

NEW ZEALAND AND AUSTRALIA

Ladies and Gentlemen:

In my last lecture, in speaking on the subject of defence, I stressed first that any plan of defence must take a long view and must be consistently followed; and secondly adequate defence must have an adequate supporting economic base.

Given that the defence of Australia and New Zealand is one indivisible thing, the economic supporting base in both lands must not only grow but they must grow together. It is generally agreed that this can best be achieved by a co-operative policy in trade. Many think it should go further and that the ideal to be aimed at is full economic and political union.

The case for economic co-operation between Australia and New Zealand can be stated in terms other than defence but however its objectives may be defined the need for co-operation is clear. It was the mutual advantage from closer association which inspired the New Zealand-Australia Free Trade Agreement (NAFTA). The agreement recognised that both economies could be strengthened by a plan of freer trade between their citizens.

Now, ladies and gentlemen, NAFTA is virtually dead. It is generally recognised that it has reached the limit of its usefulness and that its purpose has been achieved only to a limited degree. The two governments are presently giving earnest attention as to what should be put in its place so as to resume the advance towards economic co-operation to which this historic agreement has made a useful if limited contribution.

I have said that the communique issued by the Ministers representing Australia and New Zealand, after their 1979 meeting to discuss the addition of items to Schedule A of NAFTA, evoked rather an alarmed response, at least on this side of the Tasman Sea.

There is a curious instinct in democratic societies to recognise and respond positively to dangerous situations and the response of the people of New Zealand to this communique was an example of it. Both governments, with quite astonishing speed, have set to work to discuss, debate and devise a better instrument to achieve its purpose than NAFTA has proved to be.

I propose in this lecture to:

- (A) examine briefly the main points of NAFTA;
- (B) endeavour to show why its achievements were so limited;
- (C) discuss what alternatives are available to replace it;
- (D) suggest to you which of these alternatives should be adopted.

(A) About NAFTA

It is not necessary to describe this agreement in detail to understand it. The key feature of the agreement is Schedule A (article 3) which is a list of all those goods which are free of import duties in both countries. The professed object of the Agreement is each year to add progressively to this Schedule until finally all duties on goods traded between the two countries are eliminated and full free trade is achieved.

Australia and New Zealand are both signatories to the General Agreement on Tariff and Trade (GATT). This is an instrument which became operative in 1948. It was designed to inhibit, minimise or prevent trade warfare between the signatory nations. The development of a Free Trade Area is in harmony with the provisions of GATT and no doubt the terminology and the alleged objectives of NAFTA were framed in deference to this important international agreement. However, although the title and objectives are in the language of free trade the spirit of the Agreement is far different. It reeks of protectionism and protectionist criteria have been consistently applied in considering any additions to Schedule A.

The procedure is as follows in both countries. Persons from the private sector or from government departments can put forward suggestions for adding any new items to Schedule A. The New Zealand nominations are sent to Australia and the Australian nominations are sent to New Zealand. In New Zealand they go to the Department of Trade and Industry who circulates them to the Manufacturers' Federation, firms and organisations. Apparently, for no clear reason, they are not referred to trade unions which may be affected or the Federation of Labour. Items which appear on the acceptable New Zealand list and the acceptable Australian list now become joint proposals and these are sent to the Australian Tariff Board and the Industries Development Commission in New Zealand. They are also published in the New Zealand Gazette twice a year and interested persons, firms and organisations then have

sixty days in which to make representations for or against any nominated item. Where there are no sustainable objections the items are added to Schedule A on the 1st January or July each year. The selection sieve has a very fine mesh and only small items get through it. The supply of these must fall year by year until finally it dries up altogether. This is the present position. This is the end of the road.

In my view NAFTA has made some contribution to Australian/New Zealand trade. I believe the volume of trade 1965-1980 has probably been greater than it would have been without the Agreement. An opposite view is of course tenable. Neither is capable of proof.

Perhaps NAFTA's greatest achievement has been to define precisely the maximum which can be achieved given the essentially protectionist approach to trade and to brand that approach as seriously inadequate.

(B) Why NAFTA has proved inadequate

There are three main reasons why this Agreement has achieved such modest results. I would list them as follows:

1. The Agreement conceived of free trade solely in terms of customs duties.
2. The protectionist attitudes current in Australia and New Zealand.
3. It failed to put first things first.

I will elaborate on these three statements in sequence and will not at this point even attempt to satisfy your curiosity about number three.

1. **The Agreement dealt with tariffs alone.**

In the modern world customs duties or tariffs are probably the least obnoxious of the numerous obstacles to trade. NAFTA completely ignores other obstacles to trade such as export and import licensing, quotas on imports, export subsidies — either plain or hidden — exchange manipulation and human, plant and animal health regulations of dubious validity in their application.

It may be well if I were to remind you of some of the machinery of economic management in New Zealand which is actually in operation in addition to customs duties.

We have **export licences** to ensure that overseas funds earned by exports go through the New Zealand banking system and to control the export of some things such as cereals which may be seasonally in short supply. We have a system of **import licences**

which give the essential permission to import to about a third of all private imports. The licences issued under this import control system in effect apply **quotas** to all goods affected and create a state of monopolism requiring an elaborate system of **price controls**. These measures are aimed at limiting imports and so conserving overseas exchange and at the same time ensuring a high degree of protection to the licensed industries. In addition to imposing duties the Customs Act contains a list of **prohibited imports**. Such imports can be imported only by permission of the Minister of Customs. Finally we have recently devised systems of "export incentives" which are really **export subsidies**.

This range of restrictions makes an assessment of the true position in regard to any single commodity difficult. For instance wheat is on Schedule A of NAFTA and therefore enters this country duty free. An innocent observer might conclude we had free trade in wheat. This is not so. This means that if and when Australian wheat is imported it pays no duty; but wheat and other grains are prohibited imports under the Customs Act and cannot be imported at all without a permit from the Minister of Trade and Industry and in the amount specified in the permit. In practice no one can get such a permit except the Wheat Board which controls all wheat in the country whether locally grown or imported. Further for some mysterious reason until July 1st 1979 a licence to import was required as well. I know it all sounds like a journey with Lewis Carroll in "Through the Looking Glass" where everything was reversed and where the Free Enterprise Economy becomes the Economy, Enterprise free.

Such is the apparatus of regulation, control and protection whose objective is full employment and economic growth. It is very much like a shirt of mail on a young man. It is certainly protective, but it makes breathing difficult, effort impossible and it allows no room for growth.

The administrative machine is large, complex and very expensive. The central pivot is the Industries Development Commission which has an Australian counterpart. The functions of this commission are:

- a. To enquire into and report on matters relating to industrial development.
- b. The protection, at the frontier, when requested by the Minister of Customs or the Minister of Trade and Industry or

the Minister of Overseas Trade.

The Act under which the commission operates also provides for an **Emergency Protection Authority** whose function is to advise these Ministers if in any instance an urgent action is necessary to protect any industry.

It would be extraordinary if an economy so thoroughly impregnated with the spirit and practices of protectionism could devise and implement an agreement whose objective was the extension of free trade.

The facts in regard to Australian wheat which I have cited show up the serious inadequacy of the NAFTA approach to free trade. It is clear that no agreement which concerns itself with tariffs alone can make any real contribution to the integration of the economies of our two countries.

A real free trade agreement with Australia will mean, as far as this large portion of our total overseas trade is concerned, the complete scrapping of the restrictions on trade to which I have referred. I am confident that it will demonstrate how painless are the results of this abandonment, how temporary are the disadvantages, and how positive are the gains. This experience may well lead to a modification or even abandonment of these regulating mechanisms in regard to the remaining portion of our overseas trade.

I contemplate such a possibility without dismay. A free enterprise economy has a lot going for it as the current phrase has it.

Its central merit is its versatility, its adaptation to changing social needs, its willingness to experiment and to accept and use new technologies, its enterprise and the willingness of participants to back their judgement with labour and investment. This is the mechanism which gives modern society such a wide range of services and goods of infinite variety. It cannot function in irons. It must be free. Restrictions limit its usefulness and complete restrictions destroy it. Just as personal freedom is at the heart of a good society so is freedom necessary for a healthy growing economy. Indeed political freedom is in the end a chimera without freedom in the business of earning our daily bread.

One of the evil results of the managed economy is this. Any government has the power to interfere decisively in the normal processes of trade and under arrangements of economic management, such as we have in New Zealand, selfish mercan-

tile interests are tireless in their efforts to have the controls manipulated to their advantage. The shouting and the clamour resounds loudly in our daily press and energies and time which should be directed to the legitimate ends of commerce are expended in the contest. At intervals between the shouting, when the contestants pause for breath, can be heard proud words of pious praise for the merits of economic freedom and they ring a little hollow.

Society is a living organism and there is a natural inertia which is resistant to change. Like an organism it is, however, extraordinarily adaptable and when changes are made, such as the liberalisation of trade, in a remarkably short space of time forces emerge which are then resistant to other change and so tend to perpetuate the new order. When the European Economic Community was founded the inter-state barriers to trade were systematically dismantled and there were remarkably few difficulties experienced. Europe adapted to the new order with an unexpected ease and speed.

2. Protectionist attitudes in Australia and New Zealand

The second reason for the failure of NAFTA is its inner inconsistency. It uses the language of free trade and aspires to the objects of free trade but it is conditioned by a protectionist spirit. It is ambivalent. It is schizophrenic. It expresses no coherent principle and even no clear purpose. It pursues free trade between Australia and New Zealand provided no mercantile interest is hurt in the short run and is really much more concerned with this than with its alleged objective of creating a true free trade area.

You may well ask why New Zealand pursues a protectionist policy in trade and why the shallow sophistries of mercantilism have gained such wide acceptance.

I think the principal reasons are two. The first is that all New Zealanders are committed to the concept of full employment and they do not conceive of any other way of achieving this desirable end excepting by a rigidly controlled economy spiced with a moderate degree of inflation in leaner times. The second is because this is a democracy and it contains many social elements which of their nature are committed to short-term views on employment. Such are trades unionists, such are merchants singly or in groups, such as Chambers of Commerce, and such are the poorer sort of politician. The trades unionist may be an enlightened man who knows full well that

the more overseas trade there is the more jobs there will be at home in the long run but not necessarily in his union. But his members have jobs now and removing the tariff or the licence may mean that some will lose their jobs now. He can count them and name them one by one. His job is to protect the interests of his members here and now and he will use any weapon to hand to keep them all in work. The merchant too has a short-term view. He is concerned with the cash flow now. He has to pay his bills and pay his wages next week and any disturbance of the status quo is a threat to that procedure. The commercial person is concerned with profits and the dividends to his shareholders this year. The unionist says protection protects jobs. The commercial person says protection protects profits and he is further comforted by the peace and quiet of a captive market where the element of competition barely intrudes and all costs are piled on to price without question. The inferior politician is courting the votes of all these people and he hopes to ride to power and to stay there by supporting the short-term interests of his constituents. Fortunately in New Zealand he is an exception and I am confident that in the political field today there are men of vision and dedication and courage capable of leading New Zealand into a new area.

The continued influence of these groups dedicated to the short-term view is very considerable and their propaganda is incessant and, I regret to say, evokes a popular response. That this should be so in this educated democracy is an indictment of the quality of the education in economics at all levels and especially at the tertiary level.

The greatest of social virtues is justice because no society can long exist without being informed by it at every level. The social scientist above all should be guided in his advance by the pole star of justice. Justice involves ethics. It indicates what relations there should be among men. It is less concerned with what is than with what ought to be. Of all the social sciences economics today is the most divorced from this idea. A vast amount of study, analysis, observation, surveying and the construction of computer models, explain, in the minutest detail, what is, how it came to be, how it might be changed or how it might be manipulated. Comparatively there is little concern with what ought to be to maximize justice in our economic arrangements. This was not always so. In the days of the classical economists there was the deepest concern about

social ideals and the direction of change. It is certainly true of the illustrious Adam Smith, the passionate John Stuart Mill and the incomparable Henry George.

I am satisfied that the uncritical acceptance by so many New Zealanders today of the crude fallacies of protectionism is ultimately due to this stultifying divorce between ethics and economics.

New Zealanders generally, however, are not greatly influenced by economic theory. They are pragmatists and they accept a managed economy because they have been led to believe it is a means to the end of full employment. Today this obviously is not true. Unemployment today is a tragic fact and it is increasing in spite of massive emigration. It cannot be too strongly stressed that the fountainhead of employment is not to be found in the artificial fostering of industry at all. It really resides in the unprotected primary industries. Health, vigour and growth in these industries will multiply jobs in other areas as nothing else can. You must forgive me for repeating it, but I think its importance merits repetition. Industry begins by the application of labour and capital to natural resources. One man employed in this field provides jobs for probably another five along the chain before the goods produced reach the consumer. Unfortunately the whole apparatus of artificial protectionism and state regulation of the market is quite seriously damaging to the interests of the primary producing industries.

3. It failed to put first things first

The third reason for what I have called the inadequacies of NAFTA is that it failed to put first things first. The thinking which came to dominate the operation of the NAFTA agreement gave an excessive emphasis to manufactures. Although trade is a matter for merchants, trade policy is a matter for statesmen. There has been a strong tendency for our trade policies with Australia to be regarded as a matter for merchants and manufacturers.

In two great primary producing countries this is not good enough. NAFTA was originally designed to deal with the primary produce from our forests. There are still some items of primary produce on Schedule A but to extend them has not even been attempted.

Ministers of the Crown, editorial writers, Australian and New Zealand trade representatives at international meetings never weary of delivering lectures on the evils and destructiveness of

agricultural protectionism. Their pronouncements would carry greater conviction if the speakers had eliminated agricultural protectionism between their respective countries.

To draw a log through the water it is found that if you tow it with the thick end first it makes better progress. In this instance primary production is the thick end of the log. If the obstruction it offers is first tackled the rest will follow easily. Problems presented by wheat and feed grains, by wine and dairy produce, should be tackled first in framing the trade agreement of the future. This is the difficult area. The new trade policy between Australia and New Zealand will be partial, limited, imperfect and a source of continuing friction unless free trade in primary produce is given a central place.

In this matter we should be warned by the experience of others. One may well ask why primary industry which is concerned with primary things — namely the production of food and fibre — the basic needs of mankind — should be universally an industry requiring protection, but so it is. GATT has made minimal advances in removing the protection from agricultural products of temperate zone countries. The European Free Trade Area (EFTA), which was instituted in 1960 as the response of the rest of Europe to the establishment of the six-member European Economic Community, did not even attempt to deal with primary industries but confined itself only to promoting free trade in manufactures. The Common Agricultural Policy (CAP) devised within the Community is a failure. It persists as a focus of division and conflict inside Europe and it is producing damaging distortions to world trade as we in New Zealand know to our sorrow. It even has the potential to destroy the Community, which would be a tragedy for mankind.

Free trade between Australia and New Zealand in primary produce present nothing like the difficulties which are present in Europe and the advantages to be gained are very great. In a lecture supplementary to this I propose to make some specific comments on some of the primary products involved.

There are many reasons why our economies should be integrated but there is one basic reason why they must. That reason is because our defence must be integrated. It is the same reason which compelled the economic integration in Europe. Defence forces are sustained by the underlying economy. Battles are fought by soldiers, sailors and airmen but

campaigns are won in the fields, factories and workshops. The defence forces are only as strong as their supporting economy. If Australia and New Zealand must over the next fifty years each year set apart a percentage of the Gross National Product to provide for defence, the commitment must be substantial and must go on increasing for many years, and the Gross National Product must increase to sustain the commitment. A free trade policy between the countries will strengthen both economies and will provide a good starting point for growth and as they grow they will become an ever stronger unity.

NAFTA follows the path of least resistance. It has not dealt with primary industries. It dealt with the comparatively easy and economically superficial matters of secondary and tertiary industries. The limits for growth were narrow and they have been reached.

Small though the contribution of NAFTA has been I believe it has been of some importance and we should be grateful to those who brought it into being in 1965.

C. Alternatives

If NAFTA is to be superseded what is to take its place? It seems to me that there are three possible alternatives which call for consideration.

1. A customs union
2. Political union
3. A policy of Free Association.

I will satisfy your curiosity about the third mentioned alternative, at least in part, by telling you that it includes full free trade between the two countries.

It may be appropriate to say a little about each of these alternatives if only to point up the very great advantages of the third.

1. Customs Union

A customs union with Australia means that all tariffs between the two countries would be abolished and that both countries would have a common tariff on goods imported from other lands.

I have already pointed out that one of the serious defects of NAFTA is that it deals in tariffs only and ignores all the other impediments to trade such as our Import Licensing system. If those who advocate an Australia-New Zealand customs union mean no more than this, it is not enough. This would involve

two elements: (1) putting all trade goods on Schedule A, and (2) devising one common tariff against the world. To be effective there must be a third element — the abolition of licences, quotas, export subsidies and all the rest of the apparatus of trade restraint which now operates.

I will assume a customs union to contain all these three components.

There is no question that such a union would integrate the economies of the two countries. There is no question that it would tend to strengthen the combined economy of the two countries. In these two respects it would produce a somewhat better situation than obtains now.

It has, however, two major serious defects.

The Australian states have no power to levy customs duties. This is a function of the Federal Government at Canberra and it is here the structure of the common tariff would be decided. In Canberra representatives from all the Australian states would play a part in determining the tariff structure and in practice New Zealand would have a very limited power of shaping the final product. Tariffs would inevitably tend to be designed in the interests of Australia and they would be a source of friction, bitterness and contention. They would create the very spirit of confrontation and non-co-operation which it is essential should be obliterated from our relationships.

New Zealand's trade policies and interests cannot be identical with those of Australia. Australia is extraordinarily well endowed with minerals and fuels and these will inevitably become, in an increasing degree, the basis of a strong industrial economy. New Zealand is now, and probably ever will be, dominated by the primary production sector of the economy. Each country will tend to have a continuing divergence of view about the incidence of customs duties. New Zealand has an enormous overseas trade per head of population in comparatively few items and a narrow spectrum of manufactures. The Australian pattern is not identical and views on external tariffs will vary accordingly.

A customs union has an even more important disadvantage for New Zealand. It condemns us to a policy of perpetual protectionism. We would not be free to enter into free trade agreements with other nations. We could not pursue a free trade policy with the island states to the north or with the Association of South East Asia Nations (ASEAN) or anyone else.

This would be an intolerable limitation of economic sovereignty. Our economy would discard a strait jacket of our own devising for one imposed upon us from without. In practice a customs union will give us the disadvantages of a political union without its advantages. In time it may even lead to political union, as it is tending to do in Europe, but the process will be slow and economic integration is urgent.

2. Political Union

This means that New Zealand would cease to be a political and national entity. We would become the seventh state of the Australian commonwealth with the same status and powers as other Australian states.

This idea has been around a long time. In fact at the very beginning of European settlement we were politically a part of Australia. Captain Hobson was Lieutenant-Governor of New Zealand under the authority of Sir George Gipps, Governor of New South Wales and in those days New South Wales was Australia. The first move towards federation of the Australian colonies was in 1883 when a convention set up the Federal Council. In 1890 the Australasian Federation Conference met. On the motion of the New Zealand delegates it was resolved that "the remoter Australasian Colonies" should be entitled to admission to the contemplated union of the Australian colonies. This opened the door for New Zealand but she did not enter. Federation was achieved in 1900 and the colonies became states. Sir John Hall, one of the New Zealand delegates in 1890, said truthfully that there were twelve hundred reasons against our joining the Federation and the same twelve hundred reasons are still there.

It is not merely a matter of distance. The world has shrunk in size since those days and the distance is nothing like that between San Francisco and New York or between Leningrad and Vladivostok. The Tasman Sea not only separates us geographically, it is also a strong psychological barrier. As I remarked in my opening lecture, "If the Tasman Sea was no wider than Bass Strait we would have joined the Australian Commonwealth in 1900."

Leaving this consideration aside there are strong practical reasons against political union. Inevitably New Zealand must sacrifice a major degree of sovereignty. This would be difficult but not impossible. Perhaps in time all states may need to accept such a diminution of sovereignty if peace is ever to

come to our troubled world. It is the degree of the loss of sovereignty which presents the problem. Federal power at the expense of the states has increased considerably since 1900 and this tendency will probably continue. The descent from nationhood to the much reduced status and powers of an Australian state would not find enough popular support to make it politically possible.

Important decisions would be made in Canberra and ours would be only one voice added to the voices of the other six states already represented there. We would lose control of trade policy and foreign affairs completely and our patterns of taxation would be radically changed.

This latter point merits some attention. In 1942 the Australian states surrendered to the Federal government the power of levying income taxes both on companies and individuals. Some income tax revenue is distributed annually among the states and in the past this annual allocation has been the focus of bitter rivalry amongst them. An Act of 1976 (States Personal Income Tax Sharing Act) now provides for the states to receive a specified proportion of personal income tax collected. Not surprisingly there are six differing opinions as to how the cake should be cut up. Political union would increase the number of opinions to seven. It conjures up truly fantastic pictures of our Prime Minister equipped with his begging bowl on annual pilgrimage to Canberra to play his part. Eliza Doolittle could supply the appropriate comment.

From the setting up of the Federal Council in 1883 to the achievement of Federation in 1900 was seventeen years. Clearly political union between Australia and New Zealand would take some years to accomplish. Economic integration is urgent and cannot wait on such a tardy event.

I do not say that in the fullness of time political union with Australia will not occur. All I say is that now is not the time and that we are least committed in that direction by the third alternative I will now discuss. This in my view is the course which economic integration should take.

3. A policy of Free Association

The first element in a policy of Free Association is full free trade across the Tasman Sea. Of course this means more than merely putting all classes of traded goods on Schedule A of NAFTA. It means also the dismantling of the apparatus of protection, at least in so far as Australia is concerned, which I

have discussed previously.

The one essential thing necessary to accomplish economic integration by free trade is the political will to do it. There is a weakness in this political will which I believe stems from a general acceptance of what I have called the fallacies of protectionism. A whole series of advantages will in time flow from this fundamental reform but I have given prominence to the most basic of all. That is that we really cannot attain to any effective defence of our countries without it. I have done this because I can conceive of no other way to counterbalance the lack of political will flowing from the popular acceptance of the delusions of economic autarchy.

Popular language gives daily evidence of the general acceptance of protectionism. We speak of a "favourable balance of trade" with a country when our exports exceed our imports and an "unfavourable balance" when the reverse occurs. The only "unfavourable balance of trade" is when the total value of our exports is insufficient to pay for all our imported goods and services — a state of affairs with which we are all too familiar.

Trade is not "a two-way street" it is more like a market square on which a dozen streets converge. The total inflow of goods will balance the total outflow from the marketplace but on the individual streets the inflow and outflow will seldom balance.

The value of Australian goods sold in New Zealand will probably always exceed the value of New Zealand goods sold in Australia. Australia has a great and increasing variety of sophisticated products to sell to us, whereas New Zealand will always have a comparatively limited range of products. It does not matter. We will pay for some Australian goods in yen, francs, deutschemarks or US dollars; that is the currency of lands where our trade balance is reversed.

Some talk as if the greater advantage of economic integration by full free trade will come to New Zealand and that we need it more than Australia does. This is not true. The advantages of this reform are mutual. Australia has much to gain. The home market is the base on which the international trade of an industrial nation is built. Australia's home market is too small and this makes it difficult for her to compete internationally with the industrial giants. An increase in the size of the home market, which full free trade with New Zealand implies, could be of the greatest importance to her. It could be like that extra few metres on the run-way which multiplies the usefulness of

an airstrip out of all proportion to the additional length.

The second element of a policy of Free Association is to permit the free flow of capital funds across the Tasman, whether for investment, travel or loans or any other legitimate purposes. Nothing will forge strong bonds between the two economies more quickly. The firmer our economic interests are interlocked the sooner forces will be generated which will confirm, strengthen and defend the new patterns of trade which an open trade policy will produce. One capital market for the two countries is sufficient. In my view this is an essential part of any free trade programme.

The third element of a policy of Free Association concerns exchange rates. In an ideal world exchange rates determined by free market forces may obtain but our world is far from this ideal. Exchange rates are part of the weaponry of economic warfare and Australia-New Zealand trade has been bedevilled by divergent policies in this area repeatedly.

In my view both our countries should jointly pursue a consistent policy aimed at constant parity in exchange rates between them. Let me be fashionable and call this a C.P.E. policy. The unobstructed flow of goods, and especially of investment capital, across the Tasman Sea will tend to a common level of prices and costs which in turn will tend to parity in exchange rates. Making C.P.E. a central point of exchange management will seldom be far from market reality.

With this point fixed it might be possible for the Reserve Banks of our two countries to pick other exchange rates from a common basket. On this I can have no clear opinion because I do not understand the careful explanations given from time to time on this mysterious rite performed by the high priests of finance. I have even suspected that plain men like me are not meant to understand it.

In time such a policy might lead via a common currency to political union but with a difference. Time may show that the genius for government of the English speaking peoples are not exhausted, by our developing some entirely new type of political association.

Finally I believe there should be a fourth element in a policy of Free Association and that is the establishment of a permanent "ANZ Commission" whose function would be the fostering of co-operation on every front between the two countries. It would be concerned with shipping services and freights,

airline policy, tourism and migration, animal and human health and plant regulations and cultural and educational matters. There is already a great amount of consultation and co-operation across the Tasman on such matters as postal and communication affairs, migration, police and criminal concerns. The Commission may aid, intensify and extend co-operation even in these fields. The Commission could investigate and report upon any matters referred to it by Government or it could investigate and publish reports on its own initiative.

It could, by educational programmes and promotion, create an atmosphere of informed goodwill among the people. In creating the spirit of unity between two societies it is not sufficient to appeal to the pocket or even to the head. We must also speak from the heart to the heart.

To conclude this lecture let me state once again the ultimate reason why Australia and New Zealand must integrate their economies by a policy of free association. We are really one people. We are of the same race. We speak the same language. We share a common history, religion and culture. Whether we are Australians or New Zealanders is almost a matter of chance. A host of Australian and New Zealand families have relatives in each country. We are neighbours and natural allies. We are isolated in the South West Pacific; hemmed in by strange Asiatic people and alien cultures. They are our neighbours. They are certainly not our enemies. Neither are they blood relatives. Like us they are captives of their own culture and their own history. To come as close in heart and ideas and values to them as we are to each other could be the work of generations. The common ground we have with them is real but it is not broad.

This is a reality which must be recognized in our relations with each other, whether they are cultural, political or economic. Of these three the only difficult one is economic and this is so by reason of our mutual acceptance of the age-old sophistries of mercantilism in our trading relations. This must be destroyed, not by theories or debate but by demonstrating once again in the marketplace the creative and fruitful character of freedom of trade.