

# PART THREE

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### ECONOMIC DEVELOPMENT IN PRACTICE: IT ALL BEGAN IN JAKARTA

Heinz's practical introduction to the developing world came about in India, where, from December 1958 to February 1959, he was a Visiting Professor at the Indian Statistical Institute (ISI), first in Calcutta and then in New Delhi. The appointment had been proposed by Gunnar Myrdal, whom Heinz had first met in 1953 when, in Jakarta, Myrdal boarded the plane in which Heinz was flying to Beirut (*en route* to Istanbul and eventually to South Carolina, as recounted in Chapter 12). This first acquaintance, and protracted conversations, with Myrdal was not only the start of a long and lively friendship, it served as Heinz's intellectual introduction to development economics. It was fitting, therefore, that Myrdal should later have been instrumental in getting Heinz started on the practical side of the subject; hence Heinz's observation that 'it all began in Jakarta'.

The route to Calcutta was via Singapore, where Heinz disembarked to spend three enjoyable days before going on to Kuala Lumpur for four more. Although free of business, Heinz spent most of his time in Singapore with academics. He was guided by Englishman Tom Silcock, long-time Professor of Economics at Singapore's university (originally the University of Malaya) and a prisoner of war in the notorious Changi camp ('Changi university') during World War II. Years later, Silcock joined Heinz as a colleague in the Research School of Pacific Studies (RSPS) at the ANU. Silcock handed Heinz over to the labour economist Charles Gamba (from Western Australia), who in turn introduced him to Ungku Aziz, the agricultural economist grandson of the aged Sultan of Johore. Aziz later headed the Economics Department in the University of Malaya, Kuala Lumpur, before becoming Vice-Chancellor of that institution. These contacts were to prove valuable to Heinz when he took command of Economics, Pacific Studies, five years later.

The university in Singapore appealed to Heinz—'[h]andsome campus, colonial style buildings laid out in [a] spacious park'—and he enjoyed meeting academic and other staff. Among them was a young lecturer in philosophy

Eugene Kamenka, a graduate of Sydney and the ANU, who later returned to Australia and grew into a renowned and respected Professor of Philosophy and head of the History of Ideas program at the ANU. Kamenka's wife, Alice Tay—'pretty, vivacious young law lecturer and barrister'—also later attained intellectual and public distinction in Australia, most famously as President of the Federal Human Rights and Equal Opportunity Commission.

To his disappointment, Heinz was unable to meet Goh Keng Swee, finance expert of the infant People's Action Party (PAP) and in later years the main architect of economic policy and development in the PAP government of independent Singapore under Lee Kuan Yew. But this miss was later made up for and Heinz formed a strong friendship with Goh. Rather ironically, Heinz recorded in 1958 the view that '[t]he Chinese realise that Singapore can never become independent outside Federation (with the Malayan peninsula)'. Lee Kuan Yew, Goh Keng Swee and others were soon to prove that view mistaken!

In Kuala Lumpur, Heinz was an honoured state guest, at the invitation of the Malayan Prime Minister, Tunku Abdul Rahman, in recognition of Heinz's years of teaching a special course in economics to Malayan diplomatic cadets sent to Canberra for postgraduate and in-service training. As befitted this privileged status, Heinz was treated royally and loved every minute of it, especially the 'large black limousine driven by [a] splendid uniformed chauffeur', which—together with the services of Max Garling, an Australian adviser to the Prime Minister—was at his disposal during his visit. Garling was an experienced, pleasant and influential man among a number of other such Australians whom Heinz met, befriended and valued in later life. They included Tom Critchley (High Commissioner in Kuala Lumpur and later Ambassador to Jakarta), Fred Fisk (who would become a close and longstanding colleague at the ANU), Bill Wilcock and Don McKenna (respectively, governor and central banking adviser in the infant Bank Negara Malaysia). Most of these men were to reappear in Heinz's later life as Professor of Economics in RSPS.

The state part of the visit began with a formal audience with Tunku Abdul Rahman ('the father of Malaysia' as he was later known). The Tunku was an aristocrat, substantially but not entirely Anglicised in culture and manner; he had an English wife. Heinz found him friendly, jovial and more interested in sport than any other subject: 'Professor, why don't you come to the races with me this afternoon?'. Heinz was well out of his depth here; except for tennis, he never showed any interest in sport and horse-racing was a particular anathema to him. Perhaps a puritanical streak in

his upbringing had something to do with this but he was also never at ease among sportsmen. As he wrote years later, 'my failure to take the slightest interest in horse racing and betting shows that I am as yet imperfectly assimilated.' This after he had lived more than half a century in Australia!

The meeting concluded, Heinz spent most of the rest of the day—including an excellent lunch at the elegant Lake Club—with the banking and financial advisers to the government. They were mostly Australian or English expatriates, but Heinz also met several prominent local Chinese and Indian lawyers and MPs. He was particularly taken with the charismatic P.P. Narayanan, the Tamil secretary of the Plantation Workers' Union (PWU). Narayanan took him to inspect the offices and building of the PWU, which also contained a printing press, conference rooms, library, economic research unit, guestrooms and even badminton courts—all supported from the monthly subscriptions of 130,000 union members, virtually all of Indian race. The splendid day ended with a state dinner for some 50 guests. The Tunku was a jolly host and Heinz enjoyed himself thoroughly; he had a childlike relish of privilege and pomp though he never sought to become part of 'high society'.

On his last day in Kuala Lumpur, he was given a comprehensive tour of the highly professional Rubber Research Station (later Institute). He was impressed by the technological advancements but asked himself some basic questions: why not nationalise plantations? Does Malaya need new British capital? At this stage of his life, Heinz's political inclinations were still essentially socialist. One notices, too, that his affinity in Malaya and Singapore on this and later visits was predominantly with the Chinese, to a lesser extent with the Indians and little if at all with the Malays. The British expatriate community he generally treated with wary formality.

On 14 November 1958, Heinz arrived in Calcutta, then a city of five million people, sprawling over the 'immense, utterly flat area of Bengal formed by the joint delta of the Ganges and Brahmaputra rivers'. He overlooked much of this plain from his office on the sixth floor of the Indian Statistical Institute, some miles north of the city centre in a once-prosperous residential suburb overrun by impoverished refugees from East Bengal. The institute maintained one wing of its large main building on Barrackpore Trunk Road as a guesthouse. Here Heinz was billeted, along with a motley crew of other academic visitors, most notably J.B.S. Haldane, the distinguished English biologist of communist convictions, 'who wanders about the building looking, despite his Indian national dress, just exactly the eccentric English elderly don he is'.

The Indian Statistical Institute, founded in 1931, was the fiefdom of Prasanta Chandra Mahalanobis FRS, one-time Professor of Physics and an eminent statistician, described by Heinz as ‘founder, secretary, director and *paterfamilias*’ of the institute. Mahalanobis was a dedicated planner by conviction and temperament and at the time was immensely influential. The 1950s were the apogee of economic planning in developing (then styled ‘underdeveloped’) countries and India represented the biggest challenge of all because of its endeavour to reconcile parliamentary democracy with economic autarky, as well as the sheer size of the nation. Resource allocation was not made in accordance with market signals but by official fiat based on the not always clear socioeconomic values of the government in office. India’s disposition was then, and for many years subsequently, strongly towards central planning. The institute supported these plans by its pioneering work in developing Indian statistics, especially of national income and agriculture but also including social and demographic data. The institute ran a major course in statistical training for about 400 graduate students at any one time. Cooperation between the institute and the government’s Planning Commission was close, so there was much sharing of ideas between the two agencies and among the succession of international experts who came to work for either.

For his first two weeks in India, Heinz was underemployed, while his hosts decided how best to utilise his skills. He filled the time chiefly by writing, ‘with brash discourtesy’, a paper critical of the autarkical development philosophy of Mahalanobis’s planning model because of its total neglect of the concept of comparative advantage. Despite this lack of tact, the paper was subsequently published in the institute’s journal, *Sankhya*. Of this initial work, Heinz wrote to Wilf Salter in Canberra

Import replacement caught up with me within a couple of days of my arrival in Calcutta—especially in the form of a number of papers by my host P.C. Mahalanobis. I was tactless enough to use my first week to write a critical note on one of his papers...The whole question is laden with politics here: the notion that India must follow the USSR example and go all out for heavy industry has become the No. 1 political dogma of Nehru and the people around him. I am not saying they are wrong—but I suppose it is the job of the economist to examine the validity of economic arguments even if the conclusion is politically inescapable and perhaps right.

Otherwise in Calcutta Heinz socialised with fellow boarders in the guesthouse, attended a tennis exhibition given by international professional players, including the young Australians Lew Hoad and Ken Rosewall, and undertook some local travel. A highlight was a train journey to Santiniketan, 160 kilometres northwest of Calcutta. Here, the poet Rabindranath Tagore had founded a combined school, technical college, rural university and community centre, 'a romantic world of patriotic fervour, moral and aesthetic ideals and religious contemplation'. Classes were held mostly outdoors, in the shade of great trees. Heinz was much taken with the mission and atmosphere of Santiniketan: 'the conscious expression of one man's personality and ideas.' The romantic side of Heinz was easily touched; his inclinations to music, art and communal endeavour would all have been aroused by the Elysian setting, style and spirit of Santiniketan.

After a fortnight in Calcutta, Heinz decided he would much prefer to be in New Delhi, working on the Third Five-Year Plan, to be launched in 1961. He wrote to Joe Burton

It has now been decided that my work will consist of some aspects of preparation for the Third Five-Year Plan and that, for this purpose, I shall move to Delhi. I am not sorry for, although I have been quite well looked after at the Guesthouse of the Institute, Calcutta is not very pleasant, and there are hardly any economists here (nothing but mathematical statisticians!).

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The ISI had a cell in the Planning Commission in New Delhi, known as the Perspective Planning Division. The head of this division was Pitambar Pant, a brilliant young civil servant and protégé of the Prime Minister, Jawaharlal Nehru. Nehru had asked Pant and Mani Mukerjee, of the ISI in Calcutta, to prepare an outline of the Third Five-Year Plan. That done, Nehru required Pant to prepare a fuller version for the May 1959 meeting of the National Planning Council. To help in this work, Mukerjee took Heinz to Delhi, where he met up with other advisers assembled by Pant into a small team. The group included Heinz's ANU colleague Trevor Swan and Oxford's Ian Little (who were among a number of visiting economists attached to an Economic Development Institute set up in Delhi by the Massachusetts

Institute of Technology), the Dutch econometrician Jan Sandee and, for a while, Amartya Sen (later a Nobel Laureate in Economics, who was on a visit home from his doctoral studies in Cambridge). This was all very congenial to Heinz. As he reported to Burton on his return to Canberra

My assignment proved to be a piece of great fortune. Not only is Delhi a much more agreeable city than Calcutta, but the work on the Third Plan was a fascinating and invaluable experience. Nothing else could have given me so much insight in so short a time into India's economic problems and planning techniques.

Agriculture was the largest component of the Indian economy, yet it was taxed lightly. During the colonial period, land tax had initially provided a significant proportion of public revenue, yet, by the time of independence in 1947, revenue from agricultural taxes had dwindled to almost nothing. Pant asked Heinz to look first at the possibilities of 'resource mobilisation' from the agricultural sector (that is, higher taxes or, bluntly, squeezing more out of the poor peasants). Heinz was professionally—and perhaps personally—uncomfortable with this task, so he offered instead to undertake a more general approach to India's potential for generating savings and the mechanisms for shifting savings into productive use; in other words, the then new methodology of 'flow-of-funds analysis'. This is essentially a matrix statement of sources and uses of funds for the whole economy, classified vertically sector by sector, and the various financial instruments classified horizontally.

Such an ambitious task proved very difficult, not only because of a great deficiency of detailed data, but because some of the more highly aggregated statistics obtained from the Reserve Bank of India in Bombay were not consistent with those from the government's Central Statistical Organisation (CSO) in Delhi. Heinz, however, later wrote: 'I had the satisfaction of attending in my last few days a meeting at which representatives of the CSO, the ISI and the Reserve Bank agreed to set up a new section in the CSO national income division to develop flow of funds accounts on a regular basis, using my modest effort as a starting point' (Arndt 1985:45).

Heinz here is too modest. His pioneering work, despite its inevitable deficiencies and crudeness, caused the Indians to take the subject seriously and led to India being the first Asian nation—and one of the first in the

world—to produce an articulated flow-of-funds matrix, published in 1963.

Aside from this main task, Heinz attended various meetings in the Planning Commission in Delhi, the Reserve Bank in Bombay and the All-India Economic Conference in Lucknow. He also managed to see several other parts of India courtesy of Mahalanobis and the Myrdals (Gunnar's wife, Alva, was Swedish Ambassador to India at the time). In all these ways, Heinz's observant eye and curious mind quickly gave him a sense of India's history and its condition of underdevelopment.

Jaipur was the destination for a Christmas 1958 driving tour with the Myrdals: Heinz the passenger in a big Chevrolet driven by Gunnar, the rest of the party going with Alva in the chauffeured ambassadorial black Mercedes. Gunnar Myrdal was regarded by Heinz as a talker of world-championship class (praise indeed!), and Heinz was subjected to a mixture of monologue and interrogation for the whole journey. It took a long day to get from Delhi via Digh to Jaipur, where the party put up in style at the Rampagh Palace Hotel, the former residence of the maharajahs of Jaipur. The palace was about 100 years old, in good taste and with very fine formal gardens and pleasant courtyards. Heinz thought that staying there must have been a little like staying at Versailles. The next day, Christmas, was devoted to a motor tour of Jaipur city and nearby Amber, the old capital of the state, concluding in time for Heinz to catch an evening plane back to Delhi for a brief respite before going to Lucknow for the economic conference.

Heinz thought that the formal sessions of the conference were not of a high calibre: 'the papers had all been written by relatively junior Indian economists and were very poor, while too many of the contributions to the discussion were, as always, by people who like to hear themselves speak.' Nevertheless, he enjoyed the opportunity to meet people, especially a few brilliant members of the younger generation and the top senior economists. Many Indian economists of the day had been to the London School of Economics or Cambridge and remarked that they had there read Heinz's *The Economic Lessons of the Nineteen-Thirties*. Heinz was further pleased to find his name known for his contributions to the *Economic Record*, the Australian journal unnoticed in the United States but evidently well-known in India.

Also at Lucknow and in Delhi were several accomplished foreign economists 'passing through' India on jobs of various length. They included

Harold Lydall (who was undertaking a savings survey), George Rosen (working on industrial finance), Nicholas Kaldor (revisiting the scene of his proposal for an expenditure tax) and Ted Wheelwright of Sydney, who later wrote a substantial book on industrialisation in Malaysia. There were also notable non-economists passing through, including from Australia Edward St John (distinguished barrister and Member of Federal Parliament) and Zelman Cowen (then Professor of Law at Melbourne and later a Vice-Chancellor (twice), knight and Governor-General of Australia).

On New Year's Day 1959, arising from an idle conversation and on merely one hour's notice, Heinz was offered the opportunity to accompany Mahalanobis on a car journey to Agra. He packed quickly and went along, experiencing four and a quarter hours of continuous talk by the great man. This was worse than Myrdal, who at least asked questions; Mahalanobis gave no room for interruption in his unceasing tirade against America, Britain, the West and capitalism. 'He must be nearly seventy, immensely vigorous, alert and intelligent, but also domineering, vain and bigoted, a Bengali aristocrat who in moving towards a Stalinist-type authoritarianism has completely by-passed democratic liberal notions, never in any doubt who would plan and who would be planned for (or against?)' (Arndt 1987:27). Arriving at the Laurie Hotel in Agra in the dark, Heinz went to bed depressed.

The next day was a different story. Mahalanobis arrived, with the Governor's splendid car, in bright morning sunshine, to show Heinz the Taj Mahal. Heinz was overwhelmed by the beauty of the 'exquisitely proportioned' building and counted himself fortunate to be shown it by mathematician Mahalanobis, who expertly explained the subtle geometry of the ground plan. Later in the day, Heinz was taken by others (but still in the gubernatorial limousine) to see the Agra Red Fort and the Itimal-ud-Duala tomb with its fine marble screens. The late-afternoon return drive to Delhi was better than the outbound experience because Heinz managed to keep Mahalanobis to subjects such as education and social problems in India and monetary theory.

Two weeks later, Heinz greatly enjoyed a professional and social visit to Bombay. The Reserve Bank of India arranged this trip so that Heinz could delve for statistics for his flow-of-funds project. The bank, as is the wont of such institutions, was generously hospitable. Heinz was installed in the luxurious Taj Mahal Hotel, situated at the Apollo Bunder, with a sweeping view across the bay to the mainland. He was charmed by Bombay: 'so

much cleaner than Calcutta, so much more elegant and metropolitan than Delhi.' It is worth quoting Heinz here at length

Imagine a peninsula as large as Sydney Harbour, with a wide sunny bay on one side and the Arab Sea on the other; an inner city, a little more provincial than the City of London, a little more imaginative than the centre of Melbourne, with wide clean streets, green parks and playgrounds, substantial English public buildings, modern bank and office blocks, red London buses and Manchester trams, Indian and American cars, and a great many smartly dressed people—the men in white, the women in saris or western dresses (and a high proportion with short hair); stretching north from the city, in a wide curve along the waterfront, a magnificent drive lined with modern apartment houses, leading at the northern end to the homes of Bombay's multi-millionaires on Malabar Hill; and further north still, a seemingly endless succession of suburbs for every variety of income group, gradually giving way to the textile mills and other factories of the industrial area of Worli, and beyond it to the most recent residential areas on the mainland around the new international airport of Santa Cruz (Arndt 1987:30).

In Bombay, Heinz spent five days working at the bank and lunched twice with its Governor, H.V.R. Iengar, whom he had met previously at a conference in Sydney. The second lunch was a private one between the two men and it soon became clear to Heinz why this was so: Iengar wanted, as Heinz wrote

...to quiz me about thinking among the Delhi planners concerning the third Five-Year Plan and to ask me to do what I could to explain in Delhi how disastrous it would be if a recent Congress Party resolution was implemented which demanded, in the name of grass roots democracy, the abolition of the Reserve Bank's network of rural co-operative banks. It seemed to me extraordinary, and illuminating, that the governor of the central bank thought it worthwhile to enlist an obscure foreign academic for such a mission (Arndt 1985:46).

There was, of course, rivalry between the orthodox Finance Ministry and Reserve Bank on the one hand, and the more free-wheeling and

unorthodox Planning Commission on the other. Of that situation, Heinz noted: 'Clearly, the "Left" hand in Delhi does not always let the "Right" hand in Bombay know about all it is doing—and the "left" and "right" here means largely what it says' (Arndt 1987:30).

In Delhi at the end of January was the All-India Science Congress, in the presence of Nehru, his daughter and later prime minister, Indira Gandhi, Dr Sarvepalli Radakrishnan (Vice-President of India and Chancellor of the University of Delhi), Mudaliar (President of the Science Congress and Vice-Chancellor of the University of Madras), V.K.R.V. Rao (noted economist and Vice-Chancellor of the University of Delhi) and such foreign notables as the Duke of Edinburgh and Professor H.W. Arndt of Australia. Heinz lapped it all up.

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Heinz's work in Delhi and Bombay, and his observations throughout his travels, confirmed the view he had formed earlier in Calcutta, namely, that India was overcommitting itself to industrialisation and import replacement. In contrast, he rightly saw the importance of agriculture, arguing that agricultural output in India would have to grow at 5 per cent a year to meet a population growth of more than 2 per cent and income growth of more than 4 per cent. He believed that the 5 per cent rate of growth of farm output was possible, but it would require better organisation, especially of rural extension services, and more irrigation and fertiliser than was discernible during his travels. He shared, too, Iengar's concern for the continued provision of cheap rural credit.

More fundamentally, Heinz thought the problems facing Indian agriculture were not only economic in nature, but included 'the caste-bound conservatism and illiteracy of the peasantry, lethargy, nepotism and lack of trained personnel in administration, and the vested interests of the kulak-landlords in the villages and state legislatures'. Land reform, improved diet and community development were also important. He was particularly interested in the last and spent some time visiting community development projects in the countryside around Delhi. Here was the possibility of conveying new knowledge and technologies to the overwhelming majority of the Indian population.

After his three months in India, Heinz appears to have taken very little interest in the country's affairs. His development interests were soon to be redirected to Southeast Asia, particularly Indonesia, and to Northeast

Asia, particularly Japan. The fading of his interest in India derived in large measure from his dissatisfaction with the path to development that India was taking. The hallmarks of Indian economic policy—direct controls, the lack of market incentives and extensive government intervention—were to become anathema to him.

Unfamiliar, and perhaps incredible to modern economists steeped in the conventional wisdom that resource allocation is best left to an unfettered market, are the strength and depth of the debates in the 1950s about economic planning, especially in India, which was rivalled in the huge size of its planned economy only by China and was probably unmatched in the intellectual articulateness and passion of its leading economists. The essence of the local debate at the time of Heinz's visit was 'big push' (espoused by the Planning Commission) versus 'hasten slowly' (favoured by the Ministry of Finance). The proponents of the big push advocated driving development with state-owned, large-scale and modern technology industries, while taking care to reserve government funds for the provision of education, health services and the alleviation of rural poverty. Such a strategy would obviously impose immense strains on India's supply capacity, domestic prices and balance of international payments, and thus lead to a myriad controls on prices, finance, foreign exchange, labour and capital mobility—hence the reservations of the other side.

With hindsight, it is now easy to condemn the waste, misallocations, inefficiencies, costs and corruption associated with the administration of central planning on such a huge scale. It should not be forgotten, however, that the planners were driven, heart and mind, by the noble desire to secure rapid alleviation of the desperate poverty suffered by the mass of India's population. As Heinz wrote: 'It was impossible to spend some months in India without being profoundly affected by the emotional experience of learning about the abysmal poverty of hundreds of millions of human beings.' The impact of his observation of this poverty was deep and lasting. It drove him into the further study of economic development as the chief professional interest for the rest of his life. In his report on his leave to the CUC council, he acknowledged that he had 'come back from India with a much better understanding of Indian economic conditions, of the basic problems of under-developed countries, than I could possibly have acquired by reading in Australia. I am confident that my teaching and research will benefit substantially from my visit to India.'

Heinz's first practical lesson in development had been a success and would pay handsome dividends for years.

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By the middle of February 1959, Heinz was beginning to tire of India and its problems and was thinking of home. On 24 February, he wrote to his Canberra colleague A.J. Rose: 'It is remarkable, and quite shocking, how my concentration on the problems of India has, over the last three months, replaced all interest in world or Australian affairs. I cannot remember any other period since I was 16 when I have taken so little interest in what has gone on in the world at large.'

And to Burge Cameron in his department, he wrote: 'Not only has all this work been getting me down a bit, but I have become increasingly depressed about India, fascinating as it has been to learn more about it... I must say I am beginning to look forward very keenly to getting back home.'

Nevertheless, rather than returning directly to Australia, Heinz decided to fly first to Germany to visit his father, who was ill and had asked to see him. He left Delhi at the end of February and spent nearly a week in Hamburg—'an exercise in kinship rites', as he put it—as well as three days in London, before arriving back in Canberra on 5 March in time for the start of first term.

Ruth had not had the easiest of times while Heinz was away, with three children to look after for three months, of which half the time was school holidays. They kept in regular and frequent contact by letter, Heinz giving Ruth news about his work, the people he met and the places he visited. Ruth kept Heinz informed about the children and her activities. This was now the third time in less than a decade that he had been parted from the family for a prolonged period. While he was able to pursue his career without the day-to-day interruptions of family life, Ruth, on the other hand, had to cope with all the worries attaching to the care of three young children, without having the help of an extended family.

Heinz vowed that he would never again leave her and the family for any extensive period of time and he redeemed his pledge to take Ruth on future extended visits abroad. The whole family accompanied him when he spent a year in Geneva in the early 1960s and Ruth went with him to Paris when he worked at the OECD in the early 1970s.