Editorial Note

WITH this issue we introduce a change in the editorial policy of "Review."

Since its inception nearly three years ago, the entire contents of "Review" have been prepared and written by the staff of the Institute, under the supervision of the Editorial Committee. This course has had the advantage of reserving all the space in "Review" for expressing the Institute's own viewpoint on national questions. On the other hand it carries with it the danger of imparting a rather too narrow approach and character to the material published.

We now propose to modify this policy by publishing in each issue one article by an outside contributor, under the author's name. The remainder of "Review" will consist, as before, of the Institute's own material.

It is intended that each article will be an original contribution, exclusive to "Review," by a figure of national or world renown. The first article is by Professor D. B. Copland who writes on a vital subject: "The Limits of Social Control." As the outstanding figure in Australian economics, and as Commonwealth Prices Commissioner during the war, Professor Copland needs no introduction.

For the next issue we have made special arrangements for an article by the eminent English economist, R. F. Harrod, who is regarded by many to be the logical successor to Lord Keynes, and who is certainly among the top economists in the world today. Harrod will write on "Socialism According to the British Labour Party." This article will be of unusual interest and significance.

No effort will be spared to maintain our future contributors at this high standard. We believe that this policy may inaugurate a new era in Australian economic and industrial journalism, and will immensely widen the appeal and scope of "Review." At the same time we will preserve the distinctive character of the publication and its contents, on which has been built whatever reputation it has acquired.
- THE ISSUE

The Ends to be Served.

First, we may ask, what are those things that Australians require of their economic system? What needs do they demand that it should satisfy?

They ask—first, that it should provide them with a regular job at good wages; second, that, where for any valid reason they are unable to work, it should provide them with an income sufficient at least to purchase the decent necessities of life; third, that it should provide them with a reasonably good standard of life, with the prospect of rapidly and progressively improving that standard.

And over and above these three basic material demands, they ask that it should furnish certain spiritual satisfactions; opportunity to prove that they are at least as good as the next man; the power to work out their own destinies, to order their own lives in their own way; the freedom to make their own decisions and choices; in short, the opportunity to achieve a life of dignity, independence and self-respect.

For purposes of clarity we may designate these ends as Full Employment, Security, Progress, Opportunity and Freedom.

There is no conflict of viewpoint between socialists and non-socialists on these basic ends of our economic system; although the socialists are inclined to claim for themselves a monopoly of the first two—Full Employment and Social Security—and the non-socialists to claim a monopoly of Progress, Opportunity and Freedom.

The only real conflict that arises is which form of economy will best serve...
these objectives of economic and social policy—an economy organised on predomi-
nantly socialist principles or one based predominantly on free private enter-
prise. It is this question that the elector has to decide.

The political conflict today is thus not one of aims, but one of method. There is no political party today that could afford, for one moment, not to stand unequivocally for full employment and social security; nor could any political party long survive whose policies did not ensure healthy progress to better things, or whose policies stultified opportunity or suppressed the fundamental personal freedoms of the individual citizen.

It is utterly nonsensical, and insulting to the common-sense of the elector, for the socialists to accuse the non-socialists of being unconcerned about the problems of maintaining for all Australians a regular job and a decent measure of economic security; it is equally nonsen-
sical, and just as insulting to the common-sense of the elector, for the non-
socialists to accuse the socialists of consciously and callously plotting to destroy the personal freedoms and liberties of the individual. It is, however, perfectly legitimate for the socialists to question whether the methods of the non-socialists will, in fact, achieve the maintenance of full employment and security. And it is also perfectly legitimate for the non-
socialists to argue that the methods of socialism will—irrespective of the real intentions of the socialists—inevitably lead to the destruction of human freedoms, to economic stagnation instead of economic progress, and to the restriction instead of the enlargement of opportunity for the individual.

The Methods.

Where, then, do the methods of the socialists differ from the methods of their opponents?

(a) Ownership.

They differ, first, on the question of ownership. At present the ownership of the productive resources of the community—of its farms, factories, shops, financial institutions, and most of its basic raw materials—is in the hands of private individuals. The ultimate aim of the socialists is to replace, over a very large field, private ownership of the means of production by government ownership. Individual socialists may differ widely on the exact extent to which this transfer of ownership should be carried. That is, for the moment, of no great importance. The important thing is that under a socialist administration we would inevitably witness a progressive and steady increase of state ownership of the economic and industrial resources of the community.

It may be argued against this that eight years of socialist government in Australia have produced no spectacular examples of nationalisation of industry. That argument, however, overlooks the fact that only four years of the eight have been years of peace—there was no time in war for experiments in nationalisation—and also that only constitutional difficulties have prevented the complete nationalisation of the banking system which would, in itself, have constituted a massive stride forward in the general march of government ownership. Also in Great Britain, we have seen a socialist administration, within the space of a few short years, introduce some very large instalments of nationalisation—the Bank of England, gas, electricity, inland transport, coal—and complete plans for the acquirement by the government of the great basic iron and steel industry. Moreover, the latest statement of the British Labour Party's policy calls for the nationalisation of meat works and cool stores, sugar manufacturing and refining, and of land for food production;
it also raises the possibility of nationalising the chemical and cement industries.

A socialist economy does not mean that all productive resources would be owned by the state; it does, however, mean that a great part, and certainly the most vital part, would be owned by the state. A private enterprise economy does not mean that there would be a complete stop to all projects of nationalisation; it does, however, mean that the predominant part of the productive resources of the community would remain in private hands.

(b) Control.

Under free enterprise the great mass of decisions concerning the use of economic resources are made by private individuals. The goods and services produced, the methods of production and selling, the prices charged, the spending of incomes, the investment of savings, the choice of occupation—all these are decided by the individual person in his capacity as worker, trader, consumer, or investor. The agency through which these decisions operate, and under which the wishes of the consumer are conveyed to the producer, is the free price market.

Under socialism the great bulk of the vital economic decisions are made not by private citizens but by governments, which means, in practice, by public servants working in government departments or industries. These decisions are made effective through government controls over materials, production, consumption, finance, prices, imports and exports. Total or near-total planning by the state takes the place of the free price mechanism.

The effect of these controls is to narrow greatly the area in which the private citizen can exercise his own personal decision and choice. The private producer, for instance, could only produce what was permitted as determined by the state pattern of government ownership. The consumer’s freedom to choose the goods and services on which to spend his income would be limited to those goods and services produced as a result of decisions made by government officials. The businessman could only launch a new enterprise if the state controllers of investment saw fit to permit him. The importer could only import those goods for which he could obtain a government licence. The worker would be free to choose his occupation, but only to the extent permitted by the state plan of production. The private broadcasting station would be able to determine the nature of its programmes only provided a government board did not see fit to object (hence the Broadcasting Control Board recently established by the Commonwealth Government). The private medical practitioner, if he existed at all under socialism, would be limited in his choice of location of work, in the prescription he could prescribe, and in the fees he could charge, by the appropriate government agency (hence the Pharmaceutical Benefits Act and the proposed regulations concerning the provision of medical services). The examples could be multiplied ad infinitum.

The non-socialist would not necessarily object to all controls of this nature under all conditions; in time of war for instance he would concede the necessity for a wide field of government control. And there is one important type of control, which the non-socialists believe to be essential, that is, control by the government and the central bank (each in its appropriate sphere) over money and finance—the volume of credit and cash, interest rates, exchange rates and so on.

(c) Co-operation—Competition.

It is in the field of government direction as compared with private initiative
that the fundamental differences between the methods of the socialist economy and of the free enterprise economy manifest themselves. But there are two other differences in method worth separate comment.

One is that the theoretical emphasis of socialism is on co-operation as opposed to competition, which it labels as inhumane, wasteful, destructive both of material resources and spiritual values. As the instrument for raising the living standards of the people, for producing more, better and cheaper goods and services, socialism, since it largely dispenses with the motive force of competition, calls in effect for a vast national effort in cooperation. The nationalised industries and the state plans narrow the area in which competition can take place. Prices fixed by a government agency instead of prices determined in the competitive market place limit the extent to which competition can be an effective driving force. Free enterprise, on the other hand, depends primarily on competition, combined with adequate prizes for the fastest runners, to produce more and better goods and services and for keeping down costs.

(d) Income Distribution.

Both socialists and non-socialists believe in the greatest possible degree of equality of income distribution, consistent with social justice and with economic progress. But socialists and non-socialists differ both in their interpretation of what is socially just, and on the degree of inequality necessary to ensure economic progress.

The socialist leans to absolute equality on the theory that one man's material needs are as great as another. In the strict socialist view complete social justice would probably mean complete equality. But he is constrained to modify this principle by his acceptance of the need to provide some degree of incentive if men are to put forth their best efforts. The socialist aims to distribute income through heavy and steeply progressive taxes, by social services, and by subsidised commodities or purchases, to the greatest extent compatible with what he regards as a reasonable economic incentive. But what he regards as sufficient economic incentive is much less than what the non-socialist is prepared to accept as sufficient. According to the non-socialist, for instance, the present scale of taxation on the middle and the upper incomes is too heavy for those in these grades of incomes to be expected to give their best.

But the non-socialist is not prepared, either, to accept the view that social justice depends on a near approach to equality of income. His view, on the contrary, is that the size of a man's rewards should depend on the quality of his contribution; and that once the decent minimum needs of life are assured to all the community, then justice demands that greater, perhaps much greater, rewards should go to those who work hardest, and who are the most able, diligent and enterprising, and to those who possess outstanding gifts of character and leadership. This does not, however, mean that he would not wish to see some redistribution of income and wealth within the middle and higher brackets of income in favour of incomes from enterprise and work against those from property; in favour of those whose occupations are vital to the community as against those whose occupations are not so vital; and, since cultural values should be encouraged, in favour of the better educated against the less well-educated. While not for one moment holding that the existing distribution of
income is satisfactory, the non-socialist, on economic, moral and cultural grounds, rejects the doctrine of equality of reward.

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We have now reviewed the main differences in method between the socialist economy and the free enterprise economy. The important task remains of determining which of these methods will be more effective in securing those ends of our social order now accepted equally by socialists and non-socialists. Full Employment, Social Security, Progress, Opportunity and Freedom.

(a) Full Employment.

The maintenance of full employment depends, first, on the adoption of the right economic policies and techniques, and second, on human wisdom and responsibility. The first is a matter of economic understanding and administrative competence, the second, of moral and spiritual stature. The best economic techniques would be hard put to it, and would probably be unable, to maintain economic stability where the main sections of the community persisted in acting in an irresponsible and morally unstable fashion. This is by no means sufficiently emphasised. The task of economic policy in maintaining employment is rendered infinitely harder if trade unions push costs to uncompetitive levels by restricting production or pressing for impossible increases in wages, or if employers sink all higher considerations in the pursuit of excessive prices and profits and unduly low wages.

Given, however, a reasonable sense of what is economically right and morally proper on the part of the great proportion of the community, then there is some reason to hope that economic knowledge has now developed to the point where it may be possible to maintain reasonably full employment in perpetuity.*

Would the socialist methods of public ownership and planning, and equality of income distribution, be more likely to achieve success in maintaining full employment than the methods of private ownership, free competition and incentives of private enterprise? In a closed economy, that is in one more or less shut off from all economic intercourse with other nations, the answer might be in favour of socialism. It is, of course, easier to preserve stability where dictatorial powers of decision and direction are in the hands of the state than where those powers are widely dispersed through the community. If the government is able to fix wages, control prices, forcibly compel workers to accept employment, control the spending of personal incomes and the investment of savings, the problem of full employment is much less complicated than where those things are subject to personal idiosyncrasy and choice and the bargaining of the competitive market place. Full employment presents few problems in Russia, where labour can be shifted en masse from place to place simply by a state decree. And while socialism may stop a long way short of the Russian system it approaches much more closely to the totally controlled economy than free enterprise.

This does not, however, mean that full employment is unattainable under private enterprise. On the contrary, the two main world economic authorities on full employment—the late Lord Keynes and Lord Beveridge—have been at pains to emphasise that the conflict between

*For this development the economist has been given singularly little credit. If comparable discoveries had taken place in any other field of science, they would have been hailed to be of world-shaking dimensions.
socialism and free enterprise is largely irrelevant to the question of full employment and that full employment can be achieved under private enterprise. Thus Beveridge says: "The necessity of socialism in the sense of nationalisation of the means of production, distribution and exchange, in order to secure full employment has not yet been demonstrated"; and "... it would be possible to obtain full productive employment under conditions of private enterprise." And Keynes: "No obvious case is made out for a system of state socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the state to assume. If the state is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary."

Thus, for the purpose of full employment, there is in the view of the highest economic authorities no clear necessity for a socialist system. And, while in a closed economy it may be a simpler task to achieve full employment under socialism than under free enterprise, there is no modern nation in the world whose economy even remotely resembles a closed system. Certainly the Australian economy does not. The problem of employment in Australia is influenced greatly by what is happening overseas and by the extent to which we can compete in markets both at home and abroad with overseas producers. This competitive ability depends on our relative efficiency and costs of production. And here the balance of advantage is decisively in favour of free enterprise as against socialism. Socialism has yet been able to offer no practical alternative to the compulsions of competition, or the incentives of private gain, as devices for raising efficiency and lowering costs. The controlled economy, as we have seen in Britain and Australia since the war, is a high cost economy, and while it may operate with an apparent effectiveness in a world sellers' market, it becomes subjected to all sorts of stresses and strains under conditions of world competition.

In the Australian economy it will in the long run be impossible to maintain full employment, unless we keep costs to levels at which our industries are able to compete with those of other nations. Since the socialist methods can hold little prospect of great improvements in productive efficiency, in a socialist economy it might ultimately be necessary to cut wages and salaries in order to keep down costs. A policy based on private enterprise might hope to avoid this by providing the motive force necessary to increase man-hour output.

(b) Social Security.

Social security, in the sense that all decent citizens should be guaranteed a reasonable minimum of subsistence, is now accepted by all shades of political belief. All political parties are irrevocably pledged to provide an income to those who are unable, because of age, sickness, temporary unemployment, family responsibilities or other causes, to acquire a sufficient income for themselves. No political party would, we believe, venture to reduce the present scale of unemployment and sickness benefits, or of pensions or child endowment, by so much as 1/-. These things have come to stay for good and all.

It may be contended, however, that the socialists would at least be more disposed
to raise the existing standard of social security—to increase for example old age and widows' pensions or sickness benefits—than those who support free enterprise. That is debatable. But, whatever their inclinations in the matter, even the socialists know that with the present scale of national production and wealth we have just about reached the limits of what degree of security it is possible for the state to provide. The present Government has, for instance, made it clear on a number of occasions that it would be desirable to eliminate the means test so that income should be no bar to qualification for social benefits. Why then, has it not done this? Simply because the real national income is at present insufficient to stand the extra cost involved.

There is now, in one sense, no real conflict between the aims of Progress and Security. On the contrary more Security depends on more Progress. A higher standard of social security can only be reached by raising the level of wealth production. The issue of security thus largely rests upon which of the two—the methods of socialism or the methods of free enterprise—is more likely to accomplish a faster rate of progress.

(c) Progress.

Is progress likely to take place more rapidly under government ownership and controls and strictly limited incentives, than under private ownership, private initiative and decision, free competition, and good prizes for the best performers?

Theoretical argument and practical experience both point overwhelmingly toward the methods of free enterprise.

Let the reader give a conscientious answer to the question whether or not the amount of work he is prepared to display, the risks he is prepared to take, depend upon the size of the rewards he can expect in return? If he is a worker; would he be so willing to work overtime if he did not stand to receive time and a half or double time rates of pay? If he is a businessman, does he work as intensely or as long when there is little or no competition and when taxation takes away most of the extra profit he might expect to make, as when he has competition to meet? Or will he be so eager to take the risks and worry of launching a new enterprise if he cannot expect much extra reward by so doing? If he is a public servant would he strive hard for promotion and be willing to carry the burden of additional responsibility if there is little gain to himself by so doing? Is it likely that the management of a nationalised monopoly would be so concerned to give good service, to improve methods and raise efficiency, or be so willing to indulge in experiment, as the management of a private industry subject to the pressures of direct and indirect competition, and knowing that if they cannot make ends meet they go out of business?

And what does the record of practical experience show?

It shows that under free enterprise progress has taken place at an extraordinary rate. In the last hundred years the material world has been changed out of recognition in those countries which have followed the ways of free enterprise. Vast technical and scientific gains allied to enlightened social policies have immensely broadened the horizons and improved the standards of life of the poorer sections of society.
For the peoples of the democracies to discard the methods by which these heights have been won for the directly contrasting methods of socialism would be to take a tremendous and fateful step. The nation in which the principles of free enterprise have been most fully applied—the United States—has now far outstripped all other nations in wealth production and in the profitable application of scientific knowledge to material advancement. And, even in Australia, where progress has not been so fast, real wages have increased by something like 30% in the last 40 years, average hours of work have been reduced from 50 to 40 hours, holidays have been greatly increased, working conditions have improved beyond recognition, social services and social benefits of all kinds have multiplied many times.

What experience we have had of socialised industries has not been encouraging. It is true that some state-owned enterprises have been very successful—where conditions have been favourable. Many have not. Political interference, inevitable in the nationalised industry, the absence of the compulsion of any form of competition, the fact that the consumer has no means of obtaining redress but is forced to accept what he is given, are factors which militate against the success of state-owned industry and which have frequently led to financial failure, stagnation, and dissatisfaction on the part of the public.

In the matter of Progress, then, commonsense reasoning and practical experience both conclusively favour the methods of free enterprise as against those of socialism.

(d) Opportunity.

Will socialism procure greater opportunities for the individual man and woman to make the most use of their talents than the way of free enterprise? If it could there would be much in its favour, for the desire for self-realisation and self-expression is one of the most fundamental and profound of all human instincts; and where that desire cannot be satisfied— partly at least—there follows a life of frustration, unhappiness and discontent.

Insofar as socialism would lead to a greater degree of equality of income, it may at first sight be contended that opportunities for the individual would be improved and broadened. One of the most potent sources of inequality of opportunity has been inequality of income and wealth. Therefore, say the socialists, remove the latter and you will correct the former. Complete equality of opportunity could exist only under conditions of perfect equality of income and capital resources. But even the socialist does not go that far. He recognises the need for preserving a minimum measure of incentive and therefore of inequality. He would, however, go much closer to the equalitarian ideal than the non-socialist, who insists that the incentives of the socialist will be inadequate for the purpose of stimulating a rapid rate of progress.

But equality of opportunity is by no means the whole of opportunity, nor even the main part of it. It is clearly the height of illogical absurdity to start all the runners off the same mark, if you refuse to permit them to run their fastest during the race, or refuse to allow any runner to get far ahead of the field. The non-socialist, therefore, while conceding that socialism might produce a greater measure of original opportunity, would be justified in arguing that throughout the greater part of his life the individual would find his opportunities severely restricted; that, in fact, under
socialism he would have far less chance
to make the most of his talents than
under free enterprise. Not only would
the heavy taxation of the socialist state
weaken his urge to do bigger and better
things, but the nature of socialist organi-
sation, the centralisation of power in
nationalised industries and in state
officials, would leave him with far less real
opportunity for self-expression. The
range in which he would exercise his
personal decision and discrimination
would be limited. The scope for becoming
a “big shot” in his own immediate en-
vironment would be narrowed. Many
people would be condemned all their lives
to be little fish in the great big seas of
nationalised industry and of the socialist
bureaucracy.

Free enterprise has never offered com-
plete equality of opportunity. It can
never do so in the future, although it can
approach much more closely to it than
in the past. But it has offered great
prizes for those with stout hearts and
energetic imaginative minds; and
through the adoption of right policies of
improvement and modification the chan-
nels of opportunity can be cleared of ob-
structions, so that in the future all will
have the chance to make the most of
their talents and to achieve their highest
ambitions.

(e) Freedom.

Once full employment and security have
become firmly established as part of the
economic structure, the problem of free-
dom centres on the extent to which the
individual is free to work out his own life
in his own fashion. There can, of course
(and here the socialists have been on
sound ground), be no true freedom for the
unwanted unemployed and for the man
who can only scrape together sufficient for
a miserable subsistence. The starving mar
must be pardoned if he is prepared to sell
his soul for a loaf of bread.

But, as we have pointed out, full em-
ployment and security are now first
priorities in the policies of all political
parties. We have also suggested that
there is no reason to believe that the ways
of socialism will be any more effective
than the ways of free enterprise in
achieving the goal of permanent full em-
ployment; and that so far as social
security is concerned, improvement de-
pends in the future solely on the level of
national wealth production.

The essence of socialism lies in the sub-
stitution of state planning for individual
planning—decisions and choices by gov-
ernment officials instead of decisions and
choices by private individuals. The ac-
ceptance of socialism by the individual
means, in effect, that he is prepared to re-
linquish some of his own power and free-
dom of choice in favour of additional
powers for state officials.

If socialist policy involves control over
prices, that means that the private pro-
ducer and consumer are no longer free to
settle prices through the ordinary process
of bargaining. If socialism means that
the state determines the direction of in-
vestment, no man can set up in business
without a government licence. If socialism
means that the state, in effect, decides the
kinds and quantities of things produced,
the consumer must buy within the range
determined by the state or not buy at all.
If socialism means that the state becomes
the main employer of labour, then the
freedom of trade unions to settle the con-
ditions of their employment would in-
evitably dwindle.

The central point is that if the indi-
vidual, whether in his capacity of worker,
Investor, consumer, does not like what the state does, he would have little alternative but to accept. Under free enterprise he has an alternative. If he does not like the conditions imposed by one employer he can try another. If he does not like the terms required by one bank he can approach another. If he does not like the refrigerator produced by one firm, he has the choice of a dozen or so others. And so on, ad infinitum!

Socialistic methods inevitably narrow the scope for personal choice and decision throughout the entire range of activities in the economy. At every step the individual would be confronted with government prohibitions, compulsions, directions. His personal life would be confined within ever-narrowing boundaries.

On the issue of freedom their is no shadow of doubt that the balance of advantage lies overwhelmingly in favour of the free enterprise way.

* * *

The Summing Up.

On all counts, except perhaps one, the methods of free enterprise have undeniable advantages over the methods of socialism. With full employment the issue is inconclusive; there is no reason to believe that one route is better than the other. Socialism has an advantage in the centralised power of compulsion inherent in the socialist state, but it is at a disadvantage in a competitive world in that it cannot pretend to achieve the same degree of productive efficiency as free enterprise. Since the standard of social security provided in the future rests largely with the rate of progress we can achieve, under free enterprise a far greater measure of real security should be possible, because, in the matter of progress, the record of free enterprise speaks for itself. With individual opportunity and personal liberty, free enterprise must be placed far above socialism. In fact, the onus is still on the socialists to prove that their way of life would ultimately be consistent with the retention by the individual of even a minimum of personal choice and decision.

The modification and improvement of the methods of free enterprise, for which there is great scope and urgent need, can immensely widen the opportunities for all members of the community, and bring to all the means of raising their material standards and of increasing their spiritual and cultural stature.
THE RIGHT TO STRIKE

The great winter coal strike was a national disaster of the first magnitude. Incalculable damage was inflicted on the Australian economy. The grave extent of the economic losses of the strike are becoming clearer as the weeks and months go by. And apart from that, the majority of Australians were forced to suffer a winter of almost unparalleled discomfort, and, in many instances, of real misery and hardship.

However, out of evil sometimes comes good. And it can now be said with confidence that, coming on top of the disastrous succession of stoppages in essential industries since the end of the war, the coal strike has just about exhausted the last reserves of patience and forbearance and good humour of the Australian people.

In many of the big strikes of the last few years, public opinion was not wholeheartedly united in condemnation of the strikers. There was a feeling that some of their claims were at least partly justified, and that the processes of arbitration had been unnecessarily slow and cumbersome in rectifying legitimate grievances. This feeling was encouraged by the war-time record of labour generally in maintaining continuous work, and by the tendency to regard the industrial upheavals of the immediate post-war period as a natural outburst of industrial high spirits on the return to peace-time conditions. But any feelings of tolerance and sympathy have now vanished. It is being forced upon the people that there can be no worthwhile progress, no big development, no prospect of building a great nation in Australia, unless a reasonable degree of continuity of work can be assured in industries supplying basic materials and providing essential services. If the aim of the Communists is to disrupt and enfeeble the economic life of this country, and to prevent all true progress, then, since the end of the war, they have been markedly successful.

The public are no longer in the mood to suffer tamely the hardships imposed by strikes, or to tolerate disastrous interruptions to the smooth flow of the nation's economic life. Indeed, many people of no clear-cut political affiliations are beginning to question whether the traditional labour freedom of the right to strike can any longer be permitted, or, at any rate, permitted in those industries which are basic to the economic welfare and progress of the country.

Historical Background.

"The right to strike" is a right that has only been recognised and established in British countries in comparatively recent times. In the latter part of the 18th and well into the 19th century, strikes in England were often savagely repressed. Nearly a century has passed since the Dorchester labourers were sentenced to seven years' transportation because they were responsible for organising a society which had agreed to strike in order to combat wage reductions. There were many legal sanctions which could be brought to bear on strikers. They could be prosecuted under the common law of conspiracy, for breaches of contract, and under Master and Servant Laws and Combination Acts.

It was not until 1875 that British workers were legally assured of the right to strike. But in 1900 an event took place which suggested that this right was of very dubious advantage. In that year, the Taff Vale Railway Company in South Wales sued the Amalgamated Society of Railway Servants, some of whose members had participated in a strike, for the loss which the Company had sustained through the strike, carried the case to the Lords, and eventually secured a verdict of £23,000 in damages.
The total cost to the Society was £50,000. The threat to Trade Union activities implied by the Taff Vale decision was removed by the Trade Disputes Act of 1906; but the Trade Disputes Act of 1927, which followed upon the general strike, again rendered somewhat uncertain the legal position of the workers' right to strike. This Act has since been repealed.

In Australia, although the position of the unions was never so adverse as in England, legislation followed closely on the lines of the English model. Prosecution of strikers for breaches of Master and Servant Acts were not uncommon in the latter part of the 19th century, and it was not until this century that Australian workers could be said to have established, beyond doubt, their right to strike.

The Argument Against.

But that right is now again in serious question.

The argument of those who oppose the right to strike runs something like this: Industrial conditions have undergone such a transformation in the last forty or fifty years that there is no longer any need for the worker to strike in order to gain just recognition and correction of his grievances. With the enlightened policy now pursued by the majority of employers, the representation of all classes in Parliament, the high degree of interdependence of the modern economy, and the broadening realisation that all sections have a stake in maximum production, it has become increasingly offensive to most thinking people that strikes should any longer be countenanced. Moreover, the provision of industrial courts, to which the worker, through his union, has ready access, removes entirely the need for resort to the sanction of the strike. With the system of compulsory arbitration came the "rule of law" in industry, but the law cannot "rule" if the use of force to overthrow its provisions is permitted. A recent appointee to the Arbitration Court bench stated: "The right to strike has gone. It died when a system of law was introduced, which gave those people who had the right to strike a complete and absolute remedy."

The argument is valid in strict legal theory. But it does not settle the matter. For the question remains how far, in practice, it is possible, and indeed desirable, to apply rigid legal concepts to the complex field of human relationships in industry.

"The Rule of Law" in Industry.

Nearly 50 years' experience of compulsory arbitration suggests that there are, in fact, very severe limitations on the extent to which it is practicable to apply the theory of the "rule of law" to industry. These limitations were by no means fully visualised by the early founders of the system of arbitration—nor indeed by early arbitration court judges. When the Attorney-General, Wise, introduced his "Conciliation and Arbitration Bill" in N.S.W. in 1900, he optimistically asserted: "There cannot be any strikes under this bill. There may be disputes, but there cannot be any interruption of industry."

And one of the greatest justices of the Court, the late Mr. Justice Higgins, in his book, "A New Province Of Law and Order," wrote: "The Arbitration system is devised to provide a substitute for strikes and stoppages, to secure the reign of justice as against violence, of right as against might, to subdue Prussianism in industrial matters."

These pretensions have been shattered by what has actually taken place. The system of compulsory arbitration and the so-called "rule of law" in industry have, in fact, been accompanied by an alarming amount of industrial lawlessness. Indeed, over the last twenty years or so, the burden of strikes has probably been far
A Law Without Teeth.

Those who would deny the right to strike retort to this that the industrial law in Australia has been a law without teeth; that it is impossible to secure, and futile to expect, the observance of law in industry, or in any other field, unless there are provided penalties and sanctions to enforce the law and deter the law-breakers. The Arbitration Act, as it exists today, does not contain adequate penalties by which the provisions and awards of the Court can be sustained. The remedy, therefore, according to this school of thought, is to write into the Act, or, if not in the Act, then into other legislation, penalties of such a nature that the right to strike would in practical effect cease to exist. The disastrous winter coal stoppage has given added weight and appeal to these views. Indeed, numerous people, who have never before questioned the right of the worker to go on strike as a last resort, are now seriously wondering whether this right can any longer be conceded.

The abolition of the right to strike does not, of course, mean there will be no strikes. All it can mean is that those who instigate and participate in strikes must be prepared to suffer the legal consequences of their actions. And these consequences, to have any salutary effect on would-be strikers, would need to be severe. They might take the form of the prosecution of strike ring-leaders either by way of personal fine or imprisonment; the imposition of levies on union funds; the imposition of fines on all those who participate in strikes; the freezing of union funds to prevent financial aid being extended to strikers; and other measures of a like nature.

The I.P.A. has given long and thoughtful consideration to this matter and has come to a number of conclusions. Firstly, we are convinced that discussion of the abstract merits of whether or not the right to strike should be preserved is apt to be barren and fruitless. There is little to be gained, in fact only confusion is likely to arise, by pursuing too far the theoretic and legalistic implications of this matter. What is important, from a practical point of view, is not that there should be no legal right to strike, but that there should be an end to the regular interruptions of work in those essential services and industries which are basic to the welfare of the people and the economy—interruptions such as the disastrous coal strike, and other stoppages little less disastrous, of the kind that have occurred continuously since the end of the war. It is at the reduction to negligible proportions of strikes in these industries that action should be concentrated.

Not Acceptable to the Labour Movement.

It can be said, with reasonable certainty, that an absolute prohibition of "the right to strike," such as would be implied in a permanent law providing for repressive penalties, would not at the present time be acceptable to the great body of the labour movement in this country. Whatever we might think about it—and there are arguments for and against—such a prohibition is not at the present stage within the scope of practical politics. It is axiomatic in legal theory and practice that it is futile to pass laws that are not supported by the great majority of the people to whom they apply. And it is perfectly certain that a
law of a permanent character providing for prohibitive penalties on striking unions, unionists and union leaders, would be bitterly opposed by workers throughout the length and breadth of Australia. Nor, probably, would such provisions be viewed without some disquiet by many people not directly affiliated with labour organisations and not holding pronounced labour sympathies.

From a practical viewpoint, the position we are faced with is this: A Labour government would unquestionably refuse to introduce legislation which would, in effect, abolish the right to strike. On the other hand, any attempt by a non-Labour administration to do so would, in all probability, lead immediately to a general deterioration of industrial relationships, and to an outbreak of acute and widespread industrial unrest and disturbance by way of protest. It would also strengthen the position of militant extremists in the union movement. And quite apart from these eminently practical considerations, there must remain a lingering doubt in the minds of thinking people whether a complete prohibition of strikes, such as would be implied by harsh legal penalties, would be consistent with traditional democratic rights, and particularly the right of any section of the community to organise and take reasonable action for its own protection and advancement.

For these reasons, and especially the practical reasons, we are constrained to reject the view that the right to strike, as a general and abstract principle, should no longer be permitted.

A Middle Course.

Does this mean that we are prepared to acquiesce in a continuation of the present disastrous state of things? Is the coal stoppage of the winter of 1949 to be repeated in the winter of 1950, and the entire economy of the country to be disrupted because of concern for an abstract democratic principle, or because of insurmountable practical obstacles? By no means! There is a middle course, which, if it will not provide an infallible remedy for strike action, at least holds out prospects of great improvement over the present lamentable condition of affairs—a course which may eliminate the excessive discomforts and hardships that the community has suffered since the end of the war, and which may serve to guarantee the smooth working and progress of the economy as a whole.

The fundamental starting-point for any success in coping with strikes against the community is that there should be no appeasement of any kind of the unions directly involved. No benefits, direct or indirect, no concessions, minor or major, should be conferred because of a strike. So long as strikes continue to be profitable, so long will they be attractive to people who indulge in them; and so long will men, whose prime business it is to foment strikes, be returned to positions of leadership in striking unions.

Bitter Fruits.

This principle is easily stated, and often affirmed, but seldom carried out in practice. Strikes are almost invariably brought to a conclusion as a result of some concession, direct or indirect. It is not easy to name one major strike in this country since the end of the war that has not resulted in substantial gains to the workers concerned, and, quite frequently, to the great body of workers not directly concerned. In fact, it cannot be doubted, that we are now, in part, reaping the bitter fruits of the seeds sown in the first year or two after the war by the failure of Labour governments to deal much more sternly with those resorting to direct action to gain their ends.

For instance, the transport upheaval in Victoria toward the end of 1946, was instrumental in producing what in retro-
spect appear incredible gains for the workers concerned, and indeed for the labour movement throughout Australia. For the workers directly involved, annual leave was greatly extended, overtime rates and Saturday and Sunday rates were increased, more amenable weekly rosters eventuated. So far as all workers were concerned, undertakings were given to expedite the hearing of the 40-hours’ case, and a special interim increase in the basic wage was granted. Also, on the day that the strikers returned to work the Arbitration Court announced approval of the 40-hour week in principle.

The rights and wrongs of these concessions are not here in question. The only point we are concerned with is that they came about, or appeared to come about, as a direct or indirect consequence of the strike. Can it be wondered that, in the face of gains like these, strikes have such an appeal to many workers, even those of moderate complexion? And can it be wondered that militant leaders who instigate strikes and produce these results have such popular appeal at union elections? At that time, in 1946, reviewing the implications of the strike, the Institute stated: “If the strike weapon can produce gains such as those obtained in the transport upheaval, where the methods of orderly procedure fail, it seems only logical to expect that the next few years may see an expansion in the use of the strike or of the threat of the strike to achieve labour objectives. This is a sombre reflection.”

No Appeasement.

It is utterly futile to expect workers to eschew direct action, or the elimination of militant Communist leaders from key unions, while strikes are permitted to produce such far-reaching benefits. If governments, and indeed the community, are not prepared to reject policies of appeasement, then there is little prospect of any improvement in the wholly disastrous conditions which have prevailed in Australia over the last few years.

In practice this means that any government must be prepared to fight an unjustifiable strike—and most strikes in essential industries are utterly unjustifiable—to the bitter end, and resolutely refuse to enter into or to arrange any negotiations on matters that are properly the province of established industrial tribunals. But no government can do this unless it has the backing and support of the great majority of the community, including the moderate and sensible elements of labour. If strikes are to be made unattractive, then the community must be prepared to put up with the hardships and sacrifices that an uncompromising attitude to strikers must entail. Without the full moral and physical backing of the community governments can do little. The outstanding feature of the great coal stoppage this year was the uncompromising stand taken by governments, both Labour and Liberal. They were able to take this stand because they knew that the community was prepared to back them to the limit.

Emergency measures.

But governments have other weapons to bring to bear on strikers besides the indignation and resolution provided by an outraged public opinion. We have seen in the coal stoppage that in certain circumstances the community, and even the responsible elements of labour, are prepared to support—or at least not strenuously oppose—far-reaching penal measures against striking unionists and their ring-leaders. The freezing of union funds, the fine and even imprisonment of strike leaders, are examples. To make provision for penalties such as these in special circumstances by way of temporary or emergency legislation is some-
thing that the public would support where it would not countenance permanent penal legislation which might be applied to all strikes and strikers indiscriminately.

In the coal strike, too, we have seen for the first time a really serious effort to minimise the hardships to the public and to maintain essential supplies, through the provision of volunteer labour or the use of armed services to do what the strikers refuse to do. In a strike involving a state of great national emergency, this type of action, which can be the most potent of all, should be applied rigorously and with the very minimum of delay.

There is, too, the possibility of strengthening the industrial law in ways which might not be objectionable to the great body of decent unionists. It might be feasible, for instance, to introduce a provision debarring a striking union from access to the facilities of the appropriate tribunal for a defined period after the men had returned to work. The Act might lay down the minimum and maximum periods, the exact length in each instance being left to the discretion of the Court. As it is, a strike tends to take precedence over all other business in the work of the courts, which means that striking unionists are awarded a first claim on the attention of the courts. The bad boys of the family are better treated than the good.

Secret Ballots.

Then there is the secret ballot! It has distinct possibilities for good; on the other hand it presents practical difficulties. Its success would depend on the cooperation of individual unionists as well as of the union organisation itself. There is no certainty that this co-operation would be given. Moreover, it is wrong to assume that a secret ballot would be all-effective. What is more important, in our view, than a ballot on strike action are secret ballots for the election of union officials. Here the ballot can be properly organised well in advance, and does not therefore give rise to the same difficulties. However, from a practical standpoint, it is not easy to see how this vitally necessary and desirable reform can be introduced into the structure of the union without the concurrence of the unions themselves. There have been encouraging signs during the last month or so that moderate labour leaders are beginning to awaken to the virtues of the secret ballot.

Summing up.

To sum up: Abstract discussion on the right to strike is likely to get us nowhere. Apart from the doubt whether a universal prohibition of strikes would not infringe a fundamental democratic right of the worker to withhold his labour, it is in the present stage of public opinion outside the ambit of practical politics. What is important is that each strike in an essential industry, which is a strike against the community, should be treated on its merits and fought with the full weight of the moral and physical resources that the community can muster. There must be no vestige of appeasement in totally unjustified political stoppages, the majority of which are instigated by militant Communist extremists. If this were taken as an unswerving principle of policy, and if moderate, sensible union leaders could be brought to accept the principle of secret ballots for union elections, then we would go a long way toward avoiding a continuance of the disastrous stoppages which have cursed Australian industry over the last few years, and toward ridding the key unions of Communist influence.
1. Statistics of the Ministry of Labour in Great Britain (reported in the Australian press) show that the average weekly wage for men, at the end of April this year, stood at £6/19/11. This figure, which includes overtime, amounted to an increase of £1 on the average level at October, 1946.

2. It is interesting to compare these figures with the corresponding movements in wages in Australia. In September, 1947, the Commonwealth Statistician, in his Quarterly Business Survey, estimated the average weekly earnings for men (including overtime) to be £7/15/9. By adjusting these figures for changes in earnings since that time, as revealed by the Commonwealth Statistician's figures of "average weekly earnings per male unit," it is possible to reach a rough estimate of the weekly average wage for the June quarter of 1949. The figure is £9/14/7 and this may be taken as reasonably comparable with the figure of £6/19/11 for Britain. The increase in average weekly earnings in Australia since October, 1946, is of the order of £2/10/- compared with £1 for Britain. The much greater rise in wages in Australia over the last three years is largely accounted for by the fact that wages here have increased steadily every quarter (on an average by 2/- to 3/-) in response to rising costs of living, whereas in Britain wages have been virtually pegged since early 1948, under a tacit agreement between the British Government and the trade unions. The wage structure in Australia was also lifted by the interim increase in the basic wage of 7/-, granted by the Commonwealth Arbitration Court in December, 1946.

3. As an indication of relative costs of production it is of value to compare the increase in hourly earnings in Australia since before the war, with the increase in other countries. Hourly earnings in Australia have moved from 1/11.9d. in 1938-39 to about 4/44d. in May, 1949, an increase of 120%. This compares with an increase from 1/5.4d. to 3/- (approx.) in Britain or 107%. In the United States the movement is from $.633 to $1.380 or 118%, and in Canada from $.49 to $.981 or 100%.

Since the end of the war, hourly earnings in Australia have risen by about 50%. This compares with about 35% for U.S.A., 40% for Canada, and 23% for Britain.
1945, hourly earnings in Britain have increased by about 7 pence, in Australia by about 1/5d. The introduction of the 40-hour week in January, 1948, in Australia had the effect of substantially increasing hourly earnings.

4. Since 1939, actual average weekly hours of work (including overtime) have dropped from 47.7 hours to 46½ hours in England and have risen from 37.7 hours to 38.6 hours in the U.S.A. No statistics of Australian hours of work, including overtime, are available, but nominal hours have gone from about 45 to 40 hours; it seems fairly safe to conclude that actual hours of work (i.e., including overtime) have dropped more than in Britain. In Canada average nominal hours of work have been reduced from 47.2 to 40.6 hours.

5. The share of wages and salaries of the national income in Australia tends to vary widely from year to year because of the effect of fluctuations in overseas prices and seasonal conditions on the incomes of export producers. In lean export seasons, wages and salaries tend to take a greater share of all incomes than in buoyant seasons, such as 1948-49. The share of wages and salaries of all incomes in 1948-49, about 55.6%, was much below the share in 1938-39, 59.4%, largely because 1938-39 was a poor export year (farmers only got 10.4%). In 1937-38, a good export season, wages and salaries took 56.3% and farmers 14%. In 1948-49, farmers received 19.5% of all incomes. Between 1938-39 and 1948-49, dividends fell from 3.3% to 2.1% of all incomes, rent and interest from 11.6% to 6.3%, the income of unincorporated businesses remaining constant at 11%.

These figures, however, provide no accurate guide as to how the national income is finally distributed among different sections of the community, because they do not take into account the effects of taxation and of social service payments, both of which benefit the wage-earning section at the expense of those other sections which pay higher rates of taxation. Also the actual share going to labour cannot be ascertained because the Australian statistics do not show wages separately from salaries.

Figures have been produced for Britain which are indicative of the change in the distribution of the national income.
brought about by taxation. In 1948, before taxation, wages took 44% and salaries 21% of all personal incomes. After taxation wages took 48%, while salaries maintained the same proportion (21%). Profits (including professional earnings and income from farming), interest and rent took 32% before tax; 28% after tax. To ascertain the real share of labour in the national income, it is obviously necessary to take into account the influence of taxation. There is also the question of social service payments. These have increased in Australia from £31m. in 1938-39, to £103m. in 1948-49. They represented 3.8% of the national income in the former year; 5.3% in the latter. Both taxation and social service payments would have worked to increase the labour share of all incomes since 1938-39.

6. If it were technically possible, it would be of value to compare the share of the national income going to labour in Australia with the shares of national income received by labour in other countries. Such comparisons, however, cannot at present be accurately made, first, because of the different economic structure of different countries; second, because of the different methods of compiling and presenting national income statistics used by the different countries; and third, because in Australia wages and salaries are lumped together, and there is no separate figure for the total of wages, as in the United Kingdom.

7. In making decisions on economic, social and industrial policy a detailed scientific statistical study of changes in the distribution of the national income would be of inestimable assistance. Such a study, because of its complicated and difficult nature, could only be satisfactorily undertaken by the Commonwealth Bureau of Census and Statistics.
THE LIMITS
OF SOCIAL CONTROL

By

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IN 1936 I was invited to participate in the Harvard Tercentenary Conference on Arts and Sciences and to give a paper on "The State and the Entrepreneur" as part of a symposium on "Authority and the Individual." At that time the United States was engaged in a great controversy over the New Deal while Australia was rather marking time in social policy. Since then, both countries, more especially Australia in common with other British democracies, have advanced far along the road of social control. But the basic problem remains the same as it was in 1936 and I may be permitted to quote my thesis on that occasion.

"Let me summarise my thesis. The function of the entrepreneur must continue to be performed in any community that desires to make progress. The qualities of imagination, leadership and adventure necessary for great constructive work were exercised by the entrepreneur under free capitalism. During a large part of the nineteenth century he was left free in most countries to pursue his objective of maximum profit without serious interference by the State. This was true especially of the United States, where even in the post-war period (1919-1929) capitalism flourished and its virtues were extolled as never before in the history of man. Then came the great depression to expose the grave defects of an economic order that had no solution for economic fluctuations and no means of ameliorating the burdens of depression. Capitalism under the control of the entrepreneur guided mainly by considerations of maximum profit is now completely discredited. It does not give economic security to the masses of the people; it does not provide the administrative machinery whereby increased technical efficiency is transformed easily into a generally higher standard of living; it does not furnish society with the social institutions required to meet the strains imposed by economic fluctuations and rapid technical progress; it does not provide the increasing range of free or collective goods that enter more
and more into the standard of living. Countries have been able to absorb the shocks of depression and improved technique in inverse proportion to their dominance by the capitalistic entrepreneur. The contrast between the experiences of the United States and Australia in the depression is significant. Australia got out of the depression quickly by taking unorthodox action through State and banking control; the United States got deeper into the depression by holding firmly to an orthodox course. This, I admit, is a sweeping generalisation that requires close examination of the differing circumstances of the two countries. I point the contrast to emphasise a fundamental fact in recent economic evolution—namely, the increasing need for State action if capitalism is to continue to yield its best fruits.*

I see no reason to alter this, but the emphasis has changed a good deal, and most modern democracies have been busily engaged in increasing the scope of State action largely in the interests of social welfare, and not always with a view to securing the best fruits in production. Whilst I was able in 1936 to draw attention to the considerable measure of economic activity directed and operated by the State in most modern democracies, and to the increasing intervention of the State in consciously altering the distribution of wealth and income in favour of the lower income groups, and in seeking to guarantee security to the masses of people, I also drew attention to the dangers inherent in wide and ill-considered extensions of State activity in damaging enterprise, initiative and responsibility without which economic progress is jeopardised. Moreover, the form of control designed by the State was a matter of great importance, and I was anxious to make clear the essential similarities and differences of the joint-stock company and the semi-independent commission operated by many States in their State enterprises.

The problem is now different in two respects. First, the State has gone much further in its sphere of operation, particularly in respect of its provision for social security, and second, there is a tendency to reduce the status of the agency

*(For the complete essay, see "Authority and The Individual," Harvard Tercentenary Publications, Harvard University Press, pages 48-73.)
set up for operating State enterprises. Both of these tendencies require searching examination in considering the limits of social control. These limits, as we have seen in the past 10 years, are not fixed; there is a sort of moving frontier of control and the limits have to be considered in relation to this frontier. The frontier has itself advanced greatly in recent years, even in the United States, where the doctrines of the New Deal seem to have come to stay. But the frontier of social control is much less advanced in the United States and Canada than in any of the other States where a reasonable degree of enterprise still operates, and where it can be said that the economic system is still predominantly one of free enterprise, though subjected to greater social control.

In Australia the Commonwealth Government now disburses some £570 million, or more than a quarter of the gross national product. If we add the disbursements of State Governments and the local authorities the figure would approach 30 per cent. of gross product. More than one person in every four gainfully employed is now working directly for a public authority of some type, so that the area of direct intervention by the State is now very large. As it is more capable of subjection to a common policy than the area occupied by private enterprise, it has an increasing influence on the whole economy. But the operation of the State is not confined to its direct economic activities. The greatly increased provision for social services in recent years has enabled it to enter indirectly into many avenues of economic and social control, and to influence the direction of the economy to a far greater extent than in pre-war days.

Whilst these extensions have been taking place there is the tendency referred to above to bring agencies of the Government more directly under central direction than before. This is particularly noticeable in Commonwealth administration, where great importance has been attached to the position of the Treasury in relation to the whole of the operations of the Commonwealth Government. There is now scarcely any important agency on the controlling authority of which the representative of the Treasury is not a key person. This cer-
tainly promotes uniformity of conditions in Government operations and may lead to economy in administration, but it may be doubted whether in the long run it is consistent with the exercise of initiative and of "the qualities of imagination, leadership and adventure necessary for great constructive work." It is too early to speak with any authority on the outcome of this change in emphasis in the administration of public enterprises and the agencies operating the new or extended social services, but it is a tendency that should be examined with much more searching analysis than has been given to it as yet.

The demands of security have not been confined to such problems as employment, sickness and old age. There has always been some demand from certain large and powerful economic groups for the helping hand of the State, and these demands have by no means diminished during the period in which the State has been so rapidly expanding its functions in the directions already indicated. There is, for instance, our old friend the tariff as an agency to give shelter to many types of enterprise into which the State has not entered directly. Because of the war and the sellers' market since the war, and the operation of import licences and restrictions on many classes of imports, the tariff has been less important, but there is little doubt that it will be invoked again as soon as the conditions change and local industry is open to severe competition from abroad. Many people who regret the widening scope of the economic and social functions of the State will have little hesitation in seeking its protection through the tariff, though they would perhaps be astonished if they were charged with being inconsistent in their advocacy of more effective protection. Then there is the wide field of primary production which before the war was being assisted in one form or another to an increasing degree by the State, and has in the last few years experienced very profitable prices. It remains to be seen whether, as conditions become less favourable for primary production, the demand for stable prices based upon State support won't be more insistent than it was before the war. Thus we must not think of State control as being the result of some doctrinaire political theory; it is, in part, as it always has been,
the result of pressures within the economy that no political structure in a democracy can resist.

Nevertheless, it is desirable to examine the logical grounds on which the State should intervene in a society that is still predominantly a so-called free enterprise economy. First, there is the accepted view that the State should own and operate the public utilities. They are natural monopolies, and pockets of economic and political power, and their administration admits of satisfactory solution under State ownership provided reasonable freedom is given to the operating authority and there is no undue pressure for uniformity. It should be noted that in a federal system in which ownership is spread over several Governments, there is a better prospect of public ownership combining the enterprise of the joint stock company with the benefits of public management than in a unitary State.

Secondly, there is a strong case for the State intervening to provide a much larger measure of security than private enterprise does. The risks to be covered include sickness, old age, education and unemployment. As such, they penetrate deeply into the recesses of private life and raise the perplexing problem of reconciling security with initiative, enterprise and a sense of social responsibility. The demand for security is the most powerful political force in modern democracies, and it has affected the sphere of operations of the State in recent years more than any other single force, far more than the demand for public ownership of key industries. Its effects upon efficiency and enterprise have yet to be seen, but it may confidently be asserted that the reconciliation of security and responsibility is the greatest problem that the modern free democracies face in the long run.

Thirdly, and associated with the second ground for intervention, is the desire to promote stability in the economy. All modern democracies are now faced with the responsibility of imparting greater stability to their economies than unfettered private enterprise could offer, and some, including the United Kingdom and Australia, are officially pledged to maintaining a high and stable level of employment, or even guaranteeing full employment. This cannot be done without considerable
State control; indeed, it may be said to be a responsibility of the State, though the co-operation of private enterprise is necessary. What does this mean for Australia? The goal of stability involves avoiding extremes of either boom or depression, and not merely action to restore activity when times are bad. It requires also the co-operation of all important economic groups in the community. The Australian Government has two main weapons at its disposal for imparting a high degree of stability to the economy. But it cannot be too much emphasised that a Government can only operate within the political beliefs of the community it represents. It should give a lead, but it can do this only within the framework of the political beliefs of the community. The two weapons in Australia are fiscal policy and the stabilisation of export income. Both require the exercise of restraint by the whole community in the period of economic expansion. Thus, as regards fiscal policy the Government should budget for surpluses when the economy is buoyant, but this demands willingness on the part of the community as a whole to continue taxation at a level much above that necessary for balancing the budget. We know from experience in the past three years that a Government that set out on such a course would be an easy target for political criticism. On the other hand, it should practise deficit finance in adversity and actually reduce taxation and increase its outgoings on both current and capital account. This would be quite a popular course, though contrary to what was considered sound finance in the past. Unfortunately, the less popular course appropriate to the expansionist phase of the trade cycle would not be so readily accepted, though it is just as vital an element of the new fiscal policy as is the counterpart in the recession phase of the trade cycle.

Similar considerations apply to the other weapon the Government may use to promote stability in the Australian economy, which is highly responsive to changes in export prices and the level of export incomes. This may be exemplified by the experience of the past four years when we have enjoyed very high export prices, giving a value of exports for last year
of £547 million, compared with £141 million in 1938-39, though there has been little expansion in volume. We have no direct measure of the total value of export income from year to year, that is, income in the industries producing largely for export and affected directly by the level of export prices. We can, however, use a figure in the national income estimates published with the budget papers. This is the figure for income earned by unincorporated businesses, farms and professions. It rose from £245 million in 1945-46 to £580 million in 1948-49, that is, by 140 per cent. This is largely the consequence of the rise in export prices which has generated a great monetary expansion in the whole economy. A stabilisation plan that would have held back some of this income in a fund pending the time when export prices fall again, would have lessened greatly the inflationary pressure in the economy and done more than any other single thing to promote stability. Moreover, it would have provided a basis for expansion later when export income may fall and set in motion strong deflationary pressure on the economy. But such a plan requires the agreement of export producers, and the readiness of all other sections to act with restraint in their income demands when export prices are high. It has the great advantage of not requiring detailed control over the working of the economy, but of providing precisely the overall control to give a social framework in which private enterprise can work without causing violent fluctuations in the economy. It can rightly be contended that such action by the State is in conformity with the newly expressed demand for stability and security.

In Australia and New Zealand, and to a less extent in other democracies, the State has found it necessary to an increasing degree to intervene in the determination of wages and working conditions in industry. This may be taken as the fourth ground of State intervention. There is no pattern here. The type of action varies from the highly legalistic procedure of Australia and New Zealand to the limited measure of control exercised in the American economy. Some form of control, however, is inescapable, though it affects the responsibility of
management and helps to create a more stratified society than would emerge from the operation of unfettered private enterprise. This type of State action is now an accepted fact in Australia, though the Australian pattern would not be accepted in other democracies.

Fifthly, the State may intervene in the economy to promote a less unequal distribution of wealth and income than would be determined by the operation of private enterprise in a free economy. Some people express this as promoting the optimum distribution of income, but it is not easy to define optimum in this sense; nor, indeed, is it possible to define in precise terms the limits of State action in this sphere. Nearly all State action in economic affairs has the effect of promoting a more equal distribution of income, and the process has gone a long way in the past few years. Total taxation reached 28 per cent. of national income for 1944-45 and 1945-46 in Australia, rose to 29 per cent. for the following year, was 24 per cent. for 1947-48, and was up again at 26 per cent. last year. These are high figures, and with the steeply progressive nature of income taxation, together with what may be called regressive payments for social services, a considerable amount of income has been transferred from the higher income brackets to the lower. Certainly, the transfer has been sufficient to justify the appellation "social justice State" to the modern State. How far this has beneficial effects in the long run is another matter on which time alone will tell. Production alone is not the ultimate test in this or in other matters of major social policy, though one must sympathise with the point of view of the distinguished industrialist who rendered high service during the war, and facetiously remarked that he had worked for industry before the war, for the Government during the war, and since his return to industry after the war for the Treasurer. A community with a high standard of living can afford to take risks with its level of production and output in the interests of total social welfare, but that point of view, as with the claim for security, can probably be pressed too far.

Finally, the State has some responsibility to check unfair practices on the part of powerful groups in the community where free enterprise allows the development of such practices.
The classic case in this respect is monopoly, and the freest of all economies, the American, has had to take action over the past half century to check the abuses of monopolists. But there are monopolistic tendencies in other elements of the economy, such as the ownership of land, the activities of trade unions and trade associations, in all of which cases most modern states have had to intervene in the interests of social justice. In some instances of monopolistic practice the action of the State may go as far as public ownership, but if we believe in private enterprise the correct rule to follow would be to leave to private enterprise all that it is capable of doing within the social framework of security and stability to which modern free communities aspire. This will not avoid action to check monopolistic practices, as the United States has found, nor of at times entering directly into public ownership as in the case of the Tennessee Valley Authority.

Is there any general principle that emerges from this summary review of the grounds on which action by the State may be defended in the modern economy? To some people the developments of the past 10 years are characterised as “the Road to Serfdom,” or the emergence at last of the “Servile State” in the free world. It is true that decisions of entrepreneurs are now affected by a much wider range of controls than ever before, and that the State itself has a much greater direct control of the economy than in the past. But we should not overlook the fact that the goal of security and stability has some advantages for the entrepreneur, as well as for other sections of the community, and that he may be just as subject to the corroding influences of too much security and too stable a level of activity as others. Stability at a high level is obviously a good thing for business, and some leaders of enterprise may well bask in the sunshine of their improved milieu. But the question that determines the issue is whether there is still scope for real enterprise, for the entrepreneur with imagination, courage and initiative to forge ahead, and in the process to enrich the community as well as himself. If this is not the case then indeed security and stability will have impaired enterprise.
I don't think it can be contended that this position has arisen yet in the free world to which we belong, despite the much wider range of social controls exercised by the modern State. That it is a danger no student of history, or of recent social or economic trends, can deny. The pursuit of social justice is attended by the dangers to which I have attempted to draw attention, and it may lead to a society lacking enterprise. These dangers require that the community should view with increasing concern extensions of State activity beyond those absolutely necessary to achieve the comprehensive objectives stated above. It should also show much greater interest in the forms of control, and particularly in ensuring that the agencies of the State shall exercise the maximum of enterprise and initiative consistent with their public responsibility. The tendency to uniformity, to control from the centre, to sheltering behind bureaucratic organisation should be avoided. Unfortunately, all these tendencies have rather increased in recent years and Parliament seems intent upon intensifying them. These tendencies are just as important for the future of the social justice State as are extensions of the sphere of operations of the State itself. It is my belief that they should be resisted, and I suggest that the time has come for a stay order in extensions of State activity until the community has digested the very large measure that has been adopted in recent years, and the administration has caught up with the rather ambitious policy we have followed. For the moment we seem to have reached the desirable limits of social control, and the onus is now on us to make a workable economy within the framework provided.