THE announcement by the Prime Minister on the 16th of August of the Government's intention to nationalise the trading banks is a matter of the utmost consequence to all—and particularly to those engaged in private enterprise.

The I.P.A.—Victoria is gravely concerned because this intention, if carried through, will inevitably stifle those characteristics of enterprise and aptitude which need to be fostered now more than at any time in our history.

Since its inception the Institute has advocated plans of action to promote industrial harmony and to increase production, to the benefit of all classes of the community. The Institute has always striven to judge national questions impartially on their economic merits, and irrespective of their political source or implications. In our opinion the course now proposed by the Government is the very antithesis of what is required.

The nationalisation of banking could be the means of reducing private initiative to impotence, and though this may or may not be the intention of the present Government, who can speak with authority for their successors?

The I.P.A.—will continue to exert such endeavours as lie within its power to combat this development which it believes to be violently opposed to the interests of all sections of the community.

G. H. Grimwade
Chairman, Editorial Committee.
AUSTRALIA has good reason to be pleased with the outcome of the industrial conference between the Commonwealth Government, the manufacturers and the A.C.T.U. held at Canberra on the 2nd and 3rd of August.

That the concrete achievements of the conference were both limited in scope and general in nature is no ground for criticism. A conference, hurriedly organised as was this one, could not be expected to reach agreement on other than broad principles—any attempt to achieve unanimity on detail would have almost certainly precipitated disaster. And even if the principles of national policy finally adopted were limited in number—and in some cases vaguely worded—the outside observer of industrial events in recent months could have been pardoned for wondering whether it was possible for employer and trade union representatives to see eye to eye on one single item affecting the nation’s welfare.

All in all the results of the Conference vindicate the optimism and faith of those who so persistently urged that it should be arranged. The Conference showed conclusively that there is a common ground in industrial relations on which employers and employees can come together in amicable understanding and agreement.

VALUE OF JOINT CONSULTATION

The outcome of the discussions at Canberra provides proof of the value of the procedure of voluntary joint consultation as a means of assisting to solve industrial problems, and of the futility and danger of over-reliance on compulsory arbitration. In fact, the outstanding thing that emerged from the conference was the recognition that frequent consultations between employer and employee representatives are essential for securing better industrial relations. But, if the principle of consultation is essential at the top national level, it is equally indispensable at industry and factory levels. It is to be hoped that this agreement may prove to be the genesis of a system of industrial consultation which will embrace all levels of industry. This path, more than any other, holds out a promising prospect of achieving goodwill and understanding between the parties to the industrial process.
A NATIONAL INDUSTRIAL RELATIONS COUNCIL

It is most important that the pronounced intention of the Conference to hold similar meetings every six months should be carried out. Good intentions are notorious for their failure to eventuate. There is a real danger that when the hot pitch of enthusiasm engendered by critical conditions has passed, a thousand and one reasons will be found why it is impossible, inadvisable, or inconvenient for the parties to industry to meet. From this point of view it seems a big pity that the Canberra Conference did not go one further step and grasp the opportunity presented to set up a formal National Industrial Relations Council, with a constitution providing for regular meetings at six-monthly intervals and for special meetings when called for by national economic conditions.

INCREASED PRODUCTION

The declaration by all parties at Canberra that better Australian living standards can be achieved only by constantly increasing production of goods and services, while no more than a truism, constitutes one of the most significant achievements of the Conference. Although a few long-sighted union leaders have in recent months stated their support for increased production, this is the first time that the A.C.T.U. has officially given its backing to such a policy. The importance of this should not be underrated. It might yet prove to be a milestone in Australian industrial history.

Several methods for achieving increased output are listed in the joint declaration issued by the Conference—more efficient management, the introduction of up-to-date plant and machinery, the reduction of labour turnover and absenteeism, and the prevention of the abuse of sick leave. It will not be easy to reduce the incidence of high labour turnover and absenteeism under the present conditions of over-full employment. Something, however, can be done by appealing to the sense of responsibility of the more responsible elements of labour, and, in the long run, through a gradual process of worker education. The best immediate possibility lies in the rapid extension of factory works committees through which the workers' representatives can be asked to assume responsibilities for the improvement of labour discipline.
RESPONSIBILITY OF THE GOVERNMENT

No party to the conference, however, has a greater responsibility, and indeed opportunity, for increasing output than the Commonwealth Government. It is idle for the Government to appeal for increased production, if it does not itself endeavour to create an economic environment conducive to greater efforts by employers, management and workers. Employers will be enterprising, and management and workers will be efficient, where, and only where, they can see that their increased exertions will be compensated by an adequate tangible reward. The present restrictive level of taxation, particularly on the middle and higher incomes, is not consistent with a national drive for higher industrial productivity. There is here a chance for the Government to show that it believes in its own policy by making worthwhile reductions in income tax on individual incomes. There is also an irrefutable case for the elimination of the War-Time Company Tax and a strong case either for some reduction in rates of ordinary Company Tax or the elimination of the tax on undistributed profits. The War-Time Company Tax falls with disproportionate severity on younger companies lacking accumulated financial resources. It is a tax on enterprise and efficiency, it produces a comparatively small amount of revenue for the Government, and it should be abolished forthwith. There is no better way by which the Government can encourage the introduction of up-to-date plant and machinery than by ensuring that industry is left with ample reserves. It should not be impossible to devise a means of taxing companies by which a premium would be placed on the use of company income for the rapid replacement and expansion of productive equipment.* The next Commonwealth Budget should give this consideration.

The trade union representatives at the Conference proposed that income from overtime work should be tax-free to provide added incentive to the worker. While no possible means of providing the utmost inducement to increased exertion should remain unexplored, it is doubtful whether this proposal would be practicable from an administrative point of

*A method which to some extent embodies this principle is at present in operation. At the present time companies are permitted to write off 20% of the value of new plant as a deductible amount for taxation purposes. This, however, is an emergency concession aimed at assisting post-war reconstruction. It expires on the 30th June, 1950.
view or whether it would be consistent with basic principles of equity in levying taxation. Under the latest income tax schedules, the burden of tax on the lower incomes is not so heavy as appears to be generally believed. Under 1947-8 rates of taxation the average wage-earner earning, say, £6/10/- a week retains 16/- out of 20/- a week overtime, and 17/6 if he has a wife and two children.

THE SERVICE MOTIVE OR THE PROFIT MOTIVE

One thing is certain—the individual, whether employer, office executive or factory worker—will as a rule only put forth extra effort where he can foresee a satisfactory material return. Appeals to the broad motive of national service will not produce comparable results in time of peace to appeals to the good old-fashioned profit-motive. Mr. Aneurin Bevan, an extreme left-wing member of the British Cabinet, in introducing incentive payments into the British building trade, made the following pregnant remark: “It appears to be fundamental to all of us that we do not do our best work under sustained ideological inspiration. We have got to have some material reward.” This is indeed a striking admission!

STRATEGIC IMPORTANCE OF COAL

The Conference acted wisely in directing attention to the strategic importance of coal as the major bottleneck obstructing high level production in Australia. The statement, however, that this can best be solved by the recently appointed Joint Coal Board seems more of a pious hope than a policy. It is now well known that the tactics of the unions in the N.S.W. coal industry are to maintain a permanent seller’s market for their product and to limit output to the point where it is impossible to accumulate the stocks necessary for properly-planned efficient production. The appeal to the coal miners to do their utmost was perhaps all the Conference could do, but this might well be followed up by a personal visit by the Prime Minister himself to the coalfields to place the facts of the nation’s plight before the miners.

INCENTIVE SYSTEMS

In the past, official trade unionism has revealed an adamantine hostility to the principle of “incentive payments.” The undertaking of the A.C.T.U. to investigate modern incentive systems to determine whether they would
be of advantage to the worker and the community is most encouraging. In Britain the union policy on “payment by results” appears to be undergoing a change under the force of sheer economic necessity, and in Australia in recent weeks there have been one or two hopeful signs that certain trade unions here are at least weakening in their resistance.* Now that the door has been opened, after having been firmly locked for many years, employers should be prepared to explore every possible means by which incentive systems can be made more attractive to the trade unions. For instance, there is no reason why the larger basic industries, which are still organised on time rates of pay, should not consider the possibility of introducing such devices as the guaranteed annual wage. There are many forms of incentive schemes, some of which would no doubt be more appealing to the unions than others. Also, study needs to be given to the means by which workers, to whom payment by results cannot be directly applied, but whose efforts are ancillary to those of workers on payment by results, can share in the bonuses of increased output. While employers in this country have been prominent in urging the general adoption of incentive schemes, it would be idle to pretend that they know the last word on the subject. The Associated Chambers of Manufactures, without waiting for the outcome of the A.C.T.U. investigation, would be well advised to appoint a special committee to accumulate and study all the information that can be amassed on “payment by results.” On the other hand, it does not need to be stressed that the union investigation should be carried out with the utmost speed.

THE RIGHT TO STRIKE

The reported attempt by the employers to induce the unions to relinquish “the right to strike,” for the next three years at least, was doomed to failure from the start. Formal bans on strikes have been attempted on one or two occasions, and have not produced impressive results. The best hope of reducing strikes to a minimum is to improve the spirit of understanding and co-operation in industry by steady advance to the point where the worker feels himself to be, and is in

*Some trade unions have accepted and worked under “payment by results” for many years.

Since this article was printed the A.C.T.U. Congress has repudiated the undertaking to investigate incentive systems but the executive of the A.C.T.U. is apparently endeavouring to have the matter further considered.

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fact, a responsible partner in the industrial process. The more immediate question is whether the A.C.T.U. governing bodies are able to control their member unions. The experience of the post-war period is not promising. If the A.C.T.U. were prepared to introduce and to enforce adequate disciplinary sanctions against recalcitrant unions it would have behind it the support and goodwill of the overwhelming majority of the nation.

THE SECRET BALLOT

In this regard surprise must be expressed that the Conference apparently devoted no attention to the important subject of the secret ballot as a means of lessening strikes. A Labour Government in New Zealand has recently introduced legislation making secret ballots compulsory, and there have been some signs in Australia that opposition to secret ballots in certain union quarters is on the wane. One would have thought that the moderate right-minded union officials, who are in a considerable majority, and who are continuously harassed by the Communist element, would have been glad to at least consider the use of this weapon. The arguments raised against the secret ballot have so far been anything but convincing.

EDUCATION OF THE WORKERS

Another noticeable omission of the Conference was its failure to consider, particularly in the light of recent British experience, the vital question of bringing home to the rank and file worker the facts and requirements of the economic situation. The Prime Minister’s appeal to each Australian for a new spirit and new vision of the personal importance of his efforts to the nation was entirely commendable. But similar appeals have been almost a daily occurrence in Britain over the last twelve months. The results have been disappointing. The difficulty of bringing home to the individual man and woman the urgency of the economic crisis, and his or her own part in meeting it, has proved to be the major obstacle to the British drive for greater production. The ordinary man is not in the habit of thinking on a national basis, and leaders in government and industry are too prone to assume that he is inspired with the same understanding of national requirements and the same sense of urgency as themselves.

This is a vast subject, and one which can only be touched upon here. It concerns the whole understanding of the com-
mon man of the workings of the economic mechanism of which he is a part. One suggestion, however, may be made. The Commonwealth Government should make it a practice to issue yearly a White Paper, adapted to the understanding of all, on the facts and demands of the economic position. The annual Budget Statements are quite inadequate for this purpose. But the responsibility for worker education does not end with the Government. Employers and trade union officials have also a vital part to play.

This need has been drawn attention to in a commentary on the Conference by Mr. J. P. Ormonde, a member of the executive of the A.L.P. in N.S.W.*

"It is for the A.C.T.U. to tell the workers clearly and frankly why they agreed with the employers on the need for unity in industry. If the Government's case was strong enough to influence the A.C.T.U. delegates, it should be strong enough to influence the workers.

"During the war the workers were constantly being told of their prodigious efforts in production, and there is no reason why they should not be told some of the unpleasant facts of production now. If unpleasant things have to be said, it is time to start saying them."

FOUNDATIONS BUT NOT A HOUSE!

The Conference was, on the whole, a success. If future conferences were to be approached in the same tolerant spirit and the same readiness to put the common weal before selfish sectional interest, in time Australian industry could be infused with a new spirit of good-fellowship and understanding.

The Conference laid good and broad foundations for the future—it could not hope or aim to do more. But foundations though an essential first step are, after all, only foundations. They do not constitute a house to live in. It is toward the erection of the house that efforts must be devoted over the next few years.

The Canberra Conference is a first-rate start. It is now incumbent on all parties, governments, unions and employers, to ensure that the journey to a better industrial order in Australia is continued with an equal determination to surmount the obstacles that will inevitably be encountered before the goal is won.

*Sydney Morning Herald, 7/8/47.
PRINCIPLES . . . and PRACTICE

EXPERIENCE SINCE THE WAR SERVES TO ILLUSTRATE FORCIBLY THE VAST GULF BETWEEN PRINCIPLES AND PRACTICE IN ECONOMIC AND INDUSTRIAL AFFAIRS.

To establish the right principles of economic policy and conduct is by no means a simple task, but it is incomparably easier and less complex than the task—which should logically follow—of translating those principles effectively into everyday practice. It is one thing to define and lay down broad policy. It is quite another, and an infinitely more difficult thing, to adapt and apply general ideas to specific instances, where human ignorance, traditional prejudice, political obstacles and harassing technical details have usually to be overcome.

Action?
The manufacture of economic principles has been a popular pastime for the last six or seven years—ever since the horrors and futilities of the second great war inspired people with even a grain of sensibility to think about, and plan for, a world order which would eliminate the basic economic causes of national and international strife—poverty, idleness, injustice and oppression. An immense stream of books, pamphlets and articles has been poured out by individuals and by organisations purporting to represent the collective opinion of individuals. The I.P.A., Victoria, in a small way has contributed its quota to this fashionable business of policy-making. For this no excuse is tendered. It is entirely right, and necessary, that the construction of sound principles should precede the taking of effective action. We must know where to aim to go before we decide how to get there. We must set up goals before we work out plans. Discussion is preliminary to action and the more thorough the discussion, the more productive of good is the action likely to be when taken.

When taken! That is the all-important proviso. For policy making without action is largely a waste of time, except for those who sharpen their intellectual faculties in the process. It is here that post-war reconstruction is falling short in Australia as in other countries. Principles abound. The failure is in their practical action—the failure to translate or even to commence translating the good principles into effective daily practice. What is the explanation of this? What accounts for the inability, or reluctance, to give practical effect to principles irrefutably established by experiment and theoretical argument?

Natural Conservatism.
The first reason, and the one that can most readily be excused, is to be found in the natural conservatism of the human species. However venturesome they may be in their theorising, in the sphere of practical politics men are usually reluctant to abandon familiar well-worn paths for new untried routes, however promising the prospect. There is invariably a notable discrepancy between promise and performance. For every hundred employers prepared to accept profit-sharing in principle, only one can be found who has applied it in practice. Political parties are as a rule much bolder in the ideas they profess than in the actions they perform.*

*Sometimes as in the intention to nationalise the banking system, this conservatism breaks down. In this case, rather than progress being advanced, it seems that the ship will be brought perilously close to the rocks.

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This understandable reluctance has its good side as well as its bad. While it may unnecessarily impede the ship of human progress it sometimes prevents the ultimate catastrophe of shipwreck. But it tends to impose its restraining influence without discrimination on good and bad ideas alike.

Arbitration Act.

One principle, accepted by most students of industrial relations and confirmed by experience in Australia and New Zealand, is that compulsory arbitration, while possessing certain good features, has definite drawbacks from the standpoint of developing understanding and harmony in industrial relations. It tends to divide instead of unite; to increase rather than decrease industrial disputes. Yet the new Arbitration Act recently passed by the Commonwealth Government, despite one or two improvements, involves not one real departure from the basic principles underlying the existing structure—principles which have been well tried and which have proved to be deficient. In spite of some suggestion in its White Paper on Full Employment that the Labour Government intended to break entirely new ground in the field of arbitration natural conservatism has had the final say. The old routes which have so far failed to vouchsafe the traveller even one glimpse of the industrial millenium are to be gone over more thoroughly than before.

Human Ignorance.

The second cause of the delay in putting principle into practice arises out of human ignorance and prejudice. This is also in one sense excusable, for ignorance is by no means always the fault of the ignorant, and prejudice is not seldom the consequence of environment. The ship of state can progress no faster than the knowledge and understanding of the crew will allow. But in another sense it is inexcusable. For the captain and officers of the ship are charged with the responsibility for seeing that the members of the crew are sufficiently informed and adequately equipped to perform their tasks.

A great deal of post-war reconstruction is foundering, or threatens to founder, on the hard rock of human ignorance—because of the lack of understanding on the part of great numbers of people of simple well-established economic truths and of the basic facts of industrial life. The human bottleneck is the most serious, and intractable of all the bottlenecks obstructing the solution of present problems and the realisation of post-war aims. We are paying the penalty for our past misdeeds. Business men have run their businesses too much as a sacred preserve in which their employees have no real rights or interest. Governments have failed to realise sufficiently that the translation into practice of policy and good intentions cannot be achieved without the backing of an informed and interested public. Today we are confronted with the astounding paradox of a community eager for relief from the austerities of war clamouring for a shorter working week. We have people vociferously complaining about the high cost of living, and, at the same time, contributing to that cost by agitating for higher wages and by restricting output. There is an almost universal failure to appreciate that better living standards can only be won through hard work and greater production. The principle of maximum production as the fundamental solution of post-war difficulties and discontents has been accepted in
Great Britain, the United States, and, very belatedly, in Australia. The utter failure of the average person to realise that he has any responsibility for contributing to greater production by working harder himself is the most serious obstruction to giving practical effect to this principle.

Lack of “Know-How.”

A third reason for the gulf between principles and practice is the lack of “know-how” on the part of those occupying positions of leadership. This is quite a different thing from the general absence of understanding of simple economics on the part of the mass of the people. The rank and file are not clear what should be done. The leaders equipped with a plethora of expert advisers are in most cases quite clear what should be done—even though their political affiliations may often prevent them from saying so. What they don’t know is how to do it. Policy is no longer the obstacle to progress. The problem, the only real problem at the moment, is to find out how to put policy into practice.

“Economic Survey for 1947.”

No better illustration of this could be given than the White Paper “Economic Survey for 1947,” issued last February by the British Government, called by “The Times” “the most disturbing statement ever made by a British Government.” Here the grave economic plight of the British people is set out in unmistakable terms. The cure, the fundamental cure, for this plight, proclaimed several times throughout the White Paper, is that of greater national output and greater exertion from each individual worker. The means of securing increased output are lucidly and correctly stated. But that is where it ends. The White Paper quite fails to show how the cures which it prescribes are to be applied. To state this in metaphorical terms:—The diagnosis of the disease is admirable. The broad prescriptions for a cure are unsailable. But no indication is given how the prescriptions are to be administered.

For instance, the White Paper roundly condemns every kind of practice working against maximum output whether imposed by workers or employers. “There is now no place for industrial arrangements which restrict production, prices or employment.” That is all to the good. But such practices have been constantly denounced during the last three or four years by leading economists and industrialists. In fact they were condemned over 150 years ago by the father of modern economics, Adam Smith. There is nothing new then in the principle—its validity has been established. The real problem is to show how it can be applied in practice—that is to show how the administrative difficulties, and the opposition of great numbers of workers and employers to the abandonment of restrictive practices can be overcome. Here, the White Paper breaks down.

Again, the White Paper urges the introduction of incentive payments—“...the Government attaches great importance to the introduction of systems of payment and other arrangements which provide the maximum incentive to increased production.” This is also nothing new. That greater production can be achieved where payment bears some relationship to the amount of work performed has long been accepted by those with experience of factory management. The problem is how to administer the medicine to a reluctant patient. The trade union movement in Britain as well as in Australia has set its face against incentive payments for many years and has firmly-rooted and long-standing prejudice against them. The White Paper does not indicate how this opposition is to be overcome.
The economic principles of maximum production are well known. The problem now lies in their practical application.

Identical Position in Australia.

The position in Australia is identical. Here, as in England, greater production is the prime economic need—to increase the inadequate supply of houses, food, home and factory equipment, farming implements and services of all descriptions. We are now fully aware of the essential economic measures to be taken to increase output— incentives to all grades of workers from the higher to the lowest, the abolition of "feather-bedding" rules and regulations and restrictive output quotas, the restoration of vigorous competition, the control of monopolistic groups of employers, the reduction of strikes and continuity of production, the maintenance of reasonable discipline under conditions of full employment, the improvement of employer-employee relationships in industry, more efficient and modern productive equipment, the education of all parties to the industrial process in simple economics. Such principles are now questioned only by political ostriches and economic fanatics. We know what to do. What we don't know is the further step of how to do it. The principles of action are firmly established. It is in taking action itself that we fail and falter.

Appeals, But No Action.

It is to this end that thought and research should now be directed. For the present we have a plentitude of statements of general principle and policy, whether produced by governments, employer organisations, trade unions or other bodies. That work has been done over the war years and since—and done thoroughly. We have a good stock of economic and social principles to work on and we are not likely to run out of them for a long time to come. This does not mean that the fundamental truths and facts of industrial life should not continue to be emphatically proclaimed from the platform, in the daily press and in business and academic journals. Economic verities will soon be forgotten unless the public is constantly reminded of them. But it does mean that broad national appeals and exhortations from national leaders in politics, business and elsewhere are likely to be futile, unless they are followed by positive steps to make the appeals effective.

Since the end of the war, few days have passed without a politician, economist or an industrialist publicly urging the need for greater production to solve post-war problems. But so far there has been little or no perceptible response to these appeals. Unless a plan of campaign is worked out to educate the public and the individual worker to accept the need for greater output, to curtail strikes, to improve industrial co-operation and understanding, to encourage hard work and enterprise from the highest to the lowest paid worker, appeals will fail to bring about any tangible improvement in man-hour production.

Incentive Payments.

In season and out of season, for twenty years and more, employers in Australia have preached the virtues of schemes of "payment by results" and urged their widespread application to industry. They continue to do so, in spite of the fact that over that period comparatively few additional schemes have followed as a result of their pleadings. That should be proof enough that something is missing in the employer's approach to the problem. It may be that a universal application of the principle of incentive payments is des-
tined never to become a part of the organisation of Australian industry. But at least this would be worth finding out.

What is needed is more research. What is it in "incentive payments" that leads employees to oppose their adoption? Are they equally opposed to all types of schemes—for instance group schemes as well as individual? Does the trade union movement correctly interpret the wishes of its followers in its continued antagonism to incentive payments, or does it wilfully misinterpret them for political and personal ends? Why has it been possible to secure their adoption in certain occupations and industries and impossible in other occupations and industries? Are there any means of overcoming the prejudices of the workers against "payment by results"? Can systems of "payment by results" be put up in such a form, and with such safeguards, that the workers present reluctance to adopt them will be removed? Is there any satisfactory and practicable "quid pro quo" which can be offered to the trade union movement in return for the acceptance of incentive payments? These are the questions which must now be answered if there is to be any hope of real progress.*

Restrictive Practices.

The same reasoning applies to the restrictive practices of workers and em-

ployers. What, in detail, are these practices? How common are they? How destructive of the common good? How are they applied in specific industries? Why are they applied? Is there any real justification for them? If so, is it possible to offer or to create conditions that will undermine their justification? These are not easy questions to answer. They need time, money, skilled and experienced research workers. But unless they are prepared to find out the answers employers and governments might just as well entirely cease to make general appeals, for all the good they will achieve.

The Human Situation.

Joint consultation, worker education, profit-sharing and many other of the major present-day issues of economics and industry fall within the same category as incentive payments and the abolition of restrictive practices. We know that these things would be for the common good. There would be no difficulty in applying them in a world where men were reasonable, unprejudiced, trusting uninfluenced by political slogans, in a world where the patient knew what was good for him. What we have to find out is how these remedies for social ills can be administered to the human situation as it is—to fallible, not always reasonable, suspicious, ill-informed, slogan-ridden men and women, to a sick world which refuses to take the medicine prescribed by the doctors.

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*Excellent work along these general lines has been carried out by a Conference Group organised by the Institute of Industrial Management. The report of the Group should be read by all industrial executives. But a great deal more needs to be done—the most difficult problems remain to be solved.
The article is the second in a series which will examine four striking structural changes in the economy since 1939. The first, dealing with the subject of "Full Employment," appeared in the August number of the "Review." The remaining articles will discuss the increased significance of government expenditure and the development of government planning and control.

The Re-division of the NATIONAL PRODUCT

The redistribution of the product of the nation's work is the most dramatic change in Australian economy since 1939, and the most significant in its social and economic implications. The lower income groups are now taking a much larger share of the total national output of goods and services than before the war. This does not necessarily mean that these groups are better off than before the war. It means only that they are better off by comparison with other sections; that their economic position relative to that of other income grades has greatly improved.

This change is the resultant of three main causes—first the fact that while taxation on most incomes has substantially increased since 1939 it has increased in a much greater proportion on the higher incomes than on the lower; second, the large expansion in government expenditure, especially on social services, which tends to benefit the low income grades of society at the expense of the higher grades; and third, the fact that a very large proportion of those in the low income strata have the whole, or part, of their incomes automatically adjusted upward for rising prices. To the last-mentioned cause might be added the fact that the prices of the essentials of life, which necessarily comprise a big part of the budget of the low income-earners, have, on average, risen less than the prices of those things which figure more largely in the expenditure of the higher incomes.
THE SALARY-EARNER HAS SUFFERED MORE THAN MOST

Most of those people in the middle and higher income groups have suffered a severe reduction of the standards they enjoyed before the war. But they have not suffered uniformly. There is little doubt that salary-earners, most of whom fall in the middle grade of income, and those depending wholly or largely on investment income for their livelihood, have been forced to accept greater sacrifices than other sections.

While salaries in money terms have increased above pre-war levels, after the deduction of income tax salary-earners on average are almost certainly left with a smaller net money income than they enjoyed before the war. This net money income, when translated into terms of the things it will purchase under the existing high level of prices, is very substantially less than before the war. If the average salary-earner with a family, after paying his life insurance, is saving anything out of his income to-day, he must be living an existence from which lounge-seats and cream cakes are debarred. Those salaried people who have attempted to maintain anything like their accustomed pre-war standards have been successful only at the expense of their capital resources, which in the great majority of cases are comparatively slender.

The salary-earner is at a grave disadvantage by comparison with most other sections of the community. Unlike the wage-earner, only in specific cases is his income adjusted directly for rising prices. Unlike the small employer, the worker on his own account, the odd-job man, or the member of a profession deriving his income from fees, his taxation is deductible at the source of his income. Unlike the wealthy he is unable to buttress his income to any extent by drawing on his reserves of capital. He is caught inescapably between the exactions of the tax gatherer on the one hand and of rising prices on the other. For him there is no loophole of escape—not even tax evasion, which is probably more common than many would like to believe.
REWARDS OF ENTERPRISE

Some people have been able to supplement their incomes in legitimate ways—business men and top executives, for instance, who often receive allowances to cover certain expenses. Some business men are not infrequently able to make purchases at prices which are not generally available to the mass of consumers. These perquisites and advantages can help materially to raise the real incomes of those fortunate enough to enjoy them. They are not, for that reason, unjustified. They are for the most part the legitimate rewards and privileges of business achievement, and are one of the incentives to high ambition and enterprise.

INVESTMENT INCOME

Coupled with the salary-earner in the sections that have suffered most severely from the re-division of the national product over the last eight years is that large group of people who depend on investment income for their livelihood. Interest and earnings on shareholders' funds have fallen, rentals have been "pegged," at the same time as the burden of taxation has increased and prices have risen. Of the total population of Australia there are about 870,000 people of sixty years and over. At a conservative estimate, probably 200,000 to 250,000 of these rely for their livelihood on income from savings such as interest and dividends, superannuation, annuities. In addition to this group over 60 years of age, considerable numbers of people below that age relying on income from similar sources have also undergone severe economic privation since 1939.

SOCIAL IMPLICATIONS

The ordinary representative member of the middle class is "the forgotten man" of to-day. In fact it is not too much to say that the political and economic consequences of the war
and its aftermath have placed in jeopardy the position of this large and socially significant section of the community. Not only has the real income of the salary-earner declined steeply, in many cases the savings—which, in a majority of instances, are probably held in the form of a bank deposit or savings bank account—on which he is counting when his working days are past, have greatly depreciated in purchasing power.

This section of the people is the main source of the community’s administrative and professional talent. It contains within it a large proportion of the best-informed and educated people in the community, who have had not too much money to lack ambition and incentive, not too little to support a domestic and cultural background adequate for the development of the highest order of leadership. Politically—although by other standards unorganised—it holds the balance between the extreme forces of left and right, and it is accountable for those periodic swings of the political pendulum which are essential to a healthy democracy.

Whereas before the war this class felt no special economic compulsion to drastically limit their families, could send their children to private schools or universities, afford perhaps to own a motor car of the cheaper variety, to dress reasonably well, to employ domestic help, and to live in a comfortable and well-furnished home, all this will not be possible in the future unless the present trend is reversed. The stark fact is that £1,000 a year to-day is worth little, if anything more to the recipient than £500 a year in 1939. The middle class have been called the backbone of the community. If that is so the community is in process of damaging its own backbone.

The hallmark of this class is its sturdy individualism and independence. Its problem is not, therefore, solved by those who say that many of those things it has previously been able to afford out of its pocket will now be provided by the State. For if that happens the middle class will have lost its fundamental characteristic and unique quality.
The economic implications of this sweeping transformation in the Australian income structure are no less important and no less serious than the social. The gap between all the different grades and forms of income has been greatly narrowed—between unskilled and skilled worker, skilled worker and foreman, foreman and factory manager, engineer and engine driver, doctor and nurse, between the slack and conscientious worker, the enterprising and the unadventurous, the well-educated and the less educated. It is as if a giant had taken hold of the income structure, and pressed it together, concertina-like, exerting the main force at the top end. It has been a levelling down process rather than a levelling up.

This narrowing of differential rewards has seriously weakened the incentive to self-improvement, and to risk-taking and enterprise, in practically every branch of economic activity. There is now less economic inducement than in 1939 for an unskilled worker to acquire a skill; there is less inducement for the skilled worker to load himself with additional responsibilities by attempting to become a foreman. There is less incentive for the man predisposed to hard work to improve his position by working overtime. There is less attraction for a young man to make the economic sacrifices and to burn the midnight oil in order to become a member of, say, the legal or medical professions. Where is the point in trying to scale the heights to reach the top in any form of occupation when the pinnacle has little more to offer in the way of rewards than a comfortable position somewhere on the middle of the mountain?

If this is an over-gloomy picture of the economic situation to-day, it is not, therefore, irrelevant or unjustified. For there is nothing more dangerous to the future of Australia than the present-day tendency to level out rewards to an extent where enterprise is pointless and ambition undermined.
NATIONAL CAKE MAY DWINDLE

This is not to say that the disparity in incomes that existed before the war was either economically indispensable or socially and ethically just. On the contrary, some redivision of the national cake to provide larger slices for those in the lower income groups was entirely necessary. But the process has been carried so far that, unless a halt is called, and enterprise and work again receive something of their old-time recognition, the national cake will continue to dwindle. If that happens not merely the middle and larger incomes, but everyone will have to be content with smaller slices.

Whether the present structure of the distribution of the national income is temporary or permanent is difficult to say. This depends partly on political developments that are at the moment not easy to forecast.

PRIVATE OWNERSHIP AND PRIVATE ENTERPRISE

However, as the unique economic circumstances of the immediate post-war period are supplanted by more normal conditions, it is reasonable to expect that hoped-for reductions of taxation and falls in the costs and prices of many goods, particularly durable consumer goods—motor cars, houses, furniture—will help to bring about a healthier relationship between different rewards. On the other hand, if every apparent advance in national productivity is regarded as an excuse for a further large increase in government expenditure on social services or on bureaucratic experiments, this expectation will not be realised. In that case the issue of private versus public ownership would become almost irrelevant. For private ownership less incentive does not add up to private enterprise. Private ownership plus competition plus incentive are the ingredients of which private enterprise is made. It is this formula which can render an incomparable service to the consumer.

★ ★ ★

Page Nineteen

£1000-£5000 per annum.

1. Rates are based on the personal exertion income of a taxpayer with a dependent wife and two children.

2. N.S.W. rates approximate the average for all States.


£350-£1000 per annum.

1. Rates are based on the personal exertion income of a taxpayer with a dependent wife and two children.

2. N.S.W. rates approximate the average for all States.

Source: Tables prepared by the staff of the Institute from figures published by the Commonwealth Commissioner of Taxation (1938) and from rates assessed under the Income Tax Act (1947).

£350-£5000 per annum.

1. Rates are based upon the personal exertion income of a taxpayer resident in Victoria with a dependent wife and two children.

2. Income after tax in 1947-48 has been reduced by 1/3rd to allow for the fall in the purchasing power of £A since 1937-38.

TABLE I.

DISTRIBUTION OF INCOME IN AUSTRALIA—1942-43.

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Total Taxpayers</th>
<th>Share of Total Tax</th>
<th>Share of Total Income Before Tax</th>
<th>Share of Total Income Remaining After Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £601</td>
<td>91</td>
<td>48</td>
<td>73</td>
<td>79</td>
</tr>
<tr>
<td>601-1000</td>
<td>6</td>
<td>13</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>1001-2000</td>
<td>2</td>
<td>14</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Over 2000</td>
<td>1</td>
<td>25</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

NOTE.—Prepared by the staff of the Institute, this table is based on the latest figures of taxable income published by the Commonwealth Commissioner of Taxation. Since very low incomes and certain other categories of income are exempt from taxation actual income is slightly understated. Because the uniform tax system did not operate in 1938-39 a comparison with the prewar position cannot be shown. However, a study of Victorian data suggests that income after tax accruing to the group over £2000 per annum was about 8% of the total in 1938-39. This compares with 4% in 1942-43 as shown in the above table.
DISTRIBUTION OF THE NATIONAL INCOME 1937-38 and 1947-48

TABLE II.

AVERAGE INCOME OF AUSTRALIAN TAXPAYERS IN DIFFERENT INCOME GROUPS BEFORE AND AFTER PAYMENT OF TAXES 1942-43.

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Average Income Before Tax</th>
<th>Average Tax</th>
<th>Average Income After Tax</th>
<th>% Average Income Retained</th>
</tr>
</thead>
<tbody>
<tr>
<td>£105—£200</td>
<td>£152</td>
<td>£10</td>
<td>£142</td>
<td>93.4</td>
</tr>
<tr>
<td>301—400</td>
<td>347</td>
<td>46</td>
<td>301</td>
<td>86.7</td>
</tr>
<tr>
<td>501—600</td>
<td>543</td>
<td>106</td>
<td>437</td>
<td>80.5</td>
</tr>
<tr>
<td>801—1,000</td>
<td>889</td>
<td>241</td>
<td>648</td>
<td>72.9</td>
</tr>
<tr>
<td>1,501—2,000</td>
<td>1,716</td>
<td>675</td>
<td>1,041</td>
<td>60.7</td>
</tr>
<tr>
<td>2,001—5,000</td>
<td>2,857</td>
<td>1,502</td>
<td>1,355</td>
<td>47.4</td>
</tr>
<tr>
<td>5,001—10,000</td>
<td>6,604</td>
<td>4,683</td>
<td>1,921</td>
<td>29.9</td>
</tr>
<tr>
<td>10,001—15,000</td>
<td>12,032</td>
<td>9,513</td>
<td>2,519</td>
<td>20.9</td>
</tr>
<tr>
<td>20,001—30,000</td>
<td>23,335</td>
<td>19,582</td>
<td>3,753</td>
<td>16.1</td>
</tr>
<tr>
<td>30,001—50,000</td>
<td>34,955</td>
<td>30,067</td>
<td>4,888</td>
<td>14.0</td>
</tr>
<tr>
<td>50,001 and over</td>
<td>78,315</td>
<td>68,974</td>
<td>9,341</td>
<td>12.0</td>
</tr>
</tbody>
</table>

NOTE.—"Income" in the above table refers to "taxable income."
Source: Table prepared by the staff of the Institute from figures published by the Commonwealth Commissioner of Taxation (1947).

Interpretation of Charts and Tables on Pages 20, 21 and 22

The charts on pages 20 and 21 throw into relief the crushing severity of current levels of direct taxation on the higher incomes as compared with 1937-38. By contrast current taxation on the average family wage-earner* is lighter than in 1937-38.

*The average family man is defined as a man with a wife and two children.

In 1937-38 the family man earning £1,000 per annum paid away 74% of his income in direct taxation. He now pays away 16%. The position is far worse for incomes above this level. At £5,000 per annum the taxpayer pays away over 50% of his income in taxation. In 1937-38 taxation took only 20% of his total income.

Page Twenty-two
Contrast this situation with that of the family wage-earner on £300-£350 per annum. (The Commonwealth Statistician shows the average wage-earner's income in 1946-47 to be approximately £344 per annum). In 1937-38 the family man in Victoria commenced to pay income tax at £105 per annum. Now he does not pay any tax until he earns over three times that amount. Although the family man in Victoria on £350 per annum pays about £1 a year more tax than in 1937-38, other Australian taxpayers on the same income actually pay less tax than in 1937-38, despite the enormous cost of the war and increased social service benefits. In addition to £19/10/- per annum child endowment for every child after the first, the wage-earning taxpayer receives other concessions such as medical and hospital benefits and sick pay. Indirect taxation is, however, more severe on the family wage-earner and on all other family income-earners than before the war.

The third chart illustrates the dramatic equalisation of "real" income—money income in terms of its purchasing power—which has occurred since the pre-war years. An income of £1,000 per annum has depreciated to 60% of its real value in 1937-38, whilst an income of £5,000 per annum has fallen to 40% of its 1937-38 value.

The graphical studies are fully supported by the tabular evidence on pages 21 and 22. In 1942-43 whilst 91% of all taxpayers (i.e., those under £601 p.a.) paid less than half the total tax, 1% of all taxpayers (i.e., over £2,000 p.a.) paid one quarter of the total tax levied by the Federal Government.

Steeply progressive taxation has resulted in a striking redistribution of the national income. The under £601 group earned 73% of total taxable income. After paying tax it was left with 79% of total income remaining to all groups after tax. The share of the over £2,000 group dropped from 8% before tax to 4% after tax.

The statistical evidence available also suggests that the relative share of total income after tax, accruing to the groups over £2,000 per annum, is only about half what it was in 1938-39. In 1938-39—8%; in 1942-43—4%. The effect of taxation reductions since 1942-43 has been to further improve the position of the lower incomes relative to the higher.

Table No. 2 is indicative. Whilst 90% of income earners retained from 80% to 90% of their incomes, taxpayers in high income levels (i.e., above £2,000 per annum) lost between 53% and 88% of their total incomes to the Treasury.
JUDGMENT in the 40 Hours Case

★ On the 8th September the Commonwealth Arbitration Court gave judgment in the 40-Hour Week Case. The judgment reduces the standard working week in Australian industry from 44 to 40 hours and makes the new standard operative from the first pay period in January, 1948. It contains one vitally significant proviso. It empowers employers to require their employees to work overtime up to a reasonable amount, and provides that employees shall work overtime in accordance with such requirement.

The I.P.A. Report.

The views of the I.P.A. on the 40-Hour Week are set out in full in a long document entitled "A Report on the 40-Hour Week." This document was completed in May, 1946, but, as the 40-hours' case was then sub judice, publication was withheld until October of that year, when permission to publish was granted by the Court. Since that time nearly twelve months have passed, an immense mass of new information has come to light, more refined and comprehensive statistical data on the national economy has been produced, and economic and industrial conditions have changed. But, after carefully weighing the significance of these new factors, the I.P.A. sees no reason to vary, in any substantial sense, the fundamental conclusions and policy of its report.

This policy can be summarised in three propositions.

(1) That the reduction of hours of work as circumstances permit is a socially desirable objective of modern industry.

(2) That, in the present stage of industrial development and scientific and technical knowledge there is an unavoidable conflict between this objective and the equally important one of higher material standards of life and comfort.

(3) That, since the material standards of great numbers of Australians are relatively low, and, because of the war, are for many sections much lower than in 1939, the consummation of the goal of a reduced working week should be postponed until those standards have been improved.

Basis of the Court's Judgment.

In its judgment the Court has in effect rejected the third of these propositions,
because it does not accept the second—or because, to put it more precisely, it does not regard the conflict there mentioned to be of very serious proportions. The Court's judgment says—although not in so many words—"losses of production there may be, but they will be small because they will be mitigated by the greater industrial contentment and stability which will follow as a result of the 40-hour week." Here resides, in fact, the real crux of the argument on which the Court has based its verdict in favour of a shorter working week. The Court believes that as a result of its granting the 40-hour week, the employee will put forward greater efforts, strikes will be reduced, industrial discipline in regard to lax time-keeping, absenteeism, and inattention on the job will be improved and that the worker will soon begin to realise the advantage of incentive payments in the new industrial economy of full employment.

More Goods or More Leisure.

An interesting question arises out of the 40-hours' case. If the majority of Australian people choose to work 40 hours rather than 44 should they be permitted to do so, notwithstanding that it might be against their own best interests and those of the community? If the Australian people wish to have more leisure and less real income, rather than less leisure and more real income, should their wish be granted? This problem is touched upon in the Court's judgment, but not satisfactorily resolved.

It can be said at once that if the community were in a position to choose the hours it should work, and a majority of people were to decide for a shorter working week in the full knowledge that by so doing they would have to suffer a reaction in their material standards, then their choice should be granted. That is the way of democracy. But this is not the position in the matter of the 40-hour week in Australia. In the first place the workers represented by the unions which ap-
plied for a 40-hour week do not comprise a majority, or anything like a majority, of the Australian people. In the second place it is highly conjectural whether these workers, and many of those who sympathise with their claim, are clear that a choice for 40 hours means in fact a choice to accept a lower standard of life than would otherwise be possible. It is almost certain that those who wanted a 40-hour week have assumed that this could be achieved without any sacrifice of their real income and standards of consumption. In casting their choice for more leisure did they fully appreciate that this choice would mean that they would have to pay more for food, clothing, furniture, houses, or for fares to and from work? The answer is probably “no.” The statement in the Court’s judgment that “we are therefore convinced of the sincerity and reality of the workers’ claims for leisure and we do not assume that their leaders misrepresented them when they, without exception, urged this claim,” does not resolve this problem. The sincerity and reality of the workers’ claim is not in question. The question is whether the workers were ever presented with the clear alternative of more leisure or more real income. The probability is that they were told and in fact have assumed that they could have both. We agree with the view of the economist, Mr. Colin Clark—mentioned in the text of the judgment—that the workers “if the truth were really known, wanted a higher physical standard represented by more goods and services and not more leisure.”

Possible Economic Effects.

The economic consequences which will flow from the 40-hour week will be determined by the effect of the shorter working period on average hourly output or by the extent to which the overtime provision in the judgment is availed of by employers.

If there is a fairly solid improvement in manhour production sufficient to more or less compensate for the reduced working time then there need be no ill-effects from the 40-hour week. Prices would remain steady and the total flow of goods and services would be maintained. If on the other hand the 40-hour week does not result in any, or only a small, improvement in hourly rates of production, then prices must rise and standards of living must fall. The fall in the standards of living would not, however, be equally borne by all sections. The wage-earner, because the whole or a big part of his income is linked to the price level, would suffer least. The fixed income receiver, the salary-earner, the professional man and the primary producer would suffer most.

If total working time is maintained through the working of overtime, the
judgment becomes in practical effect one for increased wages rather than for shorter hours. Average standards of living over the whole community would not be affected, but the national income would be further re-distributed in favour of the wage-earning sections. This improvement in the position of the wage-earner would be at the expense of other sections, particularly fixed income receivers and those on a salary. These sections would sustain a fairly serious reduction in their living standards.

This is, of course, a very generalised picture of the possible economic effects and it assumes that other things remain the same. It could, for instance, be modified or substantially altered by changes in taxation policy.

Challenge as Well as Consolation.

Whatever views may be held on its merits, the Court's judgment has now been given and that is final. It should be unreservedly accepted and loyally observed by both parties to industry, in the spirit as well as in the letter. The Court had an unenviable task of surpassing difficulty, and the great strain to which it was subjected is at once a criticism of its methods and a tribute to the high sense of public duty of its members.

If the 40-hour week is not to prove a burden to the Australian people and economy, as much must be produced in the new working week as in the old and longer working week. This means more efficient work by all and an increase in man-hour productivity. Both employers and employees must put their backs into the job and demonstrate by practical deeds that they appreciate the responsibilities of the new social gain which the Court has awarded them. That is the only way in which the 40-hour week can be enjoyed without a serious increase in prices and a fall—possibly serious—in the standard of life.

When annual and statutory holidays are taken into account the 40-hour week will almost certainly mean that Australia will spend less time at work than any other industrial country. If that is cause for gratification it is also cause for sober reflection. The additional leisure now granted is a challenge as well as a consolation. We must strive to prove that we are worthy of it.
PRODUCTION DRIVE

Over the last three years the I.P.A., Victoria, has strongly advocated both a long-range national policy to accelerate the rate of increase of industrial productivity in Australia and also a short-range production drive to counter the low level of productive efficiency in industry since the end of the war. One of Australia's leading statisticians has recently suggested that manhour output in Australian industry today is around 10% lower than before the war and this figure agrees closely with estimates made by the Institute over the last twelve months from official statistics and from a wide range of information gathered from industrial sources. This 10% decline in productivity represents a grave weakening of the economic structure of the Commonwealth. The I.P.A. therefore supports the Leader of the Country Party, Mr. Fadden, in his advocacy of a production drive—the drive should be directed toward the goal of at least restoring the 10% loss in productivity since the pre-war years.

What are the main reasons for the low level of industrial productivity in Australia today? The Institute places the causes in the following order of importance:

(1) The bottlenecks in strategic parts of the economy, particularly in the supply of fuel and power. The inadequate production of power is partly the result of increased industrialisation since 1939, but largely of an insufficient output of coal. The shortage of coal penetrates to every corner of the Australian industrial structure causing serious interruptions and losses of production. A first point of attack in any production drive must be directed toward a greater output of coal.

(2) High and steeply progressive taxation, which has greatly reduced the comparative rewards of hard work, skill, ambition, risk-taking and enterprise and of those who bear the burden of responsibility. The Commonwealth Government is alone in a position to remedy this and the community is entitled to look forward to further substantial reductions in taxation at an early date.

(3) The lack of appreciation on the part of the average person in Australia of the connection between his own efforts and his own real income—for this he is not altogether to blame. If this connection could be established in the minds of the mass of the people, it would be realised that the only way to have more things is to work harder for them. No production drive is likely to achieve much success unless it is accompanied by an education campaign to bring home to the worker at the bench, in the shop and in the office, the indissoluble relationship between work and wealth. In this campaign all parties to the industrial process—governments, employers and trade unions—have important roles to play.
(4) The low industrial morale and poor relationships in industry which show themselves in strikes and lockouts, absenteeism, go-slow practices, poor time-keeping, high labour turnover and industrial indiscipline. Bad industrial relationships cannot be transmuted into good overnight but immediate benefit would almost certainly be derived from a properly organised nation-wide conference between government, employers and representatives of labour. Such a conference, because of the publicity it would attract would make it incumbent upon these organisations to state in clear terms their policies for better relationships in industry.

(5) The continuation of wartime controls and restrictions on an inefficient administrative basis and the failure to streamline essential controls to suit the needs of the post-war situation. Price control, for instance, is still unnecessarily cumbersome in detail; it discourages enterprise and tends to destroy incentive to achieve higher efficiency and lower production costs.

Unless action along these lines is taken, broad national appeals and exhortations for greater production, whether emanating from Cabinet Ministers or business leaders, are likely to be futile.

We agree with Mr. Fadden’s recommendation of production targets provided examination reveals this to be practicable. But the lack of realistic and accurate information about production in Australia is appalling and, unless corrected, would be a serious obstacle in the way of planning and of measuring the achievements of any production drive. Some of the information on production published by the Commonwealth Statistician is misleading and often this information—naturally enough—appears in the press. There is need to bring home to the public how production is progressing from month to month, from year to year, in all the main industries and in the economy as a whole. Some such index as the Federal Reserve Board’s index of productivity in the U.S.A. might serve a useful purpose in the latter connection. But it would be of little use for such data to be prepared by government statistical offices unless the press of Australia were to collaborate in making the information regularly available to the public, thus arousing the interest of the people in the facts about production throughout the national economy.

Full employment can be of great economic and social benefit but if it is accompanied by declining productivity it will prove to be a dubious gain. The public must realise that there can be a depression under full employment—a self-inflicted one caused by sheer failure to produce on an efficient basis.

Statement Issued to the PRESS on AUGUST 18

NATIONALISATION OF TRADING BANKS

The I.P.A. is opposed to the nationalisation of the banking structure on the basic ground that it will further extend the deadening influence of Government bureaucracy over the genius, enterprise and talent of the people. We are making a full study of all the issues involved in this momentous matter and as soon as possible will publish a statement upon it.
NATIONALISATION OF THE TRADING BANKS

1. The I.P.A., Victoria, as a non-political organisation, has always striven to judge national questions impartially on their economic merits and irrespective of their political source or implications. The I.P.A. has urged on industry the adoption of advanced labour policies and has not hesitated to support labour objectives where it has believed them to be in the national interest.

2. We believe that the evidence collated in the past by Royal Commission and other expert economic enquiry, and experience in the democratic countries, have fully demonstrated that a virile competitive private banking structure is essential to the economic well-being of the Australian people.

3. The Prime Minister’s announcement has evoked the usual spate of fallacious arguments concerning the supposed defects of the private banks, namely that they caused the last depression, make excessive profits, and are not really competitive. These accusations are utterly untrue and entirely unfounded. The Report in 1937 of the Royal Commission on the Banking System exonerated the private banks from all these charges. Their reiteration at the present moment is clouding the issue in the minds of the people and prejudicing a sane economic evaluation of the proposal.

4. It is a well-established and universally accepted principle that the financial and credit policies of the nation should be administered in the best interests of the whole community. The 1945 banking legislation gave the central banking authority wide powers of control over the private banking system for this purpose. These powers are indeed more than adequate to control the profits of the banks—which is in fact already being done—and to ensure that the volume of credit is regulated as to assist in avoiding the instability and insecurity of booms and depressions. On the grounds of economic security therefore there is no valid reason for the Commonwealth to resort to nationalisation of the trading banks.
5. At the present juncture precise comment on the Government's plans is impossible for the simple reason that nothing is yet known of what will be included in the legislation to nationalise the banks. It should be noticed that in making his announcement the Prime Minister did not pay the community, or the banks, the elementary courtesy of advancing one single reason for the proposed action. It is impossible to see how the individual or the ordinary bank client, be he a borrower or a depositor, can be in any way benefited by nationalisation. On the contrary, while final comment must be reserved until the exact intentions of the Government are made clear, certain palpable dangers arise from the proposed nationalisation.

6. If nationalisation means, as it would seem to mean, the elimination of any form of competition within the banking system it would and must result in the lowering of standards of everyday service to the community. The quality of service received at present from the trading banks has been built up over long years of experience and is almost wholly due to the fact that the banks compete actively, one with another, for the custom of the public. If the element of competition is destroyed under the Government's nationalisation proposals, the whole weight of experience and of the findings of theory point to the inevitable conclusion that standards of banking service to the public would decline. Any member of the public who is dissatisfied with the service received from his bank under the present system can transfer his business to another bank if he so desires—which, in practice, today frequently happens.

7. Under a nationalised banking system it may be difficult, indeed impossible, to avoid political influence in the conduct of banking business. While it is broadly true to say that under the present system a borrower requiring an overdraft can rest assured that his application will be judged entirely on its business merits, under a system of nationalised banking the danger of political or other considerations entering into the judgment of his application is obvious.

8. Since finance enters into every conceivable kind of business transaction a nationalised banking system would seem to give the Commonwealth Government, whether Labour or non-Labour, immense powers over the whole of industry and busi-
NESS and over the individual. In fact it would give the Government powers far greater than those conferred by all the existing government controls put together, a large number of which at present operate because of National Security Regulations introduced as an emergency measure during the war. Since there would be no other available source for obtaining bank accommodation, these powers could be used to cripple and possibly to destroy the business aspirations of an individual or company. Indeed, if for purely personal reasons, the local manager of the proposed government bank did not wish to assist an individual, or had a grudge against him, it might be in the manager's power to wreck his customer's business and the customer might have no redress.

9. The dangers that emerge from the nationalisation proposal may be summarised as—

(a) the destruction of competition and lowering of standards of everyday service;
(b) the control from political motives of advances, overdrafts and even of personal spending;
(c) the granting of virtually unlimited powers to the government to control the industrial and business and even the personal life of the community.

10. Although in framing its legislation it may be possible for the Government to avoid these dangers, this is extremely problematical. If legislation can provide assured safeguards against them, then all to the good. But, even if this were possible, nationalisation possesses many other inherent disadvantages. Any revolutionary change in the banking structure of the community must, while it is taking place, involve tremendous inconvenience and uncertainty to the public. Unless, therefore, there is very good reason for the change, it is totally unwarranted, especially in time of grave economic crisis and transition like the present. Moreover, a nationalised banking system under one general control would inevitably introduce into everyday banking business the cumbersome and slow-moving methods of bureaucracy. Finally no banking system can work effectively unless it possesses the full confidence of the public. There must remain doubts whether a nationalised structure would command this confidence.