

Australia's potential contribution towards
economic reconstruction and development in the
Pacific.

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ECONOMIC RECONSTRUCTION AND DEVELOPMENT IN THE PACIFIC

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Ninth Conference of the
Institute of Pacific Relations
Hot Springs, Virginia
January 1945

Australian Paper No. 6

AUSTRALIAN INSTITUTE OF INTERNATIONAL AFFAIRS
Sydney

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This study is submitted by the Australian Institute of International Affairs as a document for the Ninth Conference of the I.P.R. to be held in January 1945. The Australian Institute of International Affairs is precluded by its rules from expressing, as an Institute, an opinion on any aspect of international or Imperial affairs. Any views on those subjects which may be inferred from this Memorandum are not the views of the Institute.

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I. Metes and Bounds.

Any estimate of the extent or character of the contribution Australia might make to a plan of reconstruction which is still nebulous, and for countries so diverse as those of the western Pacific, can scarcely fail to be inexact. Treatment of the area on a regional basis ignores a complexity born of extreme economic and political differences among the constituent areas. Even if the region is contracted to mean the south-west Pacific, tentative conclusions must rest on a hypothetical world organization, on the one hand, and on politically uncertain national programmes, on the other. For decades, the attempt to develop order out of this heterogeneity must concentrate upon administration and education of peoples fundamentally divergent in culture and outlook. A discussion of Australia's possible contribution to the remodelling of the south-west Pacific must, therefore, be couched in idealistic terms which reason and experience would seek to qualify. It must be expected that governments will lean strongly towards policies which promote narrowly nationalist interests in the future, as they have done in the past; but in planning for reconstruction it is necessary, at least partially, to ignore that expectation. Moreover, planning on the world scale will be conditioned by length of term, breadth of vision and depth of research. The cynic, convinced that nationalism will emerge from the war stronger than ever, will discredit the ability of human nature to support steadily such three-dimensional planning; and doubtless his fears are not unfounded. He is, however, apt to discount involuntary co-operation between peoples and regions. Planning for domestic security, in isolation, can achieve little since world prosperity and economic security are now one and indivisible. The more vigorous and sincere the pursuit of internal security, the greater and more inevitable will be the recognition of mutual aid as an indispensable instrument.

In the present case the contribution Australia could make to economic reconstruction, in a region still more narrowly defined as South-east Asia and the associated island systems, will depend on two controlling factors. The first of these is the pattern and scope of internal reconstruction, i.e. the extent to which resources can be devoted to securing higher living standards; and, secondly, the pattern of reconstruction accepted by the nations in concert, i.e. the framework of world economic co-operation within which national planning will function. In view of the still unproved capacity of the nations for co-operation and sustained mutual-aid, it would seem wise to base prediction upon well-defined economic tendencies which can be expected to continue. How far national policy will be helped or hindered by world conditions can be only broadly and speculatively assessed. On the understanding, therefore, that this paper is an essay in probabilities rather than a blue-print of agreed action; and that it may ultimately represent merely another triumph of hope over experience, this estimate of Australia's possible share in Pacific reconstruction is ventured.

II. The Australian Programme.

The internal reconstruction programme for Australia is likely to agree in broad outline with those of other democracies and to differ from those of, say, the United Kingdom or the United States, only in details which reflect differences in size and in the political or psychological idiosyncrasies of the people. It will be assumed, for example,

that the main purpose of national economic policies after the war will be to maintain employment at the highest optimum level, i.e. at a level which will, after discounting frictional and involuntary unemployment, represent 95-98 per cent. of employables. To that end, since the proportion of the Australian population which can be supported in rural industry is falling, the expansion of secondary and service industries, to provide the necessary volume and variety of occupation, is regarded as an inescapable objective of policy. Despite all theoretical and practical difficulties, an Australian government of any type will be required by public opinion to pursue such a policy. Rationalization of industry in this sense would almost certainly imply some allocation of resources, i.e. of investment and materials in order to maximize employment and national output. It will also imply the maintenance of economic controls devised to minimize fluctuations in economic activity, and wide variations in national income. As a corollary, public works and public finance will be regulated and directed in such a way as to counteract any contraction of private investment which would slow down business activity and lead to unemployment.

It is further assumed for the purposes of this paper that the general tendency in post-war economic policy will be towards a considerable restoration of private enterprise as a reaction from the distortions of the economy through government intervention necessitated by war. Private enterprise after the war, however, is likely to assume a function and pattern differing considerably from the pre-war model, since social welfare rather than profit on investment is likely to be the criterion by which use of resources will be determined. It may safely be predicted that attempts will be made to perpetuate war-time controls over credit and investment, that imports will be regulated in order to maintain stability in the balance of payments, and that the employment of labour will be influenced by some system of priorities for both public and private enterprise. In Australia it would appear that the National Works Council will become the main instrument for implementing the internal reconstruction programme by means of public works approved for purposes such as the reconstruction of rural industry, the settlement of soldiers on the land, irrigation, housing, hospitalization, education, and transport. Expansion of secondary industries will be stimulated, first as a means of rehabilitating men and women from the services, and secondly, as an instrument for implementing the general objectives of development and defense policies.

The present position of secondary industry in Australia calls for some comment at this point. Industrial development has now reached a stage where most of the light industries are well established. Iron and steel-making has been very successful; and, during the war, ship-building, the making of heavy machinery, and the development of repair bases has accelerated this development, admittedly under the uneconomic conditions of wartime. Whether these industries will survive after the war is now one of the chief problems of internal reconstruction policy. The main difficulty is the size of the home market which restricts both the scale of industry and the degree of specialization which is possible. If complete industrial efficiency prevailed, and costs of production enabled Australian factories to compete in world markets, a large range of products could be produced. There are no insuperable technical difficulties. There are, however, special obstacles arising from labour policy and from the national aspiration for a higher standard of living, which may have the effect of frustrating a desirable expansion of export markets. Labour policy tends

to result in increased costs without a commensurate increase in productivity. Most of the primary industries are now subsidized in order to maintain production and export. These tendencies have a considerable influence upon the level of industrial efficiency.

This account of Australian economic tendencies is necessary in order that the influences controlling productivity might be understood. Ability to raise domestic standards of consumption, on the one hand, and to make accessible a larger surplus of national output for export, on the other, depend upon the productivity of industries of all kinds and upon comparative costs of production. Enlarged production from the land may, however, be retarded by rising costs in the production of factory goods which the farmer buys, caused by tariff and wage-policy. Larger exports of factory goods would tend to become more difficult as a rising proportion of national income was appropriated for purposes of internal economic security, since export prices depend on world conditions that are beyond national control. A programme which accelerated the provision of social services at too rapid a rate might impair the productivity of real things. Social services cannot be exported, although increased efficiency owing to those services might increase output. The contribution to international reconstruction which any country could make is, therefore, conditioned by its industrial productivity in relation to its general standard of consumption of both goods and services. However strong the spirit of international cooperation (and it is not weak in Australia), domestic reforms may loom larger than world reconstruction. It is a question of perspective, and of what might appear to most of the people to be alternative and mutually exclusive objectives.

There is, however, the consideration that a national standard of living is composed partly of home-produced and partly of imported goods. Effective production of export goods, i.e. of commodities for which the external demand is great and the export price satisfactory, may raise that part of the standard of living which depends on imports; but this will depend partly on the propensity to work, or, contrariwise, on the strength of the desire for longer leisure as part of a rising standard of living. The Australian people favour a standard of living in which increased leisure is a factor. Whether the desire for a higher standard of consumption of goods and services, and the desire for larger leisure are compatible depends solely upon the efficiency of labour and of management. How these tendencies in Australia affect the possibility of substantial contributions being made to the needs of backward or under-capitalized countries in the western Pacific is, therefore, a question of the alternative uses to which larger national production might be put.

Apart from these considerations we may now pass on to examine the form which Australian assistance could take if the internal factors influencing productivity were favourable, i.e. if Australians were convinced that it was desirable in the interests of peaceful development and increased national welfare to promote higher productivity at home as a potential stimulant of higher productivity in other Pacific countries. All that can be ventured is the opinion that Australians are well along the road towards such a conviction; but to what extent they are prepared to modify other beliefs, for example, their belief in the wholesome efficacy of the tariff, is another question.

III. Australia's Possible Contribution in the Light of the National Reconstruction Programme.

The contribution Australia could make to reconstruction in south-eastern Asia and the islands of the western Pacific will, therefore, necessarily be intimately related to the success which attends the national reconstruction scheme and to the speed with which actual results are achieved. Administrative frustration arising from constitutional difficulties or political disharmony in Australia would diminish effective collaboration in programmes of relief and rehabilitation for other countries. Even if the willingness to collaborate is strong, preoccupation with the domestic problems involved in the transition from war to peace are likely to limit co-operation in international schemes for Pacific rehabilitation. The spirit in Australia is willing enough but the means may be lacking. On the other hand, it should be assumed that effective co-operation abroad would assist reconstruction at home; and the remainder of this discussion proceeds on the expectation, perhaps optimistic, that the internal and international programmes can be geared into an expansionist policy which all countries might agree to pursue.

A distinction should also be made between the short-term relief plans and the long-term reconstruction programme, the former dominated by considerations of time and expediency, the latter by mutual-aid in a variety of forms designed to assist in the evolution of a new regional economy within a reconstructed political framework for the Pacific. Relief and reconstruction thus appear as phases of a whole-piece plan to afford security and stability for all countries, both in and out of the Pacific; but it is too much to hope for more than a spasmodic and uncertain adjustment marred and retarded by much friction in the early stages of resuming peaceful and co-operative international relations.

In its widest and most vital sense, international planning in the Pacific should have as its primary aim, not so much further advantages for countries where standards of living and the values placed on freedom and security in human relations are already relatively high and rising, but co-ordinated effort to bring nearer that level those Pacific peoples and countries where living standards are low and static. The chief task of international co-operation is not reconstruction of the West so much as reclamation of the East. In the great industrial countries of Europe and America that point of view will be accepted only slowly and reluctantly, mainly because of a lack of understanding of the importance of building up China and India; but in its acceptance lies the solution to many of the domestic problems in the high-standard countries - full employment for national resources, outlets for excess productive capacity, fields for new investment, and a means of reversing the trend towards economic nationalism which, unchecked, will ripen to isolationism in the Orient, which would effectively inhibit international co-operation.

These forces are widespread, complex, and extremely powerful. The psychological resistances and inertia in backward countries are matched by the unresponsive or openly hostile attitudes of some sections in more advanced countries. The distrust of western industrialism prevalent in the Orient is paralleled by the cautious attitudes of the Occident with respect to capital investment in south-east Asia. The corrective of the dangerous disparity between western and eastern standards is to be found in international investment; and to many observers no long-term future for

western capitalism itself is possible unless the economic reconstruction of the Orient is accepted as an indispensable condition.

If the countries of the western Pacific are not supplied with the capital essential to industrial development, they may have no alternative but to follow the Russian system and to bring about the capital development necessary by a reduction in their already low standards of living, with the result that the territory would be excluded as a factor in overseas markets until such time as they had been able to accumulate enough savings, in terms of industrial plant, to begin to divert some of their effort to the raising of their own internal standards of living by imports. In other words, Russia has been almost completely out of international markets since the beginning of the Revolution because of the necessity of "lifting herself by her own boot-straps". Because of greater natural resources, and perhaps, too, because of stronger administration, she has been able to do that in some 25-30 years, but it is doubtful whether it could be done as quickly, if at all, in the Orient. If the Western nations are anxious for the development of markets in the East, capital necessary to generate a rise in standards of living there - the self-starting impulse so to speak - must be made available.

To state that conviction is not to minimize the almost insuperable difficulties in the way of its accomplishment. It requires an enlightened spiritual attitude capable of what would amount to the greatest self-denying ordinance of history, and capitalism is not distinguished for self-denial or the pursuit of large ends. It requires vision and imagination of an order that is capable of realizing that the reprieve of capitalism depends on its own efforts to generate a new world system. More concretely; it requires an international sense of responsibility sufficient to establish a world pool of credit which will be accessible to all needy nations. It is not impossible; all the requisite ability and initial energy now exist; but the machinery and goodwill for carrying the recommendations of international conferences of exports over into national policies are merely at the blue-print stage. The order and scope of the persuasion necessary in democratic countries to implement the recommendations of the World Monetary Conference or the Hot Springs Conference on commodity exchanges needs no emphasis.

If it is conceded at this stage that the method of reconstruction is to be found in diverting investment towards backward, i.e. capital-deficient countries, and in rationing well developed countries, it then becomes necessary to examine "backward" countries and classify them according to their productive capacity, their exchange potential, and their capital needs. It should not be overlooked, of course, that the capacity of industrialized countries, such as U.S.A. or Great Britain, to maintain a flow of investment depends upon the rate of replacing and retiring existing productive plants. A policy of capital diversion for foreign investment which was too severe might become merely another variant of killing the goose which lays the golden eggs.

Admittedly, this is a somewhat devious approach to the discussion of Australia's interests in the Pacific, and of her ability to help in the replanning of that vast and varied area. It has served, however, to clarify the terms in which such assistance should be conceived, and to define the form of desirable and effective assistance as essentially that of investment - whether in terms of gift or of loan, of credit or of

commodities. A broad if somewhat misleading classification of the areas requiring assistance, and of the differential order of the needs may here be suggested. These areas seem to be of three types:

- (a) The large, over-populated, static-economy country which is, nevertheless, politically ambitious and aware of its needs in relation to its own inefficient use of resources. China is the outstanding example of this type, and India is a similar country rather more closely aligned, industrially, to the modern system, and politically conscious.
- (b) The countries, large or small, with a one-crop economy and needing capital for development, especially of transport, and needing also a programme of capital development. Burma, Thailand, and most of the island groups are in this class.
- (c) The countries in which capital investment has been vigorous, but confined almost entirely to diversified agriculture, as in the case of Java and Malaya.

Such a classification is obviously deficient in many respects; but it will serve to focus attention upon a major aspect of reconstruction.

The great difficulties lie in the contrast to Occidental conceptions of society prevalent in old civilizations such as India, China, and Java, on the one hand, and those of island peoples on the other. The custom-ridden apathy and fatalism which blights Asiatic attitudes towards economic and social betterment, the persistent political disunity in China and India, and, in general, the disharmony between Oriental and Occidental codes and the backwardness of industrial organization, all tend to inhibit initiative and to retard alignment of ancient custom and low living-standards with the social equalitarianism and high productivity of the West. This complexity of internal difficulties, moreover, discourages the development of an investment outlook towards south-eastern Asia by the highly-industrialized western groups. The history of colonization and the development of "new lands" in the 18th and 19th centuries can have no parallel in the scope or pattern of the industrial revolution which China, for instance, now faces.

It is upon North America, physically and socially least shattered but economically most benefited by the industrial enlargements of war, that the major responsibilities for leadership and capital contribution must rest. Europe, Russia, Great Britain and, in particular, Australia are likely to be so obsessed by their own internal problems, and so distracted by the political difficulties of social betterment after the sacrifices of war, that their ability to assist reconstruction in the Pacific will be limited, at least in the early stages. That judgment must not be taken to imply any deliberate or unconscious belittlement of the political and social problems of the United States and Canada; but as an assessment of the relative energy available for diversion to international reconstruction. Nor does it minimize the difficulties which affect the ability of any national government to promote the goodwill of its people and to deflect capital towards adventures in foreign investment promising only distant and uncertain benefits. The magnitude of the response to the Asiatic need cannot be predicted for the people of any country of capital surplus.

IV. Conflicting Demands on Australia's Limited Resources.

What Australia, in particular, can contribute in this way will depend upon the effectiveness of world co-operation as a whole. The controls and limitations forming part of international economic agreements, and especially those regulating world prices for primary exports or limiting freedom of action in monetary policy, are likely to determine to a substantial extent the conditions of Australian prosperity, and to decide the quantum of the surplus equipment or provisions which the Commonwealth could divert to the needs of other countries. There is little doubt that Australians would be willing to make their full contribution to a co-operative scheme, or that some capital or consumption goods could be made available for that purpose. How far the Australian government would be prepared to go, how much the people would be willing to divert, and in what form the contribution would be made can be more easily conjectured than calculated.

The initial phases of the purely relief programme present greater immediate difficulties than those connected with the rehabilitation programme, although the short-term and long-term objectives will merge at a very early stage. Relief is merely the army commissariat problem on a larger scale, and for a greater variety of need than that of more or less homogeneous male forces. The provisioning of civilian populations, as for an army, must be well advanced by the time potential demand becomes actual. Stocks must be accumulated at points near the seaboard in Australia ready to be moved to receiving ports as soon as shipping becomes available. In foodstuffs alone the quantities certain to be required for relief in China will not only strain world capacity to produce, but will tax the shipping resources of the Allied nations for some years.

The problem of quantities is, however, not any more serious than that represented by the sorts of supplies immediately required. The kinds of commodities needed for relief stock-piles are almost identical with those urgently needed by the fighting forces; and the necessities of the fighting forces must be met right up to the completion of demobilization. The regular and increasing supply programme for the needs of Great Britain, on the one hand, and for Allied fighting forces in the south-west Pacific on the other, is already over-taxing the labour force available in Australia. To sustain this programme, to maintain the Australian fighting forces at a level at least as high in proportion to population as that of Great Britain and the United States, and in addition to accumulate stocks of specified relief goods by the efforts of a civilian population which has been strictly rationed in foodstuffs throughout the war, represents in total a very stiff assignment.

At the production end there are definite limiting factors which should be noted. The Australian routine and pattern of land use are subject to natural controls which are singularly precise and set bounds to more intensive cultivation. Seasonal operations determined by the weather cycle, and crop rotations necessitated by the characteristic deficiencies of the Australian soils cannot be varied without great risk to soil fertility and long-term production. The enlargement of production through extension of area is both difficult and risky, since the frontiers of farming lie along the margins of the arid pastoral zones of the interior. Australians almost despair of convincing the people of other countries that

production in the vast areas of the north and centre is limited, not by the unwillingness of a feckless people to bestir themselves, but by the inexorable controls represented by the length of the growing period which is dominated by rainfall in those areas. The efforts of additional land armies would do little more than supply their own needs at the risk of generating relief problems in Australia when drought and crop failure supervened. Enlarged production must in fact come from that 10 per cent. of the area of the continent which already supplies the great bulk of the export of foodstuffs. At the time of writing, very large areas of south-eastern Australia are afflicted by drought, crops are destroyed, and great numbers of sheep, horses, and other stock are dying. This emphasis upon the difficulties of expanding the production and export of foodstuffs does not, of course, imply that Australia cannot make a significant contribution to the relief and rehabilitation of China. It is merely intended to correct some mistaken views as to Australian productive capacity, in the first place, and to show the impact of present military needs upon future provision of foodstuffs for relief in other countries, in the second.

The categories and the extent of possible Australian assistance can now be considered. The form in which the contribution is to be made, e.g. loan, gift, or barter agreement, would doubtless influence the quantity made available; but that consideration need not concern us at this stage. Neither need we take into account whether, in the countries to be relieved and rehabilitated, the native population, the resident whites, or both are to be assisted and what form the assistance should take. Since the objective is reconstruction over the long-term, and since the sort of new order at which we are aiming is apparently a closer approximation to a balanced economy in a democratic state, and to its system of incentives and rewards as expressed in individual income, we may set out the forms of contribution on the understanding that relief is merely the first phase of reconstruction.

(a) Loans (or gifts) of surplus commodities through UNRRA.

For the donor country the form of transfer would be relatively unimportant. If the goods are in the form of a loan and return as interest will ultimately be in the form of goods, and any loss of export income represented by the difference between sales on world markets and a capital loan, would be reduced by the value of import goods received by way of interest in subsequent years. In the case of a gift of commodities the prospective loss of export income would doubtless determine the quantity of goods thus made available. For the receiving country the acceptable goods in the early stages will be foodstuffs and manufactures, since the utility of raw materials will depend on the amount and efficiency of the capital equipment available in the form of manufacturing equipment. These problems are, however, likely to be simplified by the organization set up and administered by UNRRA, which would appear to rest upon a peace-time application of the lend-lease principle under which the governments contributing to relief will vote funds to a central relief pool which will then be applied as means and necessity dictate. The Australian government has already appropriated £22,000,000 (\$66,000,000) as a first contribution to relief and rehabilitation in general.

The magnitude of Australian surpluses of foodstuffs and raw materials is, of course, the measure of real contribution, and these may now be examined.

(i) Wool. This is Australia's major export item. For the last five pre-war years about 800,000,000 lbs of wool were annually available for export. The total export income approximated £50,000,000 in Australian currency, say, about \$165,000,000 at present exchange rates. Britain and Europe as the greatest wool users will probably bid for the whole of this surplus at higher prices after the war-time arrangement for the purchase of the wool clip by Britain lapses (one full wool season after the cessation of hostilities). The present volume of stock-piles of wool held in different countries as a result of war-time schemes of purchase is uncertain. It would appear from statements made that these stock-piles are of the order of 12,000,000 bales, of which 6,000,000 are in Australia.

China could not absorb much of this great surplus until she acquires wool-manufacturing machinery, even if the difficulties of acquisition are overcome. It is unlikely either that those difficulties can be overcome, or that Australian manufacturers, anxious to expand their industry, would approve any arrangement to divert large quantities of raw materials at a reduced price to build up possible competition.

(ii) Wheat. Undoubtedly China, and to a less extent other Pacific countries, could use a considerable quantity of wheat very effectively, since large sections of the Chinese population are wheat eaters. Australia's normal annual export of wheat is about 100,000,000 bushels, valued at about £20,000,000 on present prices. Doubtless, the distribution of existing wheat stocks will be decided by some authority set up by the Allied nations; and in that case Australia could make a useful contribution since large and accessible stocks are held at present. Those stocks are, presumably, heavily hypothecated for relief in formerly occupied countries, and there may be little available by the time China is freed.

(iii) Meat and Dairy Produce. Australia exports surpluses of mutton, lamb, beef, bacon, butter, and cheese; and before the war a portion of these exports went to Asiatic markets to supply the demands of Europeans resident in the area. Almost the whole of the Australian exports of these commodities, however, were shipped to the United Kingdom. In total they represent quantities that supplement but do not dominate the British import market.

Meat and Butter

Australian Exports to U.K., and Total British Imports, 1938.

	Australian Exports to Britain		Total British Imports	
	Weight cwts.	Value £m.	Weight cwts.	Value £m.
Mutton, frozen	406,000	727,400	1,600,000	2,405,000
Lamb, frozen	1,530,000	4,571,000	5,283,000	16,396,000
Beef, chilled	528,000	985,000	8,963,000	19,676,000
Beef, frozen	1,190,000	1,885,000	1,630,000	2,632,000
Butter	1,800,000	9,630,000	9,500,000	50,830,000

Theoretically there would be little difficulty in allotting a considerable proportion of these exports either to the short-term relief of Pacific countries, or to long-term rehabilitation of Asiatic countries; but this could be done only at the expense of supplies to Britain, and with

the realization that it would be a mere drop in the ocean of Chinese need.

(b) Capital Loans. Either through the International Fund or by means of ordinary investment (government or private loans) additional foreign credits could be made available to China and other Pacific countries. These loans could then be applied to the purchase of consumption goods (provisions) or durable capital goods which represent equipment, but only in competition with commodity demands of other countries. Road and railway equipment, manufacturing machinery, port facilities, electrical installations, have traditionally been the forms in which capital loans came to the borrowing country. The enlarged productive capacity of Australia, and the low costs of Australian steel, make capital loans from Australia to China and other Pacific countries a possibility. This would merely reproduce as between Australia and other Pacific countries the method by which Great Britain provided much of the industrial equipment to Australia, New Zealand, Malaya, and other countries in the past, and by which the United States has aided Latin America.

(c) The third possible means of assistance, i.e. the encouragement of Chinese manufactures, would have two purposes:

- (i) the production of consumption goods at Asiatic cost levels for the Chinese population;
- (ii) the production of export goods by means of which China could meet the interest on foreign loans and justify new loans.

Markets would be needed for these export goods, and Australia, in common with other signatories to a Currency Stabilization Agreement, might relax tariff rates upon fabricated goods not directly competitive with their own manufactures. In the case of China raw silk, silk clothing, pottery, porcelain, might be admitted at lower duties for this reason; but these goods might still displace competitive imports from the United Kingdom. In such matters the freedom of action may be greatly restricted by internal and external pressures. Attempts to stabilize the cost of living, and to mitigate the fluctuations of international prices of primary commodities will be viewed differently in industrial countries like Great Britain, anxious to import foodstuffs and raw materials at low prices in order to maintain a low relative cost of manufactures for export, and in other countries like Australia, anxious for high stable prices for primary exports. Similarly the lowering of tariffs looks more important to countries where mass production makes external markets a necessity, and to countries like Australia anxious to expand manufactures to provide employment.

(d) The export of machinery and other equipment is not enough. It should be accompanied by the export of technical experts to set up the machines and to train Asiatics to operate them. There would be little difficulty in the way of an Australian contribution of this kind.

(e) Administration. One direction to which Australia could make a useful contribution is in the administration of certain aspects of organized relief. At all stages -- accumulation of stocks, supervision of transport, and distribution -- Australian aptitudes are available. Experience in native administration in the neighbouring islands has fitted many Australians to assist in the tasks of rehabilitating native peoples; and in

that way Australia might make a rather notable contribution.

The potential Australian contribution need not, however, be left at the conjectural level. Provided that international arrangements are made to guard against adverse developments of the Australian balance of payments, or assuming, in other words, that Australian funds in London are protected from serious deterioration, the Commonwealth could make as great a contribution to world recovery after the war as it has made to the Allied effort during the war. Relatively little publicity has been given in the United States, or in Great Britain either, to the measure or the form of the Australian contribution under mutual-aid arrangements. It seems useful, therefore, to recall the facts of lend-lease as it affects Australia and the United States. The total value of lend-lease aid rendered by U.S.A. to Australia up to December 31st, 1943, was \$741 million which, at the ruling rate of exchange, would represent about £228 million Australian. In the last three years Australia has contributed to the support of the U.S. forces in this country reciprocal lend-lease totalling £279 million. American calculations were not always based on cost, while Australian contributions were so based for the most part. To the Australian total should be added an undisclosed figure comprising aid given before the three-year period. In terms of money Australia contributed more to America than America had contributed to Australia. These figures are, of course, not conclusive. Reciprocal aid cannot be computed in balance-sheet terms. Each nation contributes to the common pool to the best of its ability. There seems no valid reason why the Allied nations (and any other country which cares to come into the scheme) should not continue with some similar kind of aid for common constructive rather than destructive ends.

V. Difficulties, and Devices for Overcoming Them.

Assistance to China and the Pacific countries by other countries is in danger of being forestalled by concentration upon internal reconstruction on the part of possible contributors. Political energy for international purposes is thus likely to be short-circuited by planning for social and economic amelioration at home. Moreover, China herself must be put in a position to make a contribution to her own recovery by way of enlarged production and increased exports. Chinese export goods, however, do not at present fit in well with the reconstruction programme for Australia. Raw materials from the tropical islands, e.g. rubber, kapok, coffee, cocoa, etc., fit better into the catalogue of Australian import requirements. The initial steps for throwing a bridge across the gap, establishing a bridgehead, and afterwards enlarging it are the most difficult. Custom, prejudice, vested interest, apathy, imperial preference all retard if they do not inhibit contributions to international reconstruction plans.

In a less direct but more influential fashion, establishing a bridgehead will be retarded by ignorance of, or indifference to, the benefits of complementary economic development. The effect upon the Australian economy of world prosperity and co-ordinated expansionist policies is not understood so well as the effects of world depression. The benefits to the Australian export trade of policies of full employment, especially, are not well understood outside official and academic circles; but this is not surprising since the proof of mutual benefit is not easy either to expound or to comprehend. Another difficulty is typical of all comprehensive planning. The single problem in reconstruction is not the restoration of the status quo, but the reduction of inequality between Australia and Asiatic

living standards by raising the Asiatic standard towards an Australian standard which also continues to rise. Lifting of the Chinese regimen is vital to reconstruction; but it is a most complex and mortifying problem. The initial difficulty of "getting a start" has first to be overcome. Demand must be "boosted" because there is no easily operated self-starter mechanism.

An international New Deal must, in fact, begin in much the same way as does recovery from depression; and "priming the pump" is the essential technique. Australia, in common with other nations, will be willing to co-operate in world rehabilitation in proportion as her own position, i.e. more specifically her balance of payments, is stabilized by international guarantee. The extent of her contribution is thus likely to be controlled by conditions that are high unpredictable.

In the early stages of rehabilitation the methods of promoting a rise in the per head productivity of backward countries will become all-important. Any means of "priming the pump" will be justified if it disturbs the static and stagnant conditions which pervade south-east Asia and most of the islands. "The reconstruction of the East is the great challenge to the West." It will not be easy even to get toleration for widespread change, let alone welcome or assistance from indigenous peoples. The influence of custom and the inertia of habit will be hard for European minds to understand, and even harder to overcome. Social and religious resistance to change will be offered at every point. It will be difficult, then, to apply Western methods to Eastern countries, first because of suspicion in the countries receiving assistance that it is "clever stuff" on the part of the Allied nations, and secondly, because of the desire for quick results on the part of the countries giving it. Great patience and diplomatic skill will be necessary in applying and supervising the types of assistance given; indeed, persuading the beneficiaries to be benefited, and ensuring that the goods and capital made available are not "detoured" will be one of the most difficult aspects of rehabilitation, especially in the major countries with large populations and somewhat uncertain administration in the provinces.

At this stage it will have become clear that pump-priming for international reconstruction cannot be much less or more than mutual-aid on a peacetime pattern. For China and other Asiatic countries lend-lease materials, manufactures, and services must be devoted in generous measure for the initiation of large-scale public works in order to break them out of a condition only to be described as a "frozen" economy, and to strike at the roots of the system of dependence upon the family which perpetuates disguised unemployment on a vast scale.

It may be a question whether the democratic countries, with their vast and often ill-considered schemes for social services and economic security, are not approaching the same result by another route; but it can at least be said that for any given population and given standard of living, there is a ceiling for benefits and a limit to which passengers can be multiplied at the expense of producers. The chief test of efficacy, both of relief and rehabilitation, will be the attitude of great masses of people in the beneficiary countries towards new opportunities of partial economic independence. All in all, if collaborative international reconstruction becomes a reality, the external attack upon the economic sub-standards of Asia, and the internal reception of peacetime mutual-aid will form one of

the most instructive experiments aimed at large-scale social betterment in world history.

Returning now to means rather than ends, there will probably be agreement with C. E. Hubbard's view that pump-priming can be effected in three main ways:

(i) Large-scale developmental investment. Whether this investment is of the "government to government" type, by foreign investors to native entrepreneur, or by foreign investors to governments need not concern us in detail. It is probable that the government in the lending country would need to guarantee the investment return, and to disguise the real impact of the so-called investment upon the economy of the receiving country, because the nature of the works to be undertaken indicate some prospect that hope of return will be deferred for the great bulk of the outlay. The building of roads, bridges, and railways, the remodelling of ports and harbours, the setting up of generating plants and reticulation systems for power and light, in short the provision of the basic structure of a modern economy in these backward countries is a huge task. The extent to which Australia could participate in such an orgy of capital transfers would necessarily be limited. For a typical recovery year such as 1936, Ronald Wilson estimated that the total of public and private investment was of the order of £250 millions (Australian), or, at that time, about 1,000 million U.S.A. dollars. National income has risen from £900 to about £1200 millions, and the amount annually available might now be of the order of £350 millions (\$1050 millions) a year. In addition, a large amount of unapplied wartime savings remains in private hands - chiefly £180 millions in currency, and £200 millions in bank deposits - but most of this will be required for deferred maintenance on private property, for financing new housing, and so on. Since Australians are unaccustomed to the idea of foreign investment, it would seem that their contribution to reconstruction in the Pacific is more likely to be made available through governmental action than otherwise. Government guarantees on International Reconstruction Bonds might help to get a scheme across to investors, but it may be expected that the going would be heavy. £50,000,000 (\$150,000,000) might be regarded as the maximum which could be expected from Australia as a contribution in the various forms of appropriation for UNRRA or direct investment.

(ii) Direct assistance to industrialization. This would be limited, of course, to China and the larger countries, and might take the form of orthodox "share peddling" or issues of Chinese Government bonds for specific enterprises. This would be a new field for private investment and a novel proposition for Australian investors. It is impossible to predict what the response might be, although the capital loans in this case could be transferred in the form of Australian manufactured goods. There is good reason for believing that Australian investors, anxious to build up future markets for Australian industries in which they are already interested,

might take long-term rather than short-term views, and make some response.

- (iii) Adjustment of terms of trade. Some pump-priming would also be essential for the mechanism of trade. For instance, Australia would be required to make some contribution to restoration in the form of imports as well as in the form of investments. Imports on the "bargain-counter" principle would be of little help in raising the external purchasing power of the Chinese people. It would be in the interest of both parties that terms of trade, i.e. prices of Chinese exports compared with the price of Australian exports, should be as favourable to China as possible. Tariff adjustment, trade restrictions such as import licences, cost of trade, e.g. port dues, price control - all would need consideration if specific objectives were not to be frustrated. Unfortunately, much assistance of this sort would look like discrimination to less favoured countries; and "preferential mutual aid" might well become a grievance which would penalize donors more than it helped beneficiaries. The difficulties here will be less for the countries with a one-crop economy (monoculture) than for the countries of more advanced multiple production. In particular, reduction of tariffs would also need to be applied as a two-way traffic. Mutual aid in removing trade barriers becomes difficult when one country is so economically benighted or internationally so impotent as to have no protective structure at all. The Chinese Government has already expressed its determination to establish a system of high protection for infant industries; but the manufacturers of donor countries are quite likely to have doubts about the commercial wisdom of altruistic policies which result in establishing and consolidating potential competitors in receiving countries.

Technical assistance. Besides available foodstuffs and raw materials, and possible supplies of capital goods, Australia might contribute to the industrialization of certain countries by loans of technicians. This again implies the training of potential competitors after furnishing them with the means to compete.

The answer to most of these difficulties is, of course, that the expansion of the market represented by raising the standard of living for the 1,000 millions of south-east Asia and the islands, to a level comparable with that of the Australian basic wage, would keep all producers busy for a century. It is the bold imaginative policy that will succeed in the industrial dilemma which the world now faces. The lifting of effective demand for Asiatic peoples is the sine qua non not merely of reconstruction in the Pacific, but for the world as a whole. To affirm this is not, however, to deny the strength of the resistances which have to be broken down, both in the East and in the West, or to underestimate the inertia and friction which are the real obstacles to be overcome if an expansionist programme on the world scale is to be successful.