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In the previous number of "Review," Mr. Kemp wrote on his broad impressions of the United States. Here, he gives an appraisal of the political and economic situation in Britain.

BRITAIN—A Political and Economic Comment

SEVERAL months have passed since I was in Britain. In that time many things have happened. The Labour Government has been dethroned and the Conservative Party returned by an uncomfortably fine margin. A financial crisis of fateful proportions has appeared. The former was expected by almost everyone. But, to all but a far-sighted few, the latter has come as a nasty shock after the rather optimistic hopes that were widely held in the early part of the year.

The Conservatives have come to power at an unenviable time to say the least. They are confronted with a financial situation which may be beyond the wit of any government to resolve successfully. As financial crisis has succeeded crisis in Britain's affairs since the end of the war, the question is being insistently asked whether the British economy, as at present constituted, can ever pay its way; whether, in an economic sense, Britain can stand on its own two feet in the new conditions of the post-war world?

IT will be difficult for the new administration to make many changes of a dramatic nature in Britain's economic policy; although with Mr. Churchill at the helm adventurous and unorthodox measures are not improbable. The broad outlines of British policy today are dictated in the main by three inescapable facts: First, the iron truths of her precarious economic situation; second, the "cold war"; and third, the political mood and temper of the British public. Party doctrines cannot be given a free uninhibited expression but have to be modified and shaped to fit these determinative considerations.

There was, of course, more than a mild socialistic bias in the policies of the Labour administration. Much of the work of the Labour Government, it will be impossible for the Conservatives to undo. For instance, the nationalised industries! Only with steel did I find Conservative politicians and thinkers adamant that a Conservative government would follow the path of "de-nationalisation." This attitude was not, of course, based on the view that the nationalised industries were working well; on the contrary there is widespread disappointment at the results being achieved under nationalisation. It was based simply on the view that it was impracticable to try to put the clock back. Even with government bulk-buying of basic commodities, such as cotton and meat, I found Conservative opinion to be uncertain. True, as a matter of strict party principle, the Conservatives would wish to see a return to private trading. But the advantages of such a move in a situation of general under-supply and world shortages are not altogether clear-cut.

Even in the field of taxation—which is at present far too heavy for economic health and vigour—the Conservative Government will be restricted. Britain has a large re-armament programme of £4,700 millions over the next three years to finance. She has also to finance the immense social services and the National

Health Service, the latter involving a mere £400 million a year. Perhaps in the reduction of the vast food subsidies lies the greatest hope of cutting taxes (or at least of avoiding increases). This might have some economic advantages, but politically it will be extremely difficult and dangerous, and when I was in England, I found little or no suggestion that the Conservatives were contemplating this policy. It is possible, however, that the threat of financial catastrophe might compel the slashing of the subsidies. It will be difficult, too, for the Conservative Government to greatly reduce the broad structure of government control and regulation. A large part of this is made unavoidable by Britain's precarious economic situation, which compels import licensing and exchange control. From these facts and from the needs of re-armament follow logically the rationing of consumer goods and the system of materials allocation.

THE fundamental conception and structure of the welfare services are now accepted by all major sections of British opinion and I do not think the Conservative Government will attempt to alter the essential foundations of either the social services or the National Health Scheme. The National Health Scheme is capable of great improvement. It contains many serious anomalies and the administration is excessively wasteful, but the relief it provides from the financial worries of illness has been enthusiastically welcomed by the British people.

The Conservatives will, no doubt, streamline the administration of the scheme, and through this effect substantial economies, but I gained the strong impression that they would not alter the basic framework of the health service.

There is no doubt to my mind, and speaking from the strictly economic standpoint, that Britain has gone too far too fast in the provision of state-financed social benefits and that the scale of the

social services in general imposes a most serious burden on her attempts to place her economy on a paying basis. She has taken on much more than, in her present straits, she can economically afford. But here again the rather inflexible political outlook and temper of the British public provide almost insuperable obstacles to radical change. Several people said to me that many of those things that would be economically wise and desirable in Britain's present circumstances are, from a political point of view, impracticable. The political mood and ideas of the British public today are quite largely the result of fifty years of enthusiastic education and unremitting propaganda by the socialists, and private enterprise is now paying dearly for its failure over the years to push ahead with necessary internal reforms and to engage in high-quality educational programmes on a scale adequate to counter the socialist drive.

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WHAT of the record of the Labour Government in its six years of office? On the liabilities side are the ghastly errors of the groundnuts scheme (in which unbelievable millions have been recklessly squandered) and the Argentine meat purchases. It also wasted valuable time and energy in socialistic ventures, some of which bear no relationship to the needs of Britain's pressing economic circumstances. There has been a gross over-development of bureaucracy with some appalling examples of wasteful and uneconomic administration. The Labour Government, at times, sought the easy way out by refraining from placing the hard facts of their economic plight squarely before the British people.

Against these failures, it can place at least two achievements of substantial importance. These are the maintenance of industrial peace and the holding of the wage line. It is true that the former

has been to some extent due to the national good sense and responsibility of the British people and the traditional steadiness with which they have faced up to a serious situation. But it is conceded, even by people whom one would not regard as Labour sympathisers, that the marriage of industrial peace and wage stability would have been very difficult to consummate under a Conservative government. The absence of serious industrial unrest and the generally sound state of industrial relationships are regarded by all as major factors in the British production recovery since the end of the war. Over the five years from 1946 to 1950, a yearly average of only 150 man-days per 1,000 workers has been lost as a result of strikes. The magnitude of this achievement can be assessed, when it is realised that over the same period Australia squandered over 1,400 man-days per 1,000 workers through industrial stoppages.

SOME credit is also due to the Labour Government for the efforts it has made to raise industrial productivity; although these have been to some degree negated by socialist policies and by the restrictive economic climate of controls and mountainous taxes. Commencing in 1947, the Labour Administration appointed productivity committees; it gave financial backing to the British Institute of Management; it assisted in the establishment of the Anglo-American Productivity Council; it encouraged the use of wage incentives; and it engaged in widespread sustained publicity to create a greater "productivity consciousness" throughout the working population. (The last-mentioned is an example we could well have followed in Australia).

Over the last few years there have, apparently, been noteworthy increases in production. The Industrial Production Index showed a rise of 7% in 1949 and about the same in 1950. Industrial production according to the index is overall

about 40% higher than at the end of the war. Over 1951, the rate of expansion will almost certainly be less because of the dislocation caused by re-armament and by raw material shortages. The production indices, admittedly, are highly suspect, but it seems clear that fairly solid gains have been made.

A GOOD part of these gains is attributable to the normal processes of post-war recovery, but practically everyone with whom I had discussions admitted that there had been a very considerable advancement in mechanisation, in the use of mass production methods, in managerial techniques, and in the general quality of the plant and equipment available in industry. British industry is now certainly better equipped than it has ever been, although there are still many factories that are old-fashioned and outmoded by modern standards. Several people told me that the most spectacular gains had been achieved in agriculture, and that British farms were now the most highly mechanised per acre in the world. According to figures I have seen, there were, in 1942, 116,000 tractors in Britain; today there are 350,000. In 1942, there were 1,000 combine harvesters; today well over 10,000. Over the same period milking machines have increased from 30,000 to 80,000.

These are all most praiseworthy advances, especially in view of the terrible battering of body and mind and material resources sustained by Britain through the six years of conflict of World War II. That they have been achieved under such great handicaps is evidence of the determination and persistence and the unique powers of endurance and survival of the British people.

At first sight it may appear paradoxical that these general improvements have been made at a time of unprecedentedly heavy taxation and of tight government control. But they are due in part to the

fillip given to modernisation by American Lend-Lease equipment received during the war, to the public-spiritedness of many British employers, managers and workers who have recognised the clamant need for greater productivity, and, finally, to the whip provided by the prospect of national economic bankruptcy. They do not provide a justification of the present tax burden, because it is certain that with lower taxes progress would have been even more rapid.

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WHAT of the output of the worker? Generally I gathered the impression that the British workers were working steadily and well, although perhaps not as hard as before the war. The decline in intensity of work is attributed partly to over-full employment and its corollaries of absenteeism and a high labour turnover. It has to be recognised, I think that the British worker, in spite of his qualities of steadiness and endurance, has serious psychological limitations. He has not the same intense "productivity consciousness" as his American counterpart. Nor has he the same driving urge to get on in the world and to provide himself with the good things of life, which in any case must today seem very remote. He is, perhaps, too apt to accept his place in the traditional scheme of things and in some ways lacks the sturdy democratic independence and self-regard of worker in the newer lands. Against these drawbacks, he possesses a high sense of responsibility and a respect for necessary discipline. His present outlook is to some extent a consequence of long years of chronic under-employment and union-imposed restrictions on output and of old time rather rigid class divisions. It is surprising to what extent these divisions—which are now psychological rather than material—still exist despite the

socialist regime and the radical redistribution of income and wealth that has been made. Indeed the great failure of the socialist party might well be that it has failed to bring about a psychological transformation in the outlook of the mass of British people to the more generous democratic values that prevail in the newer countries. In a way socialism has prevented this very necessary transformation because it has, in effect, substituted a new master, the state, (on which the worker has come to lean and rely) for the old-time "ruling class." It is my view that a great part of the British troubles today can be traced to the failure to achieve an orientation in attitude of mind of the British masses more in the direction of modern democratic conceptions. The Government that could bring this about would be half way toward solving the British economic problem.

Manhour output is probably, on average, higher than before the war. However, increased mechanisation and improved managerial methods have played a vital part. Also there has been a widening application of payment by results, backed by the socialist government and leading trade unionists, with beneficial effects on productivity. For example, Imperial Chemical Industries have now extended payment by results to cover 40% of their total work force of 100,000 and further large developments are in train. A senior executive of I.C.I. told me that output per manhour in his organisation was possibly somewhere around 10% higher than before the war.

A GREAT deal has been said about the standards of living of the British people in the post-war period. Repeatedly, claims are put forward that the British people are better fed and the majority, because of full employment and social security, better off than they have ever been. I made many inquiries on this point in most knowledgeable quarters and generally I got the following impression

of the position: The lower 10% to 20% of income earners are better off than ever before. The standards of the skilled working class are certainly no better; they may have deteriorated slightly. The position of the middle and upper sections has declined sharply. Indeed the great middle and professional classes have suffered a tragic recession in their standards because of taxation, inflation, and the impossibility of obtaining the services to which they were previously accustomed. To some extent the wealthier people are able to maintain their position by living on their capital, but this cannot go on indefinitely. We should not overlook the fact that even the bread and butter standards of the British people since the end of the war have in part been made possible by the considerable dollar aid received from the U.S.A. and Canada.

The food situation, to an Australian, is little short of tragic. There is ample food of a kind. But the awful uniformity, the lack of good fresh meat and eggs and butter, and the high cost of the better-quality foods brings home to the visitor how much the British people have suffered as a result of the last war. When I was in England the rationed meats were so meagre and the unrationed meats, when available, so high in price and often so offensive to the palate, that I found families who had "solved" the problem by turning vegetarian.

The bare subsistence standards of the British people today are brought vividly home to one by the fact that out of her production of over half a million cars a year, Britain can retain only 80,000 for her own use, and of these about 50% are earmarked for the medical profession. The remainder has to be set aside for export to help purchase essential requirements of food and raw materials. This means that it is just about impossible for the ordinary Englishman to obtain a new car for his private use.

NOTWITHSTANDING the post-war recovery in production—in total possibly about 30% to 40% above pre-war—the British economic position is anything but secure. Britain is a country that lives by her exports. If she cannot achieve a sufficient volume of exports to pay for her requirements of food and essential raw materials, then a reduction in the standards of living of the British people must follow. When I arrived in Britain last March, there was a great deal of optimism about the balance of payments position. Gold and dollar reserves were building up to encouraging levels (nearly \$4,000 million) and an overall favourable balance was being achieved in external payments. But when I left Britain, less than six months later, ominous clouds were looming on the financial horizon. Serious deficits were appearing in the dollar account (in the July-September quarter the deficit amounted to over \$600 million) and it was anticipated that, for the current year, the overall deficit would be of the order of £250 to £300 million.

The striking improvement in the dollar position, which took place between the time of devaluation in September, 1949, and the middle of this year, encouraged over-optimistic hopes and led Britain to dispense with Marshall Aid a year before it was due to cease. Some attributed this improvement largely to the act of devaluation itself; others mainly to the revival of American demand brought about by the Korean war. The immense American re-armament programme encouraged many people, even experts, to believe that, while the "cold war" continued, the dollar problem was virtually solved. But today, a few months later, there is a dollar crisis and there is talk of Britain invoking the waiver clause in the American Loan Agreement which allows her to postpone interest payments on the Loan under certain conditions.

The spectacular improvement in the dollar position between 1949 and 1951, was greatly aided by massive American

purchases of basic commodities from the Dominions and other parts of the sterling area—wool from Australia, rubber and tin from Malaya, tea and rubber from Ceylon, jute from Pakistan and so on. Britain also achieved a worthy increase in her own exports to the dollar countries but this played a comparatively small part in the picture as a whole. Now that the United States has ceased stock-piling temporarily at any rate, and the prices of basic commodities have fallen, the dollar deficit is reappearing.

I found it frequently argued in Britain that but for the increased armament expenditure, made necessary by the Korean invasion, Britain was beginning to get out of the wood and some relief of austerity conditions was in prospect. But there are two sides to this question. For there is no doubt that the Korean war and re-armament were instrumental in achieving some correction of the dangerously large adverse dollar balance.

As to the British economic position in general, I think we must assume that there is little likelihood of a rapid change for the better in the harsh austerity conditions under which the British people are living. The present severe standards of living in Britain are likely to continue for many years. It is even doubtful, from the long-term perspective, whether the British economy can again be made to pay its own way in the world. The British economy is so precariously balanced, it is existing on such fine margins, that a comparatively minor fluctuation in world trading conditions can have far-reaching consequences. The stark conditions of life which the British people are enduring are, we should remember, being sustained only under conditions which—apart from the terms of trade—are on the whole favourable to Britain. There is a world sellers' market which means that Britain has little difficulty in selling all that she can export. The dollar areas are, in effect, being excluded from competing with

British exports by import licensing, the inconvertibility of sterling, and the general restrictions imposed by the sterling bloc. An artificial proportion of the total of British production (with severe restriction of consumption at home) is being pumped out overseas in order to purchase essential requirements of food and raw materials. And even with all these things, Britain is compelled to suffer austerity living and this year will probably incur a serious deficit in her overall balance of payments.

It is a matter for grave conjecture what would happen if the great production of the dollar areas should become seriously competitive in British markets, or if there were a world depression or severe recession with the return of a world buyers' market. We have only to think of the effect on British exports to Australia of motor cars and machinery or piece goods, if ample dollars were available for the purchase of American goods. It is admittedly very difficult to estimate the consequences, but certainly it is hard to view the prospect with any solid confidence.

THE roots of England's troubles today go far deeper than mere questions of political doctrine. No political creed provides any ready solution to the problems of an economy which, in basic structure, is highly artificial and therefore highly precarious. Here are fifty million people crowded into a tiny little area, not over-endowed with natural resources, and depending for their prosperity on their ability to manufacture and export a huge volume of products in competition with the products of other countries. The British people have to import 3 out of every 5 meals which they eat. They have to import a very large proportion—I have seen a figure of over 70%—of the raw materials necessary to sustain their industries. These facts suggest that Britain's economic destiny is to quite a

large extent outside of her own control. Her prosperity depends, much more than most, on what is happening in other countries; on the prices and quantities of raw materials which she can import; on the prices she has to pay for food; and on the willingness of other countries to take her exports in sufficiently large volume to enable her to pay her way. An economy thus constituted must be dangerously exposed to every cold wind that blows through the world economic climate. There are no simple devices of monetary policy or manipulation, or of economic or social theory, which can serve to correct what may be a fundamental weakness in the structure of her economic life. You can patch up the building, but the foundations will remain insecure. True, a scientific miracle might alter the whole prospect, but if we rule that out, then eventually it may be necessary for Britain to tackle her difficulties not with temporary palliatives but with something which would amount in nature to a severe surgical operation.

ONE wonders sometimes whether the only solution to the British problem is to be found in the mass migration of British people to the under-populated areas of the British Commonwealth and Empire, thus relieving the pressure on Britain's own limited resources. This would mean a migration of British industries and equipment as well as of workers, and it could only be carried out, if at all, on the scale necessary, by the united planning of all the countries of the British Commonwealth and by treating the resources of the Empire as a single economic entity. Some people are beginning to think this way in Britain, but so far their voices are in a minority and are ineffective in face of the natural reluctance of the average Englishman to leave his native land. **But perhaps in some large-scale conception of this kind lies the only hope for the British peoples throughout the world of maintaining**

British status and power in face of the gigantic developments of the United States.*

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SINCE the end of the war, and in face of disheartening obstacles, the people of Britain have made a great effort—in many ways a more commendable one than we in Australia have made. They have not hesitated to deny themselves in their attempt to rebuild their economy on a sound basis. In the last decade they have taken some terrible body blows, military and economic, blows which would have rocked the foundations of any country in the world. They are enduring considerable material hardship and the tremendous setback to their personal pride of the decline of the British power in the world—all this uncomplainingly. No one could have anything but admiration for

their persistence, their almost super-human steadiness and their capacity for self-denial. In their qualities of leadership and their long-accumulated wisdom, in their culture and unequalled literary and intellectual attainments, they are still giving much that is vital and necessary to the world. But they are like a runner in a race with weights tied round his feet. The obstacles to any rapid relief of austerity conditions are almost overwhelmingly great, and this tends to induce nearly a kind of hopelessness.

All these are difficult things to say, but nothing is to be gained by running away from what appears to be the truth. On the contrary, perhaps the first step that must be taken if the British economy is to be reconstituted on a profitable foundation is to look the facts frankly and squarely in the eye.

POSTSCRIPT: CHARACTER AND MANNERS

(The following notes were written by the author of this article whilst in London).

THE English character is wonderfully well-balanced and calm and philosophic. If the English are capable of getting excited—and I doubt it—they are certainly not capable of the slightest suggestion of real fear or hysteria. In one of my first interviews, that with Geoffrey Crowther of "The Economist," I asked him why the English statesmen, judges, churchmen and businessmen live so long. He replied that they took life very calmly—they refused to be hustled or get excited. I quite believe it.

Look at their traffic! With their narrow, winding, unplanned streets and teeming millions of people, they have traffic problems of a magnitude which

we can't even conceive in Australia. And how they have solved them! The traffic through most of London is continuous and unbelievably congested. The famous, two-decker, red buses with an average of only a few yards between each, and often three and four abreast, move continuously and unrelentingly. The small, dark taxis dart in and out as numerous as the flies around a piece of old meat on a hot summer day. The vans and lorries and private cars, from Rolls-Royces and Bentleys down to the old-fashioned baby Austins still on the road, add to what appears at first to be a stupendous, unbelievable confusion. There are mere inches between all the various vehicles. But the traffic actually moves through with remarkable speed and precision and effici-

* See the article on page 121 of this "Review" by Sir Guy Garrod.

ency. There is no tooting of horns or angry swearing drivers. There are no accidents—at least I haven't seen one. The traffic, and particularly the red double-deckers, are among the wonders of London, and I venture to say of the world. I have nothing but admiration for them. But they are a triumph not of organization (although that is superb) or of intellect, but of character. You can't ruffle the English. There are exceptions, but generally they refuse to get angry or even irritated. Their calmness in all circumstances is beyond belief. And whether they know it or not, they have a sublime confidence and trust in one another. They expect the other man to play his part in the scheme of London life and they don't let one another down. It would need only one driver to make a false move in the traffic maelstrom and the whole would be thrown into confusion. But no one does. In the London streets you have an infallible index to the English temperament and make-up.

The English are exceptionally good-mannered and courteous. I had been told about this on many occasions while in Australia and, I thought the stories were exaggerated. But if anything they err on the wrong side. The good manners of the English are the product of a slow evolution. They are now deeply ingrained in the English make-up. Courtesy and kindness are taken so much for granted by the English people that they themselves are completely unselfconscious about them. The English don't know what a tremendous achievement they have accomplished in the small courtesies, in the every-minute relationship of one person to another. But an Australian, contrasting the standard of his own country with that of England, can see this clearly. He is amazed and confounded and embarrassed by it. It is a great achievement because it makes every day life so much

pleasanter and smoother. On every hand, the English people seem really out to help one another in the small things of life, and the visitor from abroad is fortunate enough to benefit from it all. I have been overwhelmed with courtesy from all kinds of people since my arrival. Rarely have I encountered the faintest suggestion of rudeness or curtness.

What London may lack in colour and glamour, it makes up in dignity and solidity. It has plenty of that. Whether one likes it or dislikes it, one must admit that it is tremendously impressive in its suggestion of strength and massivity and what might be called "survival-power." The historic monuments may be aesthetically unsatisfying but they are certainly solid. The buildings have been built to last a thousand years. "The Bank," a huge structure, is itself a fortress. St. Pauls, in the centre of old London, misses something in beauty but it has a tremendous massivity and solidity and a strange dignity. No wonder the German bombs took one look at it and sheered off to find a softer place to land. They weren't game to try conclusions with it. St. Pauls is surely the supreme symbol of the steady unyielding strength of the English character and the unique capacity of the Englishman to survive no matter what confronts him.

Whatever England and the English people may lack, they don't lack the will or the capacity to survive. They have infinite "survival-power." I wonder if they realise their own unique strength. The reasons for their long unbroken history, the reasons for 1940, are clear for anyone with the eyes to see. I am reminded of what the famous American, Ralph Waldo Emerson, said 100 years ago in his essays on the English character: "They have sat here a thousand years, and will continue to sit."