

15

GENEVA

In 1959, Heinz began to make arrangements for his next sabbatical leave. He wrote in June to Bob Ratchford at the Commonwealth Studies Centre at Duke University to ask whether there might be any possibilities there for him to teach and engage in research during the northern academic year of 1960–61. As he told Ratchford, he had recently embarked on an examination of the financing of public expenditure in Australia and would be interested to pursue the project further during his leave. Ratchford had recently been in Australia, to collect material for a project on Australian government expenditure, and had met Heinz in Canberra. In his letter to Ratchford, Heinz remarked that there might be an opportunity for them to collaborate, since their research appeared to be traversing similar ground. Duke had another attraction for Heinz: its close proximity to Chapel Hill, where his brother was still at the University of North Carolina. They had not met since 1954, when Heinz had visited Walter and his family on his way to South Carolina.

Duke, however, was not the only possibility. An alternative was the University of California at Berkeley, which Heinz's friend Tibor Scitovsky had proposed as a place for spending his leave. Heinz wrote to Lorie Tarshis at Stanford, too, asking him whether there might be funding available for a visit of 12 months in 1960 or 1961. There was also an offer to spend some time at the United Nations Economic Commission for Asia and the Far East (ECAFE) in Bangkok, but Heinz turned that down because Ruth and the children would have to live in Europe while he commuted between Europe and Thailand. He then sounded out the possibility of a temporary appointment at the United Nations in New York, but this came to nothing.

While Heinz was making plans to take leave in the United States, Gunnar Myrdal suggested to him that he might consider occupying a visiting research professorship at the new Institute for International Economic Relations in Stockholm. There he would be able to participate in a project involving the study of economic relationships between the industrialised, the underdeveloped and the communist worlds. This, however, would take more than 12 months to complete. Heinz declined the offer because he doubted whether CUC would approve leave without pay for a period longer than 12 months.

Of all these possibilities, Duke appeared to be the most promising. From there came an invitation for Heinz to take a graduate course in international trade in the second semester of 1960–61, with some supplementary undergraduate teaching if he was interested. He drew up tentative plans to leave Canberra in November 1960, travelling by sea to London and spending a week or two in Hamburg with his father before assuming the appointment. Difficulties arose, however, over funding. Heinz wanted to take the family, but housing and schooling in the United States were expensive. He also wanted to buy or hire a car for the family's use while they were away—and that would add to the cost of going to America. In the event, he turned down the offer from Duke, informing Frank de Vyver, the Chairman of the Department of Economics, that he did so 'with great heartburning and difficulty'.

Towards the end of the negotiations with Duke, Heinz received a letter from Nita Watts, Deputy Director of the Research Division of the United Nations Economic Commission for Europe (ECE), inviting him to spend a year in Geneva. Myrdal was probably responsible for bringing about this invitation. He had been the ECE's Executive Director at the time it was founded and was largely responsible for the excellent reputation that it had acquired for the quality and scope of its research. Myrdal had recruited first-class economists: Nicholas Kaldor and Hal Lary,²⁶ for instance, were the first two directors of the Research Division. When Heinz received the offer of appointment, the head of the division was not as distinguished an economist as his predecessors had been, but was a bureaucrat with a background in American government administration. In practice, the effective head was Nita Watts, who had been a student at the LSE with Ruth, and whom Heinz knew well.

The offer from ECE was particularly appealing because the generous salary would allow Heinz to take Ruth and the family to Geneva. Besides, he and Ruth would be close to their families in Germany and they would be able to visit each other frequently. So, once the possibility of Duke fell through, Heinz had no hesitation in accepting the ECE invitation.

With the family, he left Canberra in the middle of 1960; he and Ruth rented out their house for the year to a young family from Tasmania. On their way to Geneva, they spent some days in London. Though the weather was wretched, they all enjoyed seeing the musical comedy *My Fair Lady*. Heinz was able to spend a day in Oxford, where he met Paul Streeten, Ian Little, David Worswick and Max Hartwell, though not Hicks, who was ill.

In Geneva, they leased a flat in the Rue du Lemman and the children were enrolled at the international school. They were to find Geneva an entirely congenial city. The ECE was located in the Palais des Nations, built for the League of Nations during the interwar period, and now it housed many of the European-based agencies of the United Nations. Heinz found his work at the ECE rewarding and his colleagues stimulating. During the winter and spring, the children enjoyed skiing and other winter sports in the mountains above Geneva, while Heinz's main diversion was watercolour painting. He told John Head, one of his ANU colleagues, that 'I could take all five days off for it, there are so many attractive subjects'.

The Research Division had a staff of 30–40, including economists, statisticians and assistants. Heinz's post was designated officially as Economic Affairs Officer, a position that Myrdal had created in the early 1950s. He had conceived it as a kind of visiting professorship. Over the years, it had been occupied by well-known economists, such as R.F. Kahn of Cambridge and Frank Burchardt of Oxford. The division's main tasks were to produce an annual survey of the European economies (containing reviews of economic developments in Western and Eastern Europe during the previous year, plus one or two special studies) and an economic bulletin published three times a year.

In the early months of the visit, Heinz undertook some work for the 1960 survey on monetary policy and balance-of-payments issues. He was then assigned to a project on trade preferences for developing countries. This study had been commissioned in the expectation that the United Nations would create a Trade and Development Commission (UNTAD). It was to be a precursor of a paper on an Australian scheme of trade preferences for developing countries, which Heinz wrote when he returned to Australia. The Australian government later adopted a modified form of Heinz's proposal, though Heinz himself came to take a jaundiced view of the Australian scheme.

Throughout his year at the ECE, Heinz acted as one of the four section heads of the Research Division. He took part in discussions with visiting economists, attended divisional meetings, supervised various research projects, tendered advice to other divisions and paid visits to the OECD in Paris, the European Economic Commission in Brussels and the Dutch Planning Commission at The Hague. Such duties brought him in touch with a number of distinguished economists, including the co-winner of the first Nobel Prize in economics, Jan Tinbergen (at The Hague), James Tobin

of Yale (another Nobel laureate, then a member of President Kennedy's Council of Economic Advisers), Robert Solow, a later Nobel laureate ('with whom I have had a very useful discussion on my growth study'), George Jaszy, Gregory Grossman and the chairman of the perspective planning department of Gosplan.

Heinz acted also as secretary to a meeting attended by Western and Eastern experts on the measurement and analysis of labour productivity and wrote a paper for the secretariat on the subject. In addition, he became secretary to a meeting of senior economic advisers of European governments on the sources of economic growth and wrote a preliminary report on the discussion.

His major work in Geneva was to direct a project on the sources of economic growth in European countries. Initially, this project was to be published as part two of the *Survey* for 1961. Unfortunately, it was not published until 1964, due to delays caused by the diverting of resources to other activities. Heinz took responsibility for the statistical work (which was required on a uniform basis for each of the European countries included in the study) and for the analysis of sectoral data on output, investment and employment for some 20 Western and eight Eastern countries.

This work turned out to be far more time-consuming than he had expected, largely because national statistical offices were continuously revising their national accounts. At first, he had only one assistant working for him, though towards the end of his stay virtually the entire division was assigned to the project. It was June 1961 before he was able to begin the drafting of the statistical chapters. By July and August, shortly before he returned to Australia, he had completed only the first drafts of three chapters on the Western European countries. When he left Geneva, he agreed to continue to assist with the drafting process—commenting, revising and polishing the various drafts.

The work that Heinz performed for this study was in a similar vein to, though entirely independent of, Edward Denison's *The Sources of Economic Growth in the United States and the Alternatives Before Us* (1962). Heinz aimed to examine the different growth experiences of European countries since the war. Because he was somewhat sceptical of the aggregate production function approach to identifying the sources of economic growth (whereby the marginal products of labour and capital are measured by the share of national income accruing to each of the two major factors of production), Heinz developed a different methodology. As he was to write in 1985

We first calculated incremental capital-output ratios (ICOR) from investment ratios and growth rates, as a measure of the marginal productivity of capital, and then divided each country's ICOR by the growth rate of its labour force to obtain what we called ICOR(L)—the acronym LICOR having been ruled out as too frivolous—as a proxy measure of total factor productivity. It was an extraordinary [*sic*] crude procedure but seemed worth trying as a first shot (Arndt 1985:49).

Heinz drafted the overall and sectoral chapters himself using the ICOR-ICOR(L) framework. Other members of the team were responsible for writing the qualitative chapters on technical progress, education and other components of the residual, together with a number of country-specific chapters. In the end, only Western Europe was covered, although the intention had been to include Eastern Europe as well. Uncertainties about the comparability of data and interminable political disagreements were among the reasons why the study finally dropped all consideration of the centrally planned economies.

While taking a somewhat different route from the conventional one followed by pioneers in growth accounting, such as Odd Aukrust, Edward Denison and Angus Maddison, Heinz and his team obtained results similar to those that other studies had achieved. The principal conclusion of all the studies, including Heinz's, was that somewhat more of the increase in national output could be attributed to so-called residual factors than to increases in labour and capital inputs. These residual factors were considered to be largely productivity-inducing ones, such as the introduction of new technology, the reduction of trade barriers, increased competition and, above all, improvements in education and health.

Heinz made the most of his time in Geneva, as he had done on his previous leave in South Carolina. It was frustrating for him that he was unable to complete the growth project before he returned to Canberra. It was otherwise a fruitful year and a happy one, with Ruth and the children being with him. Indeed, so enjoyable was it that they had great difficulty accepting the fact that their year away had come to an end. As it was, Heinz could not meet his commitment to resume teaching at the beginning of 1961's third term. This was because the United Nations insisted that he see out his full year in Geneva; otherwise, he would have lost his 'repatriation rights', by which was meant return airfares for the family.

Burge Cameron (who had taken over from Heinz as head of the department and dean of the faculty) approved the extra leave and asked Trevor Swan to take Heinz's lectures in Economics 111. Ruth and the children left Geneva a week ahead of Heinz and returned to Australia via New York, Washington and Santa Fe, staying with former friends from Canberra at each place. Heinz returned via Cairo (two days' sightseeing), New Delhi (where he spent three days attending the first ECAFE conference of Asian economic planners) and Singapore (one day in transit), arriving in Canberra at the end of September.

In his obligatory report to the ANU council on his Geneva sabbatical, he wrote

I can say that my year's work with ECE in Geneva was not only most enjoyable but an extraordinarily valuable experience. After some 15 years in Australia, I was able to renew and bring up-to-date my acquaintance with the economy of Europe. The growth study compelled me not only to familiarise myself more intimately with the current literature on the theory of economic growth but also to relate it to concrete facts of particular national economies. I learned a great deal about the problems of handling and evaluating macro-economic statistics. Finally, through the experts of the planned economies section, I obtained, for the first time, some insight into the operation of the planned economies of the communist countries, their remarkable successes and hardly less astonishing failures; and through the frequent meetings with delegates from these countries some insight into their mental processes.

I am confident that the varied experience I gained during the year will be most useful to me in teaching and research in Canberra. This is not the place even to attempt to summarise any of the conclusions of the growth study, though some of them, I believe, are not irrelevant to Australia. But I may mention two other impressions which I have brought back. One is that Australia can ill afford the purist attitude of its official statisticians which, however noble in intention, has in recent years resulted in Australia being almost alone among significant countries in lacking many major series of official economic statistics constantly used in international comparisons. I am sure this factor reinforces distance and inconvenience of classification (Australia belonging

neither to the 'developed countries of Europe and North America', nor to the 'underdeveloped countries', nor to the 'communist bloc') as a cause of general neglect of Australia in comparative and world wide economic analysis. The other lesson is that Economics Departments of Australian Universities cannot much longer afford to ignore so completely the study of the communist planned economies. The concentration on the economics of market economies which has been and remains customary in the teaching of economics at Australian universities is already out of touch with what is happening in the most rapidly developing part of the world and will increasingly lose in relevance as more and more countries, even of the 'mixed economy' type, turn towards overall economic planning of their economies.

The reference to economic planning is significant. When Heinz returned to Australia, he brought with him an enthusiasm for indicative planning, of the type that had been adopted since the war by several Western European countries, especially France and the Netherlands. For many observers, planning was a major reason why the Western European economies had recovered quickly after the war and were now experiencing more rapid rates of growth than countries such as the United Kingdom and the United States. The British government, under Harold Macmillan, had recently begun to experiment with a form of industrial planning, through the newly established National Economic Development Council, in the hope of accelerating its annual rate of growth. Australia's growth performance appeared to be more like that of Britain and the United States than the rapidly growing countries of continental Europe.

Heinz's work in Geneva on comparative rates of economic growth led him to consider planning as a possible explanation for why some countries were growing faster than others. Back in Australia, he found the country experiencing its highest rate of unemployment since the war. He doubted that this was simply the result of the 'credit squeeze' that had followed the government's monetary and fiscal measures (taken in late 1960) to reduce inflation and restore external balance. In addition, he thought that he could detect the fading of a number of key elements of postwar growth, including investment opportunities, pent-up consumer demand and immigration.

He gave a paper to the annual summer school of the Australian Institute of Political Science (AIPS) shortly after his return. There he declared that Australia should think seriously about planning as a means of accelerating

its rate of economic growth. 'Because,' he said, 'I am rather concerned about the danger of stagnation, I regard a serious examination of national economic planning as an urgent task.' He proposed a four-year national plan, similar to the one in France.

In the lecture, he explained that the success of French planning derived from the stimulus to industry that came from setting clear targets and from the confidence inspired by the coherence of the plan as a whole. He thought the adoption of a four-year or five-year investment and development plan might make a decisive difference to the business and economic climate of Australia. 'The task of drawing up a national plan would compel us systematically and coherently to measure what we want against the resources at our disposal.' As it was, macroeconomic planning in Australia was a confusion of 'bits and pieces'. Also important in France's case were the microeconomic elements of planning, for the French plan promoted technical progress through scientific research, training and the exchange of know-how.

After the summer school, Heinz tried to persuade the ALP to adopt planning as a key element of its economic policy for the next federal election. He targeted Gough Whitlam, then deputy leader of the federal parliamentary party, rather than Arthur Calwell. Writing to Whitlam in February 1962, Heinz said that the ideas that he had expressed at the summer school were deliberately put

...in a form suitable for public consumption and therefore free of any party political leanings...[but] I need hardly say that I have little hope of the idea being taken up by the Menzies Government. My hope for it rests on a Labor victory in the next election. Indeed I believe that adoption of longer-term planning by the Labor Party as a major plank in its election platform might help greatly to attract the extra votes needed.

He told Whitlam that he had been 'surprised to get quite a flow of letters from businessmen asking for copies and expressing keen interest. I believe a carefully worked out version of the proposal, which combines an air of responsible realism with some fire and enthusiasm, could be an election winner.'

An Australian four-year plan, he estimated, might take at least a year to prepare, though in other countries it had taken closer to two or three years. He was convinced that 'the mere decision to adopt the principle of

planning and the period of preparation of the plan would have a beneficial effect on the whole business and economic outlook'. 'It is of the essence of the notion of planning,' he wrote, 'that correct policy decisions (on longer-term resource allocation) cannot be reached without careful inquiry and analysis of a wide range of relevant facts and except within the framework of a coherent plan for the economy as a whole.'

The central planning authority should be located within a government department, under a responsible minister, not outside the traditional government structure in some semi-autonomous council having merely advisory functions. 'On balance,' he felt

...this department should be the Treasury, not a new and separate department (of 'Planning' or 'Economic Affairs'). The Treasury has traditionally performed the function of co-ordinating financial and economic policies, even though its exercise of this function has too often been conceived narrowly as one of 'prudent house-keeping', or financial control of spending. I do not think an attempt to separate these traditional functions of co-ordination of financial and short-term policies from the function of long-term planning could lead to anything but muddle and frustration.

Of course, some drastic changes to the existing Treasury structure would be needed: for example, a new division devoted to longer-term planning would have to be created. Other government departments would also have to be brought into the planning process. State governments, too, including Treasury departments and private businesses, trade unions and consumer groups, should all be part of the planning process.

While he was communicating with the ALP through Whitlam, Heinz was informing the business community of the merits of indicative planning, using as his vehicle the Institute of Public Affairs (IPA), a conservative think-tank. Throughout the 1950s, there had been ephemeral correspondence between Heinz and the IPA's director, C.D. Kemp,²⁷ usually concerning requests for each other's publications. Heinz wrote to congratulate Kemp in January 1958 on two articles that the IPA had published on funding public expenditure. The two men were to meet briefly in Canberra later in the same year when Kemp made it evident that he would be 'delighted' to talk with Heinz whenever he was in Melbourne. By the end of 1961, the

relationship had moved to the point where Kemp was inviting Heinz to write for the *IPA Review*. He wondered whether Heinz might contribute an article for the March 1962 issue, referring in particular to a paper that Heinz had recently read to the Economic Society on economic growth in Western Europe. Instead of addressing the subject of economic growth in Western Europe, Kemp asked Heinz whether he might write an article on economic growth in Australia.

Heinz, however, sent Kemp a version of his lecture to the AIPS Summer School. Alarmed at the prospect of publishing an article that was complimentary to economic planning in a journal devoted to private enterprise, Kemp proposed alterations. He admitted to being

...genuinely concerned about the 'acceptance' of the article, certainly among a good proportion of our influential readers who comprise probably most of the prominent businessmen in Australia. I take it that you want people of this kind to give full and fair consideration to the principles of national target setting and planning. Certainly I would wish the article to serve this purpose. But I fear that, in its present form, many business people will be inclined to reject the proposals in the article without this consideration being given.

Kemp acknowledged Heinz's admission in the paper that there was no coercion attached to French planning, but as far as Kemp was concerned, Heinz had then contradicted himself by saying that planning without teeth would be 'virtually useless'. Kemp thought this should be left unsaid, since it would frighten businessmen. It was his view that it would be better to take the issue of planning rather gradually, for it would be expecting too much of Australian society, business, government — and even trade unions—to rush suddenly into comprehensive planning of the type followed in France. After all, planning had been functioning there for 15 years and the French had come to accept it.

The most satisfactory approach, Kemp recommended, would be to leave the reader thinking that Australia might be able to learn from French planning and that a positive step in this direction would be to establish very broad production targets for some of the key sectors of the economy. Such an approach, Kemp believed, would receive a sympathetic hearing from the business community, not an antagonistic one. 'In other words, we should go step by step, and learn as we go and not court possible failure

and the rejection of the whole idea by being over-ambitious at the start.' He reckoned, in short, that Heinz had overplayed the success of French planning and he suspected it would be preferable

...to leave the impression on the reader's mind that while planning can be a valuable adjunct to national economic planning, it is not a magic talisman which charms away all our difficulties; that we shall all the time be looking for improvements in the methods which we use to conduct our economic arrangements but we shall not expect miracles and that difficulties and disturbances are certain to arise from time to time under the best-laid plans.

As well as being convinced that Heinz should soften his promotion of planning, Kemp worried about Heinz's extensive criticism of the government's wider economic approach. Heinz had talked of the 'inadequacy of an excessively short-term approach to national economic policy of dealing with each internal and external crisis by *ad hoc* measures and leaving the pace and direction of the longer-term development of the economy largely to look after itself'. Since many *IPA Review* readers were among the government's leading financial backers, Kemp urged Heinz to tone down the adverse comments that he had made about government policy.

In the event, Heinz did make significant changes to the article, to meet Kemp's concerns. Kemp, in turn, agreed to publish the amended draft, but with an editorial that would clarify the IPA's own attitude to planning. The IPA believed that some benefits were likely to result from the introduction of planning, but it should not be regarded as a panacea, and should be considered dispassionately, analytically and fairly.

After the article had been published, Heinz wrote to Kemp saying that he was very happy with it and with Kemp's editorial. Thereafter a close and warm association developed between the two men, which endured until Kemp's death in 1995. The friendship was mutually beneficial. From Heinz, Kemp's enlightened approach to public affairs was reinforced; from Kemp, Heinz became better informed about the views of businessmen and supporters of the Liberal Party. Meeting Kemp, in fact, was to be a significant milestone in Heinz's political education.