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J o i n t C O N S O L I D A T I O N

THE establishment of voluntary machinery for regular consultation between employers and employees on industrial policy is one of the most promising of all the means proposed for achieving industrial understanding.

The history of industrial relations is largely the story of the struggle of labour for an increasing share of the proceeds of industry. This struggle has been directed toward three main objectives—higher and more stable wages, reduced hours of work, and cleaner, healthier and more congenial working conditions. But today the centre of labour’s interest is shifting. While the goal of material improvement is still prominent in the labour programme it has been joined by other aspirations, spiritual and psychological in nature.

One of the most serious accusations to be levelled against the modern industrial process is that it fails to satisfy the deeper instincts of the worker, his desire for self-expression and a measure of independence, his need of a task in life that makes full use of his latent talents and gives him a status of personal security, dignity and responsibility.

With the broadening of popular knowledge through adult and technical education and through the agencies of the press, radio and cinema, and as

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(continued)
industrial processes have become more intensely specialised, this feeling of dissatisfaction and frustration has grown. It undoubtedly underlies a great deal of present-day industrial unrest, even though the immediate surface causes of disputes are still those concerned with questions of wages, hours and physical conditions of employment. In a series of articles on industrial peace that aroused immense interest in the United States, a noted student of industrial and social problems, Peter Drucker, reduces the causes of discontent in modern industry to four main categories. One of these is the psychological irritation and frustration set up by certain types of assembly work in the large mass-production plant.

PSYCHOLOGICAL STRESS

It should be noted that this psychological stress is peculiar to modern industry. The old-time craftsman could rarely have felt it. Politically he may have been much inferior in status to the present-day unskilled factory worker, but he was at least the master of his own daily task. He planned, executed and disposed of the product of his labour. His work called on all his skill, ingenuity and imagination and the final finished article was in most respects the result of his own individual efforts in which he was able to take a personal pride and satisfaction. While modern industry has made possible a vastly improved material standard of life and increased leisure for the mass of the people, it has greatly narrowed the compass and variety of work itself and has condemned increasing numbers of workers to a severe, hampering and sometimes soul-destroying specialisation in their everyday tasks. This is painting the picture in strong colours, but not too strong. Unless modern large-scale production can reconcile its necessarily specialised and disciplined processes with the legitimate human aspirations of the industrial worker for a broader, more dignified and self-satisfying way of life, there is little prospect of achieving a solid basis of industrial contentment and peace.
THE WORK OF G. S. WALPOLE

The problem has nowhere been better stated than by a managing director of a well-established engineering firm in Great Britain, the late G. S. Walpole:

"The man who, in his domestic relationships, takes pride in being the ‘master of his own house’; the younger man who, at home or at his club, is the centre of family or friendly admiration; and the girl who is the very apple of her mother’s or her sweetheart’s eye, cannot readily adjust themselves to an impersonal industrial relationship in which they become merely numbers on a time card, cogs in the industrial machine. And they bitterly resent being required to do so.

What will be sought, as industry gradually settles down to a post-war footing, is a relationship which satisfies the deepest-rooted of all human desires—recognition of the dignity of man as MAN: a relationship in which he can feel that he is, in a fundamental sense, a full partner in industry and not for so many hours every day the servant of an employer.”

The solution proposed by Walpole in his book “Management and Men,” which has come to be recognised as a standard work on the subject, is that of joint consultation. Basically it envisages taking the worker, through representatives which he himself elects, into the full counsels and confidence of the employer and management responsible for the direction of the enterprise by which he is employed. The machinery for the accomplishment of this objective is that of permanent standing committees with defined functions, which meet frequently and regularly, and on which sit representatives of employers and management
CONSULTATION

(continued)

on the one hand and of labour on the other. The committees would consider and settle grievances, enlist the workers’ interest and assistance in promoting industrial efficiency, provide the means by which the workers could be made fully aware of the plans and policies of management and the opportunity for discussion and criticism of those plans, and in effect would embrace all industrial questions bearing directly or indirectly on the welfare of the worker. In Walpole’s conception committees would be established at the factory level to deal with matters appertaining to the operation of the factory, at the industrial level to consider problems primarily of concern to the whole industry and at the national level for the discussion of national industrial and economic policy.

BASIC PRINCIPLE OF JOINT CONSULTATION

The basic principle underlying the conception of joint consultation is that both employer and employee have a common interest in the success of the business enterprise in which they are engaged and in the prosperity of industry as a whole. The employee is therefore entitled to be informed of all industrial plans and to make his contribution toward their improvement and ultimate success. He is not just a hired hand to be put on and off at the whim of the employer or as economic circumstances may dictate, but a responsible partner with a real stake in industrial progress.

Joint consultation in industry is, of course, nothing new. There is already, and in the nature of things must be, a considerable amount of discussion between employers and the representatives of employees—particularly trade union officials—on a wide variety of industrial problems. What is new is the conception of joint consultation as an organised integral part of the industrial machine to extend over the entire field of industry, to cover not merely a limited range but the whole ambit of industrial problems, with the employee recognised as equally concerned with employers and management—and participating with employers and management—in their solution.

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EFFECT OF THE TWO WORLD WARS

The two world wars—1914-18 and 1939-45—gave rise to a great increase in the practice of joint consultation, mainly at the factory level. But in each case the enthusiasm was short-lived, and, with the return of peace, there was a tendency to revert to pre-war conditions.

At the end of the first world war Workshop Committees and Works Councils were active over a large section of British industry. A similar development took place in the United States. But in the twenty years between the first and second world wars many of these committees disappeared. However, in the 1939-45 war there was a considerable flowering of Joint Production Committees in Great Britain and of Labour-Management Committees with similar functions in the United States. Some thousands of Joint Production Committees, covering a large proportion of industrial workers were established in Great Britain, while in the U.S.A. it has been estimated that in 1943 there were 1919 Labour-Management Committees representing over 4,000,000 workers. These committees met with varying degrees of success. There were many failures, but by and large the consensus of informed opinion is that they made an important contribution to the maintenance of good relations during the war and the goal of all-out war production. All reports indicate that since the end of the war many of the committees have ceased to exist.

It is noteworthy that in Australia in neither of the two wars was there any comparable movement toward joint consultation at the factory level. What development did occur in this country was no more than a ripple on the surface of industrial relations. This was largely due to three circumstances—the indifference of organised employers, the apathy and in some
cases antagonism of trade unionism toward the idea, and the
overriding fact of the dominance in Australian industrial rela-
tions of compulsory arbitration. The effect of the second
world war was in general not to develop means of voluntary
consultation but to extend the scope and authority of the
machinery of compulsory arbitration.

THE WHITLEY COMMITTEE

Perhaps the outstanding development in the whole history
of joint consultation is to be found in the work of the Whitley
Committee which was appointed by the British Government
in 1916 to examine methods for securing a permanent im-
provement in industrial relations. The Whitley proposals
included a system of Joint Industrial Councils on an industry-
wide basis, and also of Works Committees in individual fac-
tories. The work of the Whitley Committee has left an
enduring mark on the structure of industrial relations in Great
Britain. The Committee stated “that a permanent improve-
ment in the relations between employers and employed must
be founded on something other than a cash basis. What is
wanted is that the work people should have a greater oppor-
tunity of participating in the discussion about, and adjust-
ment of, those parts of industry by which they are most af-
fected.”

The closely-knit and comprehensive system of consultation
proposed by the Whitley Committee did not eventuate.
Nevertheless, there was an impressive development in the use
of Joint Industrial Councils constituted on the lines of the
Committee’s recommendations. Between 1918 and 1921, 73
Joint Industrial Councils were established and today a con-
siderable sector of the negotiating machinery in Great Britain
on wages and conditions is based on Joint Industrial Councils,
which, however, vary widely in their nature and scope of authority. The Joint Industrial Councils comprise a large and important part of the system of collective bargaining which forms the normal process for the settlement of wages and conditions of employment in British industry.*

DEVELOPMENTS IN AUSTRALIA

While the British system of joint consultation may from the British point of view seem haphazard, defective, incomplete and falling a long way short of the comprehensive system visualised by the Whitley Committee, and in latter days by G. S. Walpole, through Australian eyes it appears an impressive and considerable structure. For in this country we have barely scratched the surface of this most vital field of industrial relations.

At the factory level there are a few examples—but they could almost be counted on the fingers of both hands—of works councils or production committees with a comprehensive range of activity. There are, of course, a vast number of committees touching on different aspects of the factory life of the worker such as canteen committees, safety committees, social and welfare committees. Although some of these may contain within themselves the seeds of true joint consulta-

*In the light of Australian practice and its emphasis on the principle of the "rule of law" in industrial relations, it is of interest to read the comments on the British method of collective bargaining in the Industrial Relations Handbook published by the British Ministry of Labour and National Service.

"The whole of this collective system rests upon the principle of mutual consent, and the value of the agreements and the machinery for settling disputes has depended upon the loyal acceptance by the constituent members, on both sides of the decisions reached. This acceptance is purely voluntary depending solely on the sense of moral obligation. Loyal acceptance has in fact been the rule in all the trades concerned. Although the question has been raised from time to time of the adequacy of these methods, the view has always been taken that it was not desirable to adopt some alternative based upon principles other than that of mutual consent or to introduce any system of penalties for non-observance of agreements. Certain steps have, however, been taken in the interests of the community to encourage joint voluntary machinery and to assist where necessary in the settlement of disputes."
tion, generally they are far too restricted in scope to be dignified by that designation. There is practically no joint consultation in Australia at the industry-wide level. True, there is in Victoria and Tasmania, a system of wages boards composed of representatives of employers and employees and covering different industries. But these boards are created under statute, their scope is generally confined to questions of wages and working conditions, their determinations are legally binding on the parties concerned, and follow to a large extent those of the Commonwealth Arbitration Court. They are in no sense joint consultative bodies in the true meaning of that term. At the national level an attempt was made during the war to establish a joint national industrial relations advisory council, but after two or three meetings the council became unworkable and was abandoned.

REASONS FOR LACK OF INTEREST IN AUSTRALIA

Why has there been so little development in Australia in industrial joint consultation compared with Great Britain and other countries? In the first place employers by and large have shown little enthusiasm for the subject. In fact during the war the more less half-hearted effort to follow the British example in setting up joint production committees was opposed by some of the representative bodies and did not get very far. The feeling among Australian employers, apparently, has been that management is the sole prerogative of management and that it is under no obligation to discuss with the workers the reasons behind its actions. There is a fear that committees set up for this purpose might be used to undermine the authority of management and establish union or worker control of industry. On the other hand the trade union movement itself has so far shown no great enthusiasm
for consultative committees. Its lack of interest apparently springs from the fear that committees of this kind might trespass on the territory of unionism and might work to undermine and weaken its authority.

This explanation is not, however, sufficient to account fully for the small interest in joint consultation in this country. To some extent we would expect these reasons to be operative in other countries such as Great Britain where joint consultation has progressed much further than Australia. The overriding reason behind the small development of joint consultation in Australia is probably to be found in the dominating position of arbitration and of the principle of the "rule of law" in industry. The need for joint negotiating machinery has not been felt so acutely as in other countries where legal regulation of industrial relations is not so prominent. The supremacy of compulsory arbitration is, however, both cause and effect of the failure to develop voluntary machinery. There are good grounds for believing that in the minds of the founders of the system, and of judges of the courts, it was never intended that arbitration should be used or developed in such a way as to overshadow voluntary methods. For instance, in a notable judgment in the Metal Trades Case in 1929, Judge Beeby made this statement:—

"In 1926 I was impressed with the lack of co-operation existing between employers and employees, and urged that some effort should be made to form councils of consultation representative of employers and their workmen, with a view to arriving at some method of adjusting industrial differences by voluntary methods. My efforts in this direction, however, have not met with much success. . . . Even at this stage I urge upon the parties the necessity of establishing a Joint National Council, with district committees in each State, to consider the broad issues in which there is mutual interest, and to attempt to arrive at agreements similar to those which now operate in Great Britain."

LIMITATIONS OF JOINT CONSULTATION

Whether joint consultation even in its most theoretically perfect form would cure completely the psychological malaise of modern industry is highly doubtful. For one thing the
function of consultative bodies must in the main be advisory rather than executive in nature. Industry could not operate efficiently unless management retains the final authority to determine policy and to make decisions. But in spite of its limitations joint consultation remains one of the most promising of all developments in industrial relations, and of all the means proposed for achieving industrial understanding and co-operation.

A POLICY

Australia has done comparatively little in this field and it is high time that industrial circles awoke to its possibilities. This does not mean that an attempt should be made forthwith to establish a complete and unified system of joint consultation throughout Australian industry. Such an attempt would be doomed to failure. Joint consultation is something in which we must learn to walk before we run. Nevertheless, a beginning should be made. A few Australian companies have established true factory Works Councils with satisfactory results, and there is no reason why a large number of other industrial concerns should not follow their example. In fact every industry might examine itself to see whether its internal conditions are such that an experiment in joint consultation at the plant level might be embarked upon with prospects of success. In addition a new effort might well be made to set up a National Industrial Relations Council of employer and employee representatives to explore matters of common concern to both parties to industry. Such a body might examine the practicability of building gradually an industry-wide system of consultation along the lines envisaged by the late Judge Beeby in 1929. One thing is certain—there is no hope of establishing good-feeling and trust unless Australian industry learns to place less reliance on legal regulation of industrial relations and more on voluntary methods. It is here that joint consultation has a contribution of unique value to make to the Australian industrial scene.
In recent years a tremendous barrage of criticism has been hurled against the profit-motive. This criticism, a large part of which is the product of emotion rather than reason, has had the inevitable effect of increasing public suspicion and disfavour of profit-seeking and of dangerously weakening the fortifications of enterprise in all its forms—private, public and personal. The results of this are to be seen in the facts of the post-war situation—in the fact that public companies on the average have to be content with little more than half the "real" profit* they enjoyed before the war, in the disinclination of the worker to work overtime because the extra earnings after taxation are regarded as hardly sufficient to compensate for the extra effort, in the reluctance of many professional men to undertake more than a limited volume of work, and in the growing practice among younger men to seek in their careers security rather than risk and adventure.

There are few subjects about which there is greater misconception than profit and the profit-motive. There is probably no subject in which ignorance can do greater economic and industrial harm and on which unprejudiced and unclouded thinking is, therefore, more necessary.

Distinction Between Profits and the Profit-Motive.

In the first place in a great number of minds the profit-motive and business profits, particularly the profits of public companies, seem to be regarded as identical. In fact, business profits are one aspect only, and a comparatively minor aspect, of the profit-motive. Except for a very small minority, all men—and not merely those who live by business profits and no matter whether they dwell in Australia, the United States or Soviet Russia—are actuated to a greater or lesser degree by the profit-motive. All men, with few exceptions, work for personal gain, and all men, with few exceptions, desire to increase the rewards they receive for the work they perform. This applies as much to the unskilled labourer as to the top business executive, as much to the tram-conductor as to the head of the tramways board, to the chef as to the cafe proprietor. In fact—and there is irony in this—there is probably no organisation more strongly founded on, and inspired by, the profit-motive than the trade union movement itself. At least the profit-motive is just as powerfully at work in the ranks of trade unionism as in those of employer organisations.

Profit-Motive Not Immoral.

Nor is this to be condemned on moral grounds. That a man should strive to increase his income in order to provide himself with the means of a fuller material and cultural existence, is altogether natural and wholly to be commended. In fact this urge to self improvement has been the driving force behind a great deal of the material and technological progress of mankind. There are of course some people, but their numbers are compara-
tively small, who seek money and riches for their own sake or for ignoble ends—for the satisfaction of gross material pleasures, for the sheer joy of flaunting their riches in the face of the less fortunate, or for personal aggrandisement and the power money gives them over their fellow men. But for every human being of this kind, there are probably a thousand who desire money for nobler purposes—for the security and comfort of their wives and children, the improvement and beautification of their domestic surroundings, the opportunities it provides for better education, for the realisation of philanthropic and social ideals.

The profit-motive, the desire for personal gain and material betterment, is one of the elemental instincts of man. Kept within reasonable bounds it is not immoral, it is not against the interests of society, and it will continue to be active no matter what the form of the political and economic organisation. In a society in which all industry was owned and run by the State, there would still be wage-earners desirous of increasing their wages, managers and executives of raising their salaries, and engineers and musicians, and yes, even politicians, of obtaining greater rewards. The problem of securing economic and social justice does not consist in the elimination of the profit-motive—an aim which, being opposed to the fundamental nature of man, is entirely impracticable—but in distributing the product of human effort on a just basis in proportion to hard work, skill, enterprise, risk and social need and significance.

The profit-motive is not, however, the only motive animating men in their economic pursuits. There are at least two others. One is the desire to give service; another is the desire for power. Both are present, in greater or lesser degree, in most men and both like the profit-motive can be—but need not necessarily be—a powerful influence for social and economic improvement.

The Motive of Service.

The motive of service is not the exclusive possession of a few saints. It is widely spread throughout the community. When a crisis such as a major war hits a nation, the motive of service becomes paramount, and hundreds of thousands of people can be found who are ready to sacrifice their own personal interests and even their lives for the good of the State. There is, in fact, present in most people a great latent capacity for selfless service. This capacity is not necessarily destroyed or submerged by the profit-motive. The two motives are not mutually exclusive. The urge to achieve a more comfortable livelihood—and fuller life for oneself—is not necessarily incompatible with the wish that other people should also have the opportunity and means of a better existence. The business leader in his ambition to build a great business enterprise is not seldom motivated by the ideal of service at least as much as by the pursuit of profit. Nor is the wage-earner clamouring for higher wages necessarily without a sincere desire, and often a great capacity, to serve his fellow men. A man is not black or white according to whether he happens to be a director of a big business or a dustman, a capitalist or a socialist. The idea that employers as a class are self-seekers, untouched by any finer ideals than that of personal profit, and that wage-earners as a class are selfless,
disinterested idealists untainted with the desire for personal gain, is utterly false, but it seems to exert a tremendous influence over present-day economic and political policy. The proportion of bad to good wage-earners is probably identical with the proportion of bad to good employers. The sooner we begin to think of men as individuals instead of men in the mass, the sooner we will commence to find real solutions for economic and social problems.

The Power Motive.

In impelling men on to greater efforts and achievement the attraction of power is possibly just as important as the lure of profits. And, like the profit-motive, the power-motive is not good or bad in itself. It becomes bad when the desire for power is so powerful that it submerges all other motives, and when power itself is applied to evil or ignoble purposes. There are few men who have attained to the topmost flights in industry that have not engrained deeply in them the love of power. But it is also true that the successful union leader at the head of a union whose membership may run to tens of thousands desires power and enjoys its exercise equally as much as the managing director of a business with capital resources amounting to millions of pounds. The real test of the value of power is whether it is wisely exercised.

Mixture of Motives.

The human being is a strange and complex mixture of many, and often contrasting, motives and instincts. In one man one motive will predominate, in other men it will be insignificant. These three motives, the desire for profit, the desire for power, the desire to serve, are present, and will remain present, in varying degrees in practically all men, no matter to what section of the community they belong, no matter what the political form of the society in which they live and have their being.

Business Profits.

In the minds of most people the profit-motive is identified with the profits earned by business, particularly the profits of the larger public companies to which a great deal of publicity is given in the daily press. As we have seen, this idea is fallacious. It leads those who see no purpose in, or justification for, business profits to a sweeping condemnation of the profit-motive as such. One might as well pass sentence of guilt on man himself.

Business profits are one aspect only of the profit-motive.

Functions of Business Profits.

What useful functions do these profits perform?

1. Incentive to Achievement: First of all they provide an incentive to achievement. They encourage men to create and build, to show enterprise, to produce new and better products, improve methods of production, raise efficiency and reduce costs, expand markets, provide better service, invest and risk capital in new forms of production. This incentive function of profits is, however, probably less strong in the large public company than in the small private company, partnership, or one-man business. In the smaller business the connection between effort and enterprise on the one side and reward on the other is much more direct than in the large concern. Very often the driving force behind an ambitious programme of expansion undertaken by a large public company springs from one or two top executives who do not stand to benefit financially in anything like the degree to which

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their efforts would seem to entitle them. In the development activities of the large organisation, the motives of power, of national service, the sheer joy of adventure and satisfaction in achievement play a large part.

2. Test of Efficiency: This, however, should not be taken to mean that profit performs no function of value in such concerns. In these, as in smaller businesses, profit is a test of efficiency. The most efficient business, the one that provides the highest quality products at the lowest cost is in general the one that makes the most profit. This, of course, is not universally true. In a monopolistic business, or in an industry in which the firms have banded together to fix unfair minimum prices and eliminate competition, profit need not be, and very often is not, any indication of outstanding efficiency. Nevertheless, the business which makes the highest profits is not infrequently the one that gives the best service to the community. This is a fact very often overlooked.

3. Index of Demand. Thirdly, profit, actual and prospective, is one of the means by which the business man is informed of the changing desires and tastes of the consumer. When profits in a particular industry rise, other things being equal, it is often a broad indication that the public is prepared to consume more of the things that the industry produces. When profits decline, the business man knows that he must tread warily, and possibly reduce his production of the things on which losses are being incurred.

4. Attract Savings: Fourthly, profits are the means of attracting savings into industry—high profits are the means of enticing capital into new, risky, but often socially beneficial forms of production. Profits provide the fund out of which interest on their investment is paid to those prepared to place their savings at the disposal of industry in the hope of obtaining a reward. It is these savings which make possible the expansion of capital equipment and the improvement of industrial efficiency. Experience confirms, and modern economic theory accepts, the proposition that the standard of life of a people depends very largely on the extent and quality of its productive capital equipment. The average level of profits should therefore be sufficient to ensure an adequate flow of savings into industry. It is no accident that the high-profit economy of the United States is also the one with the greatest amount of physical capital per head of the population, and the one able to pay the highest real wages to its workers. If we are to achieve a higher level of wages, there must be more capital. High profits and high real wages are not, as is commonly supposed, mutually exclusive. They are in fact two sides of the same coin—the coin of national prosperity. This is a truth that needs to be well absorbed by both capital and labour, as well as by governments.

5. Providing Reserves for Capital Development: The development of the capital resources of industry is financed not solely by the savings of tens of thousands of shareholders. A very substantial part is financed directly out of business profit itself. This is the fifth function of profit. All the profits earned by industry are not paid away as dividends to shareholders. A big proportion, in the larger public companies amounting on average to something like 15%, is retained in the business, and much of this is used for the purchase of additional plant and equipment. It is as much in the interest of the community as in that of business that this
should be done, for it provides a direct and simple method of financing the countless small improvements and additions to processes and equipment that are for obvious reasons unsuitable for financing by the issue of new shares or debentures.

6. Reserves for Hard Times: Finally most prudent businesses set aside some of their profits to build up reserves that can be called upon in the event of hard times. These reserves can give long-run stability to a business, and, if properly used, can assist it to maintain its labour force at the maximum numbers when sales fall off and production has to be curtailed. In fact the contribution which business as a whole might make to alleviating the consequences of trade depression through the intelligent use of reserves built up in good times out of profits is a subject to which far too little attention has been paid in the past and to which a great deal of study might beneficially be devoted by businessmen themselves.

Excessive Profits.

One of the most widespread and tenaciously-held misconceptions about profits is that they are excessive and far greater than is necessary for the efficient conduct of industry. It would be idle to deny that there are many instances of unnecessarily high profits. The business man, like the vast majority of other men, is no paragon of virtue and if he sees the opportunity of increasing his profits, even though they may already be more than adequate, he will generally grasp it. But though there are cases of excessive profit-making, altogether they add up to no more than a very minor part of business as a whole. Over the whole field of industry, taking into account bad years as well as good, losses (which are by no means infrequent) as well as gains, the average level of business profits is astonishingly moderate. Statistics published by the Commonwealth Bank suggest that the average return on capital invested in industry is something of the order of 5% to 6%.

The evil of excessive profit-making—of profiteering—remains, however, and must be unreservedly condemned. The best protection against profiteering is to be found in a lively vigorous competition. Where competition is impracticable or non-existent there is a case for some government oversight and control of the level of profits. But discrimination is needed. There is always a grave danger that a localised assault on profiteering will develop into a general large-scale attack on all profits with disastrous consequences for the economy.

The attempt by the Commonwealth Government in 1942 to eliminate profiteering during the war by imposing an overall ceiling on profit of 4% on capital employed is a case in point. When the proposal came to be examined in detail, the impracticability as well as the injustice of placing an arbitrary upper limit over all profits became apparent and the Government wisely decided to abandon the scheme. The main reason for abandonment put forward by the Prime Minister, the late Mr. John Curtin, was that the plan would have had the effect of imposing an impossible tax burden on the small shareholder. He pointed out that there were 300,000 shareholders in Australia with incomes below £250 a year and that insuperable difficulties had been encountered in providing for a just application of the profit limitation.

In this announcement the Prime Minister made the significant admission that he had yet to discover the correct definition of "excessive profits." It is in fact impossible to limit profits to an arbitrary standard rate without committing mani-
fest absurdities and gross economic injustices. Is the new risky speculative business to be permitted no higher profit than that earned by the old well-established organisation? Is a highly competitive business to be placed on the same basis as a monopoly? Is the efficient business to be allowed no greater profit than the inefficient? Is the gold mining company to be restricted to the same rate of profit as the company supplying an essential service? Is the pioneer and inventor to get no special reward for years of sacrifice and arduous work? Excessive profit cannot be decided only by the rate of profit on capital employed in the business. It can be determined only by reference to all the economic circumstances surrounding the business. These circumstances vary widely between each industry and often between individual firms in the same industry.

Profit A Means Not an End.

Profit is not as is commonly thought the sole objective of business. Strictly speaking it is doubtful whether it is an objective at all. It is a means to an end, not an end in itself. It provides the businessman with a means of estimating the market for his product, of providing his employees with security and better conditions of employment, and of rewarding those people who are prepared to place their savings in his care. To quote a standard textbook on management “Profit can no more be the objective of a business than eating is the objective of living.” But without eating there is no life and without profit there is no business—at least no business under the private enterprise system.

Business Man Partly to Blame.

For the suspicion and hostility surrounding business profits the businessman himself must bear a large share of the blame. He has never made an organised and well-considered attempt to explain the nature and composition of profits to the public. On the contrary he has tended to surround the whole subject of profits with a cloak of secrecy. He usually presents his financial reports in such a way that their real meaning is clear only to the skilled interpreter of accounts. He frames his profit statements mainly to meet the needs of the shareholders, not the requirements of his workers and the public. Only recently, and then only in rare cases, has he attempted to explain his profits more fully and simply to his employees and show the proportion they consume of the total revenue of his business. The ordinary citizen reading the headlines in the financial press since the end of the war can hardly be blamed if he is under the impression that company profits have seldom been higher. He would be surprised indeed if he were told the truth—that the post-war level of profits is probably less than two-thirds of the pre-war level.

There are few more urgent needs in industry than the need for franker and fuller information about profits. If private enterprise neglects to take the initiative in this, governments should consider exercising compulsion. For such compulsion would be in the interests of business itself and of more accurate and realistic economic and political thinking. As a leading journal* has excellently put it “The aim would be not to convict industry of sin, but to clear it of unfounded suspicion.”

* "The Economist," 27/7/46.
1. The index of money wages is based upon nominal weekly wage rates for adult males as published by the Commonwealth Statistician.

2. The indices of money profits and money dividends are compiled from figures published in the Commonwealth Bank Statistical Bulletin showing company profits and dividends as a percentage of shareholders' funds. These figures are extracted from the published accounts of some hundreds of companies with shareholders' funds, aggregating upwards of £500 million. Profits are shown after making provision for company taxation.

3. The base year $1937 = 100$. 

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1. The indices in this graph reflect the real values, i.e., purchasing power of the money values shown in the first graph. Real values are obtained by adjusting for changes in prices by the "C Series" index number published by the Commonwealth Statistician.

2. The "C Series" index number merely purports to demonstrate the change in the cost of a similar selection of commodities and services consumed by the average wage-earner between two periods of time, and for this reason has limited validity as an index of the purchasing power of money. Its application to money wages is much more exact than its application to money dividend receipts. It has been adopted in this analysis for want of a better alternative measure. This does not affect the general argument that there has been a fall in the real value of profits and dividends for the use of the "C Series" index has the effect of considerably underestimating the decrease in the purchasing power of most shareholders.

3. The base year 1937 = 100.

N.B.—Information published after this analysis was completed indicates that in 1946 there was a further rise in real wages and little change in real profits.
THE statistical analysis comprised in the two graphs depicts the trends in profits and dividends and wages since the pre-war years. The first graph suggests that there has been a fairly substantial increase in money rates of wages and some falling away in rates of company profits and dividends as measured by the percentage of profits and dividends on shareholders' funds.

But wage rates on the one hand and profit and dividend rates on the other have little significance to the wage-earner, company or shareholder, apart from the quantity of goods and services that they can purchase. It is necessary, therefore, to make some allowance for the changes that have taken place in the purchasing power of money since the pre-war years. It is the common practice to measure these changes by the “C Series” price index number which is the index adopted by the Commonwealth Arbitration Court for adjusting the basic wage to variations in the cost of living. While it is doubtful whether this index gives a true reflection of the rise in the cost of living or of general prices since the pre-war years, and while the index is not perfectly satisfactory for the purposes to which it has been applied in this analysis, it is probably the best available general indicator of price changes.

When rates of wages, dividends and profits have been adjusted for price changes by this index it appears that real wages (before payment of tax)—i.e., wages in terms of the goods they could purchase—have risen by something like 6% since 1937, whereas dividend rates (before payment of tax) have fallen by 32%. Rates of company profits (after providing for tax) earned on shareholder’s funds have fallen by 35%.

With the recent lifting of ceiling prices on shares, the shareholder’s capital equity in money terms has increased substantially since 1937-8. However, when share values are adjusted for price increases by the “C Series” index (taking this index to measure the depreciation in the value of £A) their average value has risen only very slightly.

No provision has been made in this survey for the effects of personal income tax or of social service expenditure on the real income of the wage-earner as against that of the shareholder. The rise in tax rates has been more severe on income from property than on income from personal exertion. In addition the heavy increase in social service expenditure in recent years has favoured the wage-earning sections at the expense of shareholders and those in the higher income brackets.

The statistical evidence suggests that since pre-war years there has been some improvement in the economic position of the wage-earner relative to that of the shareholder, public companies and other recipients of income.
Since 1938-9 the Australian social and economic structure has undergone a striking metamorphosis. Making full allowance for the abnormal conditions of the period of post-war transition it is possible to distinguish a number of structural changes to the economy, fundamental, and to some extent, permanent, in character. It is these changes rather than the out-dated issue of nationalisation versus private enterprise, which should be attracting the attention of politicians, businessmen and social thinkers.

The first is the realisation, temporarily at any rate, of full employment, which was generally accepted by the democracies during the war as the supreme aim of post-war economic policy. The second, and the most far-reaching in its implications, is the redistribution of the total product of Australian work in favour of the lower incomes at the expense of the middle and high incomes. The third lies in the great increase in the proportion of government expenditure to total national expenditure of all kinds. Allied to this is the fourth fundamental change—the development of government control and of central direction of the economy.

It is the present intention of the Editorial Committee to publish in successive issues of the "Review" a series of articles in which these major changes to the economy will be examined.

Since the end of the war the level of employment in Australia has been at an all-time high. The percentage of unemployment in the last six months of 1946 (according to trade union returns to the Commonwealth Statistician) averaged 1.4%. In the previous twelve months the average was about 1.3%. Nothing comparable with this has been achieved before under peacetime conditions. In the three years 1936-7 to 1938-9, the average level of unemployment was of the order of 9%. Over the twenty years preceding the second World War the average was 14%. It is significant that the best figure previously achieved in peace-time was 6.5% in 1918-19 and 1919-20.
Conflicting Definitions.

Insofar as trade union returns—which cover only members of certain unions—can be taken as an accurate reflection of the level of unemployment over the whole economy, the present conditions surpass the most ambitious aspirations of the protagonists of the full employment economy. Sir William Beveridge, who probably gave birth to that school of thought which prefers to define full employment as a state in which there are “more jobs than men”—a definition adopted by the Commonwealth Government in its White Paper on full employment—was content to aim at an unemployment figure of 3%. Professor Copland attacked this approach on the grounds that it would involve an economy constantly under the threat of inflation and needing permanent controls over wages, profits and prices. He suggested that it would be better to shoot at a target somewhere between 5% and 8%. This is identical with the goal recommended in the United States by the Technical Committee of the National Resources Planning Board. A somewhat similar goal is implied in the White Paper on “Employment Policy” published by the British Government during the war.

It is not the intention of this article to argue the merits and demerits of these conflicting definitions of “full employment.” They have been mentioned merely to underline the fact that by whatever standards full employment is assessed, the present level of employment in Australia more than satisfies those standards.

Problems and Opportunities.

For almost two years now Australian industry, perhaps for the first time in peace, has been operating under an economy of full employment. This economy has given rise both to problems and opportunities that did not exist where the normal state of things was a level of unemployment of somewhere around 10%. The fact that full employment has been attained—indeed more than attained—since the end of the war does not prove, however, that the policies for abolishing unemployment, which were threshed out during the war as a result of intense thought and mental labour, have been successful. The present state of full employment is largely the natural outcome of the extraordinary financial and economic conditions of the post-war transition period—the banked up demands of governments, businesses and individuals supported by plentiful purchasing power pressing on short supplies of goods—rather than of any policy adopted by governments during the war for eliminating depression and maintaining a high level of employment. These policies have yet to be put to the test, which will not come until the abnormal supply-demand relationship brought about by the war has been succeeded by more normal conditions. Nevertheless, the fact that the level of unemployment in the years following World War II has been substantially lower than the level after World War I, on the face of it seems to suggest that we have made some advances in the practical management of economic affairs.

Hopes for Full Employment Not Yet Realised.

The condition of full employment—indeed of over-full employment—has not so
far proved to be an unmixed blessing. In fact many of the high hopes which were held for full employment have up to the present not been realised. These hopes were largely based on the belief that the automatic outcome of the elimination of the waste of resources, inherent in an economy with a persistent margin of unemployed labour, would be a higher level of national production and consumption, and, consequently, a higher average standard of life for all. Economists, most of whom foresaw some of the dangers of the full employment economy, were, nevertheless, over-ready to assume that full employment and prosperity were synonymous terms. Full employment, they said, implies the opposite of economic depression, and therefore, if we can achieve a permanent state of full employment, we will have eliminated depressions.

Our post-war experience of full employment, brief though it is, has hardly served to bear out these hopeful predictions. In fact this experience has been so disillusioning that many people who formerly supported the goal of full employment as an admirable social ideal, have become dubious whether full employment can be made to work satisfactorily. A few have definitely turned against it and now pin their faith to the traditional "pool of unemployment" as the only means of assuring the progress which derives from hard work and industrial discipline.

Full Employment and Depression.

The post-war period provides abundant evidence that it is quite possible to have full employment without full production—that full employment and maximum production are not the "all weather" inseparable companions many have believed them to be. More than this, it is becoming clear that full employment, if it can be permanently maintained, does not ipso facto mean that the devil of economic depression will no longer stalk the land. All that full employment implies is the elimination of depression in the old traditional meaning of the term, in which the level of employment was the accepted index of industrial health. Recent experience shows that it is possible to enjoy all the advantages of having no unemployment and yet still be in imminent danger from economic depression—a depression not of the old type but of one marked and caused by sheer failure to produce.

Poor Productivity.

Only a few weeks ago in evidence before the Commonwealth Arbitration Court, in the 40 Hours Case, Australia's best-known statistician, Mr. Colin Clark, gave it as his opinion that despite the great increase in the numbers employed over the last pre-war years real national income today is little or no greater than in 1938-9 and that productivity—output per man-hour—is probably about 10% lower. This accords with the viewpoint expressed in the March issue of the I.P.A. "Review" and fairly closely with other expert economic evidence presented in the 40 Hours Case.

Dangers of Under Production.

The great dangers of full employment are those of under-production and of a level of costs and prices out of the reach of the incomes of the people. Under full employment where a man can walk out of one job into another, the "threat of the sack" no longer holds any terrors. On the other hand, under conditions of unemployment, one worker—and not merely
the factory employee but the office worker and executive—is under some compulsion to prove himself at least as efficient as the next. Competition between employees for jobs is no less a potent means of ensuring productive efficiency than is competition between businesses for the available market. The traditional "pool of unemployment" did unquestionably have the effect of maintaining worker efficiency and sometimes plant efficiency at a reasonably high level. It can be shown statistically that in periods of acute unemployment manhour output has often increased. This is what happened in Australia during the great 1929-33 depression. The less efficient workers were laid off, workers and executives on the payroll worked more efficiently, there was keen competition for the available jobs and the most inefficient machines and production units were closed down. It can also be shown that there is a close statistical correlation between the amount of unemployment and the number and intensity of industrial disputes. Strikes tend to increase in severity in times of high employment and to fall away in periods of low employment.

All this of course does not constitute an argument for a return to the pre-war "pool of unemployment." Even if such a course were economically desirable, it would be socially most undesirable and politically impracticable. As the London "Economist" has so often reiterated, a conscious policy aimed to maintain full employment is a political "categorical imperative" for the government of a modern democratic state.

Australian Conditions.

Many of those things which were most feared for an economy of full employment under peace-time conditions have come to pass in Australia since the end of the war. Industrial irresponsibility is fairly widespread. It is not easy for management to enforce even reasonable standards of discipline let alone to bring about a high standard of industrial performance. This applies as much, or nearly as much, to office as to factory workers. Absenteeism is considerable. Timekeeping is poor. For instance rest periods tend to exceed the allotted interval. After the specified commencing time work often takes far longer than necessary to get under way. Tools are downed and cleaning up at the end of the day's work often begins before the recognised time. Bad practices of this kind soon become the customary thing and acquire the force of a habit. It is widely agreed by most observers that in general labour does not do as much in an hour's or a day's work as before the war. There is less respect for authority. Labour operating in a seller's market is taking the "advantages" of that situation. Employers can hardly complain because in the past they have not been backward in exploiting the possibilities offered by a seller's market for their products. In both cases it is the consumer who suffers.

Record Turnover in Labour.

The turnover in labour is at record levels and involves a very serious addition to industrial costs. No assessment of what these costs mean to the economy can be made because—and this is a serious criticism of Commonwealth and State statistical departments—there is no attempt to measure the rate of labour turnover for Australian industry as a whole.
However, studies for individual factories or investigations made by certain companies for their own purposes reveal an extraordinarily high turnover in labour. This is no doubt partly due to the exceptional conditions of the post-war period, but it is largely an outcome of the labour shortage. If excessive labour turnover is to be a permanent accompaniment of full employment it will present a very serious obstacle in the way of achieving maximum standards of efficiency.

Working days wasted through strikes are at a peak only surpassed on one or two previous occasions in Australia’s industrial history. This is partly to be accounted for by the industrial unsettlement inevitably following upon a world-shaking war, but is also, as past experience suggests, the result of absence of unemployment.

**Full Employment Working Badly.**

The full-employment economy is not working well; it is working badly. The solution to the problems to which full employment has given rise does not, however, lie in a return to the pre-war “pool of unemployment” even if this were politically practicable or morally defensible—in fact it is neither. A return to unemployment, if it were desired, could very easily be achieved by simply neglecting to make plans against the time when war-time shortages will have been overcome, or against the ever-present possibility of a large drop in the price of Australian exports. We must assume, however, that those plans are being made, and we must hope that the large fluctuations in employment and the chronic condition of under-employment of the pre-war economy will not recur.*

**Can Full Employment be Made to Work?**

How can the new economy of full employment be made to work effectively? The fundamental mistake has been to suppose than an economy composed of fallible human beings will operate efficiently in the absence of adequate compulsions or incentives. Not only has the compulsion of unemployment disappeared—that was right and necessary—but we have at the same time greatly reduced the incentives to hard and efficient work. Having decided to dispense with the “stick” of unemployment we should have at least maintained the number of carrots. We have not done this. At the same time as the removal of the stick from the donkey’s back we have taken away the carrots from his nose. It is scarcely surprising that the donkey is not moving forward very rapidly or that full employment is not working out very satisfactorily. The old-time rewards for hard work, skill, enterprise and ambition must as far as possible, and as soon as possible, be restored. That is the first and by far the most important requirement.

**Education in Industrial Economics.**

The second need—long overdue—is that of educating the worker in simple industrial economics. This has been neglected

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*This does not mean that the maintenance of employment at present levels, even if it were possible, would be desirable. The present employment situation has been aptly and rightly described as over-full employment. The supply and demand for labour is not in a healthy balance. There is an acute shortage of labour. While this condition continues the abolition of financial controls over wages, costs and prices would be fraught with risks. The complete removal of wage-pegging might easily lead to an inflationary situation of grave potentialities. In order to obtain a greater share of the short supplies of labour, employers would bid competitively against one another, and wages, costs and prices would be forced up at a much more rapid rate than at the moment.
in the past with consequences that are now coming home to roost. It is necessary to bring home to the man at the bench, in the shop and in the office, the simple truth that an increase in his real income and an improvement in his living standards can only be achieved out of the proceeds of greater production. He must be brought to realise that an increase in money wages will in the long run mean nothing to him unless it is accompanied by higher productivity. He should be taught the relationship between costs and prices, to understand the functions of profits. It is widely realised in Great Britain that the greatest single obstacle to the success of the "production drive" launched by the Labour Government is the difficulty of getting the individual worker to understand and accept these simple economic truths. This is not a job for any one group, or to be tackled by any one method. It is one for employers as much as trade unions, governments as much as employers.

Joint Consultation.

The third requirement, allied to the second, is an expansion in the practice of joint consultation. This is the most promising means yet devised for raising the sense of responsibility of the worker. Factory and production committees by placing more responsibility on workers themselves for the maintenance of discipline, will, sooner or later, prove to be the most efficient means of overcoming the indiscipline otherwise inevitable under full employment. Joint consultation also provides the machinery by which a great advance in the understanding of the worker of industrial realities can be achieved.

New Opportunities.

It is not enough, however, merely to take steps to ensure that full employment will work with reasonable effectiveness. Full employment offers a great opportunity for positive action to attain a level of productive efficiency far above pre-war levels. The restrictive "feather bedding" practices of labour—"the limitation of output," the "darg," production quotas, the opposition to incentive payments, regulations stipulating the number of workers required for a given machine, the "make the work go round" philosophy—are in large part the bad fruits of the uncertainties of the employment market. Equally, the restrictions imposed by employers on competition—the craze for stability rather than expansion, minimum prices, production quotas, international cartels—all these, as has been well said, "are the by-products of a long period of endemic depression" and of the fear of the treacheries of the market. Under full employment the markets both for labour and the products of industry are intended to be stabilised at reasonable levels in contradistinction to the widely fluctuating market of the pre-war system. The restrictions which were justified in the past will have little or no justification in the future under full employment.

It would be wrong and disastrous, therefore, if the comparative failure of full employment at the present time were to cause us to lose our faith in it as an instrument for great economic and social good. There is little doubt it can be made to work—not merely well—but in a way that will help to raise standards of living to heights undreamed of in the past.
"It is in the nature of crises that they pass. The time for decision is momentary and whatever course is taken the fateful fork in the road is soon left behind. Writing in these last days of a crucial February, still uncertain when next we shall appear in print, we are bound to assume that by that time the people of this country will have made their own decision that the hard road is the only road to recovery. But the passing of the crisis, even though the right decision be taken, will mean no more than that the menacing onrush of accumulating problems has been seen and recognised just in time to avoid immediate disaster. It will not mean that a single one has been solved. The danger is that the moment of clarity in the national outlook will pass as quickly as the crisis itself, and that the clear outlines of courageous decisions will be broken up, as quickly as the snow melts, by the old outcrop of 'ifs' and 'buts.'

"At the root of all else today is the need, imperative and unconditional, for increased production. The Government's economic survey makes it quite clear that this in turn, whatever auxiliary expedients may be enlisted, cannot be achieved except by increased output per man-year. In this moment of lucidity the harsh prescription is plainly legible: harder work and longer hours for all. But when the most alarming pains have been subdued, how long before we begin to murmur against our medicine? How long before agitation for a shorter working week is resumed?

"The White Paper itself testifies that the Government not only expects such demands but knows the grounds on which they will be based. There will no hint of any connection with the newly ostracised family of restrictive practices. There will not even be a claim that the workers are entitled to more leisure, as well as higher wages, in the more equitable distribution of the profits of industry. The demands will be
based on the argument that shorter hours lead to increased production. Nor does the White Paper reject such an argument out of hand: 'The nation,' it says, 'cannot afford shorter hours of work unless these can be shown to increase output per man-year.'

"There is, therefore, an urgent need to consider the relationship between output and hours of work, and any serious attempt to establish it on a scientific basis is worth careful study. Under the title, '40 Hour Week,' the Institute of Public Affairs of Victoria has published a valuable report on what is described as 'the most important question agitating the industrial community of Australia.' Australia was one of the first countries in the world to introduce the 48-hour week and both the inevitability and the desirability of further reductions are regarded as axiomatic by the authors of the report. But their researches have led them inexorably to two conclusions:

1) The present economic situation of Australia is one which calls irresistibly for the maximum possible production and the fullest use of all resources of labour, capital and materials.

2) All scientific experience shows that a reduction of the present standard working week would result in diminished output.

"Since the first conclusion, by common consent, applies with even greater force to this country, there is nothing to be gained by a detailed examination of the considerations on which it is based. But the second deals with the very issue that is adumbrated in the passage we have quoted from the White Paper. 'Those who support the introduction of the 40-Hour Week,' say the authors of the Australian report, 'often claim that the reduction of hours of work from 44 to 40 will bring about an improvement in man-hour output, and that this improvement will for the most part offset any fall in production consequent upon a shorter working week. While the number of hours of work will be less, a greater volume of output will be produced in each hour, thus maintaining total production. Can this claim be substantiated?'

"Here, indeed, is the crux of the problem. It is easy to believe, and in many cases easy to prove, that fewer working hours may mean more output per man-hour. Unfortunately,
in the present circumstances, the argument is entirely irrelevant. It is only the total volume of production that counts and any proposal to reduce working hours must pass the test of a simple but uncompromising equation. To be acceptable, it must show that the arithmetical product of work-per-hour multiplied by hours-worked-per-year will be at least as high as before. As one economist has recently said, the capital letters O.M.Y. should now be displayed in every working place.

"The report admits that where the length of the working week is still excessive a reduction in hours will no doubt increase P.M.H. and may even increase it to such an extent that O.M.Y. is improved, despite the lower number of working hours. This may well have been the case in Britain after the first World War when, in many industries, hours were reduced from 56 to 48. But obviously the process cannot be continued indefinitely and there must be a point at which a 'law of diminishing returns' begins to operate. This point needs to be established.

"That it has already been reached and perhaps even passed in Australia, where the average working week is 44 hours, is evidently the view of the Commonwealth Department of Labour and National Service. In a publication entitled 'Planning Hours of Work' there is a significant paragraph on the hours for best output: 'Measurement of quantity of output in relation to hours of work is too difficult, and needs too much time and attention, to be often done. Sufficient results are now available to relieve the individual manufacturer from the necessity of attempting it in normal cases. As might be expected, hours for highest weekly output depend to some extent on the occupation (type of operation performed) and the conditions in which the work is done. But often plants in which many types of occupation are performed must, for reasons of organisation, work uniform hours throughout. Wherever a number of occupations have to be worked for uniform hours, or the trouble of making differences is not worth while, 48 hours per week is the best general level to apply over a period, in manufacturing industry. This is admittedly too long for heavy manual labour, and shorter than necessary for some machine minding, but it is a reasonable and simple compromise.'

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"In this country Mr. Seebohm Rowntree, whose judgment and sincerity must command the respect of employers and employed alike, has arrived at a similar conclusion: 'Experience,' he writes, 'seems to point to 48 hours as the length of the working week which may suitably be regarded as the standard in most industries, and I should say that any deviation from it must be justified by the facts. A reduction should only be made if it is necessary for health or if it can be taken without materially increasing the cost of production.' The last proviso is, of course, only another way of saying, 'without materially decreasing O.M.Y.' The Australian report, assuming that man-hour output would remain constant, estimates that the introduction of the 40-hour week would increase the costs of production by one eleventh of the wages bill of those affected, plus an addition for the irreducible overhead charges which would have to be spread over a smaller output.

"The 48-hour verdict is also endorsed by Dr. P. Sargant Florence, who says: 'Reductions from a 12-hour to a 10-hour basis result in increased daily output; further reductions to an 8-hour basis result in at least maintaining this increased daily output; but further reductions, while increasing the hourly rate of output, seem to decrease the total daily output. Since one standard length of working week must be chosen, the 48-hour week probably best satisfies the criterion of maximum output with minimum accidents, lost time and overhead charges. . . . at any rate this seems to the writer the teaching of all the scientific investigation hitherto attempted.'

"Has the lesson been learned? Or will this country, when immediate disaster has been by hook or crook averted, forget that though the crisis has passed the hard economic facts remain? When demands for shorter hours are again put forward, as they surely will be, the Government will need all the courage of their present convictions to apply the only true criterion—the rigid test of O.M.Y. Leisure is one of the most precious rewards of industry and one which in times of normal prosperity should be steadily increased. But until production has at least restored our standard of living it is one which the nation simply cannot afford."
We do not think that there is much possibility of an economic collapse of the 1929-32 proportions for a long time to come, provided we do not fall into a self-inflicted depression caused by failure to achieve an efficient standard of production.

On the other hand we agree with the Prime Minister that the present high level of export prices for Australian primary products cannot be expected to continue indefinitely and that some decline in those prices must sooner or later be anticipated. This could have serious effects on internal stability in Australia, if proper plans are not worked out to meet the contingency when it arises. The fall in export prices would reduce the incomes of primary producers who would therefore have less to spend on the products of the home market, and this in turn would affect the incomes of business and of all other sections of the community.

The Government's plans to counter this fall in export prices are by no means perfectly clear and in the interests of future stability it is necessary that the public, and particularly the business community, should be well-informed of those plans so that business can gear its own programmes to meet the situation. We cannot too strongly emphasise that if future depressions are to be avoided in Australia, there must be the closest co-operation between business and governments and a clear understanding of what responsibilities each should bear. Business and private investors should take a level-headed commonsense view of the future and resist any tendency to pessimism or panic. One of the main causes of depressions and their magnitude is the psychological outlook of business. From this point of view we should resolutely avoid the danger of talking ourselves into a depression. Too much "depression talk" is in any case quite unjustified by the economic facts of the world today.

One warning is however necessary. The fundamental measure of the old-time depression was the level of employment. We should not, therefore, fall into the error of thinking that if we can maintain a high level of employment, we have ipso facto eliminated depressions. There can be an economic decline under full employment—caused by sheer failure to produce on a reasonably efficient basis, so as to bring costs and prices within the reach of the incomes of the people. Full employment is not inconsistent with a low average standard of life for the Australian people. All parties to the economic process, government, employers and workers, should realise that efficient production is the one sure means of preventing a depression of this type and of putting Australia into a strong position to withstand the inevitable fluctuations in economic conditions aboard.
INDUSTRIAL CONFERENCE


The Institute of Public Affairs, Victoria, strongly supports the proposal made in the “Herald” on Monday, 12th May, for a peace in industry conference attended by representatives of employers and employees.

It would be futile, however, for such a conference to be held if the respective parties go to the conference table with the conviction that there is no substance or merit in the viewpoint of the other party. Before the conference is held, therefore, the representative organisations of employers and employees should do a great deal of deep thinking and heart-searching and endeavour to frame a policy which will meet the needs of the times in which we live and which will contribute in a major sense toward the creation of a real partnership in industry. It would be a mistake to call a conference before this fundamental preliminary work is carried out.

One of the most important things which a conference should strive to do is to build permanent machinery of consultation between employers and employees at all levels—plant, industry, State and national—so that the area of voluntary agreements and settlement of differences can be widened and arbitration will come to be used not as a first step but only as a last resort. Until employers and employees acquire the habit of conducting their own affairs, without recourse to industrial tribunals or third parties, there is little hope of achieving industrial peace and continuous maximum production.

In the Institute’s view the conference should discuss and attempt to reach agreement on a broad basis on the following subjects:

1. Methods of wage determination.
2. Security of employment and income for the workers.
3. The disposal of profits—including the question of profit-sharing.
4. The provision of information to employees concerning their respective industries.
5. Joint consultation—its scope and purposes.
6. The means of securing reasonable continuity of production in the indispensable community services of transport, fuel, electricity, gas.
7. Means of raising productive efficiency and increasing output.

But what is needed, above all, is a change of heart and of understanding by all concerned in industry. Without this no conference will succeed and good industrial relations will remain a remote ideal.