues, even though I agree with R. H. Tawney's remark that “you take economists far more seriously than they take themselves — or at least than they take each other”.

What I have tried to say is that we are in the beginning stages of one of those great revolutionary periods in which we must construct new and more viable institutions. They will necessarily be international. The age of nationalism is dying. But it will not be a unitary world.
The functions of government will be divided and decentralized. There will be no world capital and no world parliament; but many technical agencies located in different regions and staffed by technicians rather than clerks. Money as we know it will be replaced by credit cards with electronic controls. But there will still be need to standardize a measure of value (or purchasing power) that will be stable and yet flexible — an international unit of account, perhaps the composite of the exchange rates of several national units.

There are many ramifications of these conclusions. One is the shift of the world's centre of economic gravity. Fifty years ago I wrote a little book which I called "The Third Mediterranean in History". The Atlanticists ridiculed my arguments and argued that Asia could never industrialise because it lacked fuels and raw materials.

But it is Europe that lacks fuels and energy and Europe is now well on the international road with the Common Market — not to mention the Soviet Union which has swallowed so many nation-states. About 25 years ago, a naval officer seconded for study read to my seminar a paper on the Soviet version of geo-politics. Instead of the world island controlling the world ocean, they reversed the basic thesis, arguing that in the air age, the world ocean controls the world island. If you look at a topographical map of Eurasia you can understand this thesis. The mountain chains that run from the Pyrenees through the Alps to the Himalayas have only one significant break — through the Dardanelles and the Suez Canal. The minerals of Africa and south Asia, the oil of the Middle East, and the minerals of Australia and Latin America can be reached only through this gap — or from Vladivostok. Moreover the only possible defence of sea passages in the air age requires depth. So, in the Russian theory, the strategic centre of the world is not Czechoslovakia, as the Germans argued — but Australia.

I could make the same argument about the new ice age which some scientists predict. Even a slight lowering of temperatures would reduce the ripening period for grain in the marginal areas such as Canada and Khruschev's virgin lands in central Asia. It is not surprising that Russian and Japanese shipping increases in the Pacific and may soon dominate not only the fishing industries, but the trade routes. Nor is it an accident that Russian strategy focuses on areas that may control the sea-routes, particularly for oil.

Australia has a vital stake in the shift of economic activity from the Atlantic to the Pacific. Indeed it has a central role to play. With its wealth of minerals and the quality of its people it is truly a happy country — Australia Felix. But it could also be a tempting target. It is inconceivable to me that it can develop and defend its resources by its own isolated efforts. Inevitably its future is linked with that of the other great Pacific powers. The prospective shortage of essential minerals is more serious and likely to last longer than the threatened shortage of energy. But you must remember that these shortages are cost relative rather than absolute. Your iron and uranium, and nickel and bauxite are marketable only as long as you do not price them out of world markets. And this is not only an economic question. If you cannot control costs to make your empty lands productive and your minerals marketable, you may find that other peoples may appropriate and work them to meet their own urgent needs.
ITALIAN EDITION OF "FACTS"

The I.P.A. is producing a future edition of "Facts" in a separate Italian edition. If this experiment succeeds then it is intended to add this edition to our regular publications and investigate the possibility of producing editions in other foreign languages.

It would help us to assess the need for foreign language editions of "Facts" if you would kindly complete the questionnaire below and return it to:—

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1. How many foreign speaking migrants are employed in your organisation or attend your school?
   Italian:
   Greek:
   Other (please specify):

2. Do you think a foreign language edition of "Facts" would be of benefit to your migrants? If so, how many copies would you be prepared to distribute?
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   Greek:
   Other (please specify):

3. If you were to distribute a foreign language edition of "Facts" how would this be done?
   (a) Mailing direct to families
   (b) Distributed by hand
   (c) Left in a pile to be picked up
   (d) Used as part of an education or training programme
4. Would you prefer to see one multi-language edition of "Facts" which would include English, Italian, and Greek to be published specifically for the benefit of migrants? Please answer YES or NO.

5. If the I.P.A. were to produce a ten-minute video-tape version of each edition of "Facts", either in English or in a foreign language, would you find this useful in your teaching or staff training programme?
   - English :
   - Italian :
   - Greek :
   Other (please specify) :

6. Any other comments.

Name .................................................
Address ..............................................

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