Editorial

THE ELECTION

For free enterprise in Australia, December 10, 1949, marks a day of hope and opportunity, but not a final and triumphant culmination.

Apart from the damage which the socialist policy of the Labour Party might have inflicted on the physical form of business through nationalisation, controls and heavy taxation, its most serious aspect would have been its effect on the spirit of enterprise. For the fruitful and productive expression of that spirit, confidence is the prime essential, and there can be no doubt that, among large sections of business, confidence in the political philosophy and immediate programme of the Labour Party is conspicuously lacking. The return of a Liberal-Country Party administration will, on the other hand, be a tonic to the jaded nerves of business interests, stretched almost to breaking point by the long period of office of a government not notably sympathetic to their point of view.

It would be wrong, however, to conceive of the election result as a once-for-all rejection of socialisation. In addition to the broad issue of socialism, a decisive influence on the outcome was the inexorable swing of the pendulum of political opinion against a party which had held office for eight long years, the natural public desire for fresh faces and fresh ideas at the seat of government. To these factors should be added the influence of the deep fear of the people of the revolutionary project of bank nationalisation, and, also, perhaps, of a growing public irritation with the remote and sometimes autocratic control exercised by the Canberra officialdom.
An excess of jubilation or confidence on the part of the opponents of socialism, would, at this stage, not merely be in the worst of bad taste but would be the height of unwisdom. It is well to bear in mind that, despite the great swing in the allocation of seats between the parties, the margin between the aggregate votes cast for the victors, and those cast for the defeated, was thin indeed.* Let no one think that we have heard the last of socialism in this country. The campaign against the influence and spread of socialistic ideas must not be relaxed for a moment. In the past, when non-socialist parties have controlled the reins of government, there has been an undeniable tendency on the part of those opposed to socialism to become less vigilant in their opposition. This tendency, which is natural enough, should be vigorously resisted.

The I.P.A. has always held that the ultimate overthrow of socialism cannot be achieved by negative, standstill, defensive tactics, but only by pressing forward with new progressive ideas in all branches of the free enterprise economy—in labour relations, in management and administration, in production and finance, and in the important sphere of public enlightenment on the working of the economic mechanism. We have held, also, that, in the final summing up, the fate of free liberal enterprise will be decided not at the political level by politicians, but at the business level by businessmen themselves. So long as business is big-minded and generous in its attitude, displays a sympathetic and constructive understanding of the other man's problems, and is as untiring in its pursuit of the public good as it is (and should be) in pursuit of its own profit, so long will it command the respect and support of the Australian people.

The victory of December 10 should be regarded not as a final verdict, but as a heaven-sent opportunity for free enterprise to build greater than in the past by contributing constructively to the solution of those national problems which vitally affect the welfare of all Australians, and by striving unremittingly for sound human relationships in industry. Otherwise it could prove to be a brief respite from the threat of socialism, and the reaction, if it came, would be shattering and devastating in the extreme.

*Of the Liberal and Country Parties' majority of 27 seats, 20 were won by less than 1000 votes.
AN INCREASING MENACE

The Australian economy is caught up in a massive wave of inflation. There has been nothing comparable to the magnitude of the present monetary expansion in the economic history of the last three decades. Indeed, in the matter of mere size, the post-1914-18 inflation and the pre-1929 depression phase of expansion, are, by comparison, of meagre dimensions.

Yet there is a curious apathy about the whole matter. Admittedly, this is not so apparent among the ordinary members of the consuming public, who increasingly resent the high prices they are called upon to pay, as among political, industrial and labour leaders. It is true that the fact of inflation is often politely mentioned, and perhaps occasionally deplored, in public statements from top levels, but there is by and large little evidence of any strong conviction of the need for bold counteracting measures and policies. In the recent election campaign, inflation did not figure largely in the political exhortations or propaganda. Yet there is no more important, and certainly no more menacing, issue facing the new Government. Inflation is now the crucial problem of Australian economic policy. It is no exaggeration to say that if the problem of inflation can be solved, all economic problems will be solved; and, conversely, unless inflation is conquered, all problems will remain unsolved.

COSTS OF LIVING

What are the main problems of the Australian economy? There is, first, the rising cost of living to the consumer. From the point of view of the ordinary person this is probably the most immediate and serious, and a matter, therefore, of every-day lament. It affects some sections of the community more than others; but it affects all. With some sections it may be a cause of little more than severe irritation; but with others, particularly those whose incomes in terms of money are relatively fixed—for example, those living on pensions—and, in these days, those endeavouring to establish themselves in a new home, it imposes hardship, often severe. The high cost of living in Australia today is, of course, a direct consequence of monetary inflation; of the simple fact that the "money" factor
in the economic equation is increasing at a vastly greater rate than the "goods" factor. So long as the rate of input of money into the economic system continues to outstrip the rate of output of goods and services—the rate of production—so long will prices and living costs continue to rise.

LOW PRODUCTION

But the condition of inflation tends, of itself, to make the creation of an increased flow of goods and services infinitely more difficult. This is the second great problem of the Australian economy—low production. In the first place, inflation tends to eliminate, or at least to greatly soften, the compulsion of business competition. It makes a profit comparatively easy to come by. Because the pressure of buying is so strong, due to abundant supplies of money, the producer or trader has little difficulty in selling his goods. The incentive to speed up his production and reduce costs, to give better service, or to improve the quality of his product, is weakened. He can sleep soundly in his bed in the happy knowledge of an assured market. Many businessmen, so long as they are not too hard hit by shortages of labour and materials, which are a concomitant of inflation, might be quite content for inflation to go on indefinitely. More than most sections, they are in a position to benefit from it; and, while it creates certain difficulties in the form of government restrictions and controls, it relieves them of many harassing worries. Moreover, severe inflation, which implies a labour shortage, affects production adversely through its effect on the attitude of mind of the employee. Since he is at liberty to walk out of one job into another, he can make his own pace. He would be more than human if he didn't. The great majority of decent workers, of course, take no undue conscious advantage of this situation; but they cannot help being subconsciously affected by it. Also, there is an irresponsible fringe—an irresponsible 5 or 10 per cent.—(just as there is an irresponsible fringe of employers) who are fully and openly prepared to make hay while the sun shines. Maximum productivity and severe inflation simply do not march together.*

*This must not be taken as an attack on "full employment," which this Institute has unreservedly supported since its inception. It is a criticism of "over-full employment." "Full employment" is a situation expressed by the equation jobs = men; over-full employment by the relationship jobs > men.
Moreover, not only does total production tend to be low under inflation, but the wrong things are produced—the trumpery consumer goods, the frivolous luxuries, before those things of real worth to the economy, those things which add to the economic strength of a nation, and which are at the basis of long term development and progress. This truth, which is vividly illustrated in the Australian economy at the moment, constitutes the third great problem. The vital industries of steel, coal, rural production, constructional materials and building, urgently-needed public projects, are suffering from acute shortages of labour and physical resources. But over a wide range of production, of much less significance to the nation's economy, there has been a remarkable expansion in output and in the labour forces employed since 1939. One fact is sufficient to emphasise the point. **Despite an increase of nearly 500,000 in the total working population since before the war, the numbers engaged in rural production have fallen by 60,000—and this in what is regarded throughout the world as a great primary producing country, and in a period of exceptional world demand for foodstuffs and raw materials.**

Why does inflation distort and twist the productive structure into an unhealthy and unnatural form? There are two main reasons! Over-abundant money supplies in the hands of consumers mean a heavy demand for all types of consumer goods. Industries engaged in the production of these goods, which include many non-essentials, hold out excellent profit prospects, and are able to attract labour by the offer of good pay and working conditions. Secondly, in a time of inflation and acute labour scarcity, there will be a movement away from the less congenial to the more congenial jobs. Country labour drifts to the city. The heavy industries lose workers to the more attractive consumer goods industries. Domestic assistants are as rare as jewels—and just as costly. In a time of inflation and over-full employment there is nothing more certain than that the hard, unpleasant, but vitally necessary, work of the world will tend to be shunned.
INDUSTRIAL COSTS

The fourth major problem of the Australian economy is the threatening level of industrial costs. There is abundant evidence to show that Australian costs are still rising rapidly, whereas costs in many countries are now comparatively steady, and in some cases, even falling. Among the English-speaking countries, inflation is, today, almost a peculiarly Australian problem. In the United States and Canada the natural post-war inflationary forces have been countered by a massive advance in production; these countries appear to have lost little, and to have gained much, by their early relaxation and removal of controls—a policy that was severely attacked by critics in those countries that adhered to controls. In Britain, the post-war inflationary pressures are now being contained by a policy of tight control—at some cost to production—and by the extraordinary and admirable undertaking of the trade unions to limit claims for increased wages, and, just recently, by the decision of the Trade Union Congress (which has been endorsed by its constituent unions) to accept a virtual pegging of wages until 1951. Only in Australia can it now be said that the forces of inflation are still fiercely active. To make a comparison with Canada, for instance—the country that approaches most closely to the Australian position:—During 1948-9, retail prices in Australia rose by 10%, in Canada by only 4%; export income in Australia by 35%, in Canada by 8%; the volume of spending power in Australia by 10%, in Canada by 7%.

Since the beginning of 1947, hourly wage rates (excluding overtime) in Australia have risen 39%, compared with increases in actual earnings in Britain 15%, Canada 23%, and the United States 13%. Moreover, all the portents suggest that over the next six to twelve months further substantial increases in Australian costs can be expected. Costs in Britain and the United States, on the other hand, may not increase greatly, and might even fall. The competitive position of Australian industry has deteriorated rapidly over the last year or two, and is likely to deteriorate further during the next twelve months. Here we have a most serious threat to future stability and employment in Australia. A sudden drop in overseas price levels would render certain large sections of the Aus-
Australian economy uncompetitive by world standards and would give rise to acute internal difficulties. The danger of the position into which we are drifting can hardly be overrated. In its 1948-9 Annual Report, the Commonwealth Bank drew attention to this danger in the following words: "While Australian costs continue to rise, overseas costs have either levelled off or are falling. In such a situation the Australian economy is particularly vulnerable to a downturn in economic activity overseas or to the effects of internal instability. In these circumstances it is important that every effort should be made to reduce costs of production and to make our industries as competitive as possible." That is, however, very much easier said than done—especially under conditions of inflation.

THE WAGE-PRICE NEXUS

Australia is probably one of the hardest countries in the world in which to arrest an inflationary movement because of the automatic link between wage incomes and prices. The movement tends to be self-perpetuating. An increase in prices leads to an increase in wages, which leads to an increase in prices, which leads to an increase in wages, which leads to an increase in prices, and so on ad infinitum.

The immense increase of £150m. in the total wages and salaries bill during 1948-9 was quite largely due to the effect of the quarterly cost-of-living adjustments. One is led to question whether the system of automatic wages-cost of living revisions can be reconciled with the modern goals of economic stability and full employment. Such a remark will no doubt give rise to a storm of criticism. But the critics would do well to remember that the system of cost-of-living adjustments cuts both ways. In a time of rapidly falling prices, wage incomes fail to get the benefit of lower prices because they (wages) too fall as prices fall. Moreover, modern economic theory throws some doubts on the wisdom of a rapidly falling wage level in time of deflation and recession. This is just the time when steps need to be taken to boost demand and spending through government expenditure and borrowing. But these steps could be rendered abortive if wages were permitted to be pulled down by every drop in the internal price level. If the severing of the wage-price nexus were to impose
temporary hardship on the family man, he might be given some relief in the form of a special family allowance, or through the amount paid in child endowment.

What we suggest here is intended not to reduce the real wages of the worker, but to raise and preserve them by maintaining their purchasing power, and ensuring the continuance of full employment. Nor would it preclude upward adjustments in the wage level as productivity increases. In fact, it would render such adjustments all the more condonable, since their impact on costs would be confined to the magnitude of the adjustment, and the secondary and spiralling effects, which are to be so deplored, would be eliminated.*

An alternative to this policy might be the reintroduction of subsidies on those items which enter into the cost-of-living index, in an endeavour to stabilise prices of basic consumption commodities, and thus reduce, or eliminate, the inflationary wage-price spiral. It is not necessary to detail here the manifold disadvantages of subsidies in order to emphasise the great weaknesses of this policy. And, in any case, unless subsidies were to assume vast proportions, they could, at best, be only partly successful in their immediate objective. They might reduce the magnitude of the inflationary ripples, but they could not eliminate them.

In order to minimise, or to prevent, further increases in living costs; improve industrial efficiency and swell the flow of production; restore mobility of labour and resources so that the basic forms of production can expand at a rate in keeping with the needs of the country; maintain the international competitive position of Australian industries and improve the prospects of full employment in the years immediately ahead; the removal or, at least, reduction of the inflationary pressures in the economy becomes a matter of prime moment. What, then, are the root causes of the Australian inflation?

*This argument does not, of course, imply that the Australian wage and income structure could be maintained at anything like its present level, should we be confronted with a substantial fall in overseas costs and in the prices received from our basic exports. There is, in fact, nothing more certain than that all Australian incomes would have to be adjusted downward in consonance with the new level of world prices, and the higher these incomes are permitted to go now, the greater and the more unpleasant could be the inevitable adjustments later on.
PRE-WAR THEORIES

Pre-war theories of inflation concentrated largely on the effects of government fiscal policy and of banking action in expanding credit at too fast a rate—the conception of more and more money being pumped into the economic system when the supply of goods coming forward was inadequate to balance the expanding volume of purchasing power. That conception has little, if any, application to the present situation. The Commonwealth Government has not been borrowing from the banking system and then spending the proceeds. On the contrary, it has been paying off money lent to it during the war by reducing its short-term debt. Over the last three years the Government has been redeeming Treasury Bills at the rate of £60m. to £70m. per year. And while bank advances have been increasing, they have not been increasing at anything like a rate sufficient to account for the expansion taking place in the community's spending power. Bank advance policy has, in fact, been kept on a fairly tight and discriminating rein by collaboration between the central bank and the trading banks. The collaboration has been made effective through the system of Special Accounts (by which the trading banks are required to lodge the great proportion of their expanding cash resources with the Commonwealth Bank), and through the directions issued by the central bank to the trading banks regarding the purposes for which advances may be made. The increasing volume of bank advances over the last few years represents a response to, as much as a cause of, prevailing economic and financial conditions. As prices rise, a greater amount of money is necessary to finance the same volume of business.

The post-war inflation in Australia does not stem primarily from government fiscal policy (which is, in a sense, disinflationary rather than inflationary), nor from the expansion of bank credit (which has been largely unavoidable). The root cause is to be found in the continued rise in the money incomes of the community—in the incomes of farmers and pastoralists as a result of "Himalayan" export prices; the incomes of wage earners; and, to a less degree, of salary earners; and, to a small extent, in the incomes of industrial companies and private businesses. The fundamental causes, however, are to be found in export and wage incomes.
The following table gives the figures of export income:

<table>
<thead>
<tr>
<th>Year Mentioned</th>
<th>Export Income (excl. gold)</th>
<th>Increase on previous Year Mentioned</th>
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<tbody>
<tr>
<td>1938-9</td>
<td>£123m.</td>
<td></td>
</tr>
<tr>
<td>1945-6</td>
<td>£197m.</td>
<td>£74m.</td>
</tr>
<tr>
<td>1946-7</td>
<td>£309m.</td>
<td>£112m.</td>
</tr>
<tr>
<td>1947-8</td>
<td>£406m.</td>
<td>£97m.</td>
</tr>
<tr>
<td>1948-9</td>
<td>£547m.</td>
<td>£141m.</td>
</tr>
</tbody>
</table>

It will be seen that income received from exports has increased from £123m. in the last pre-war year, to £547m. in 1948-9. The significant fact is that this remarkable gain is due almost entirely to a tremendous increase in export prices, and hardly at all to any improvement in the volume of goods exported. Moreover, the increase of £141m. in 1948-9 far surpasses even the remarkable gains in the three years that preceded it. Here is to be found the prime cause of the Australian inflation, and, in very large part, the explanation of the labour shortage, of the buoyancy of government revenues, and of the pressure of monetary demand throughout the economy on available resources.

Of the total export income of £547m. in 1948-9, wool contributed £232m. And, of the increase of £141m. in export income during that year—which caused a great intensification of the inflationary pressure—wool accounted for £83m., wheat, which was second, for only £17m., butter £3m., sugar £10m., meat £7m., and lead £9m. Plainly, wool is a key factor in the Australian inflation.

Before the war, a prolonged continuation of heavy receipts from exports and the accumulation of overseas funds might have led to an appreciation of the Australian-sterling exchange rate, which would have softened the inflationary effect of high export prices on Australia's internal economy. This has not been done, perhaps for very good reasons; (on the contrary, the Australian £, along with sterling, has been devalued in terms of dollars, which must tend to aggravate the inflationary impact of high overseas costs and prices on Australian prices). Nevertheless, if it is unwise to use the natural weapon of the exchange rate for combating inflation, there are stronger reasons than ever for taking vigorous steps to con-
tain increases in internal incomes within reasonable limits. Theoretically, this could be achieved through applying income stabilisation schemes to the main export industries, through a large budget surplus, and through limiting increases in wages and salaries, which form the great bulk of personal incomes.

Stabilisation schemes would, however, achieve little unless applied to wool, and here there are great technical difficulties. So far as fiscal policy is concerned, the Commonwealth Government has already achieved fairly sizeable budget surpluses, although they might have been much larger, if taxation rates had been increased and government expenditure had been reduced. Heavier taxation rates would, however, have been largely undesirable because of their effects on production. The scope for large-scale economies in government expenditure, on the other hand, is not unlimited, although there is no doubt that government spending could be cut in some directions with beneficial effects, and that swollen staffs could be reduced, thus helping to relieve the manpower scarcity in productive industry.

WAGES AND SALARIES

This brings us to the question of wages and salaries. The total wage and salary bill expanded by £128m. in 1947-8, and by a further £151m. in 1948-9. These are extraordinary increases, for which there is probably no close parallel in our economic history. They are due, in part, to the effects of the 40 hour week on overtime earnings, in part to the interim increase in the basic wage of 7/- and increases in marginal rates, and, in part, to the quarterly automatic cost-of-living adjustments. Of the increase of £151m. in the total wage and salary bill in 1948-9, probably about £50m. to £60m. is accounted for by cost-of-living adjustments.

With the possible exception of wool, it is unlikely that the current financial year (1949-50) will see any large addition to export incomes. Export prices seem to have reached, and in some instances to have passed their peak. They will, however, in all probability, remain high, so little positive disinflationary effect may be expected from this quarter. Wages and salaries on the other hand are almost certain to rise—possibly substantially—because of the self-perpetuating momentum imposed by the quarterly revisions.
The prospects of an early alleviation of inflation are therefore anything but bright. We have given reasons for thinking that the possibility of cutting temporarily the link between prices and wages should, under present conditions, be given serious consideration.* But this step, which is admittedly a drastic one, would certainly be bitterly (and rightly) contested by the trade union movement, unless it represented part of a concerted plan of attack on inflation, in which all sections were required to make comparable "sacrifices."

It would be necessary, for instance, for employers on their side, to give a clear undertaking that they would exercise the greatest restraint in fixing selling prices and that, as a general rule, dividend rates would not be increased above the average levels of the past few years. Such an undertaking could best be given through their main representative bodies who would have to call on their members to faithfully observe the need for limiting their dividends in the interests of national economic stability.

Inflation is as much a problem for the people as for the Government. Unless the various sections of the community, and particularly employers, trade unions, and primary producers, are prepared to bring a high sense of duty and responsibility to national problems, and to do whatever the economic situation demands, the Commonwealth Government's position on this, as well as on other major matters of economic policy, would be rendered well-nigh impossible. Equal sharing of responsibility and of sacrifices is the key to the solution of inflation, as, indeed, it is to so many other national problems.

Table I.

<table>
<thead>
<tr>
<th>TEMPO OF INFLATION IN AUSTRALIA 1939-49</th>
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<tbody>
<tr>
<td>1939-41</td>
</tr>
<tr>
<td>First 2 years of war</td>
</tr>
<tr>
<td>Volume of Money $m.</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>23</td>
</tr>
<tr>
<td>11</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>TOTAL INCREASE</td>
</tr>
<tr>
<td>1936/7-38/9 = 100.</td>
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</tbody>
</table>

Note: The quarters begin and terminate July-September of years stated and the prices indices are based 1936/7-38/9 = 100.


*It is interesting to note that the Trade Union Congress in Britain has proposed a temporary suspension of sliding scale wage arrangements linking wages to prices.
Table II.

INFLATIONARY DEVELOPMENTS IN AUSTRALIA COMPARED WITH TRENDS OVERSEAS.

<table>
<thead>
<tr>
<th></th>
<th>Wholesale Prices</th>
<th>Vol. of Money</th>
<th>Hourly Wages</th>
<th>Export Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sept. 48-Sept. 49</td>
<td>June 48-June 49</td>
<td>Sept. 48-Sept. 49</td>
<td>1947/8-48/9</td>
</tr>
<tr>
<td>Australia</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>New Zealand</td>
<td>..</td>
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<td>..</td>
<td>..</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>..</td>
<td>..</td>
<td>5(2)</td>
<td>+8</td>
</tr>
<tr>
<td>Canada</td>
<td>..</td>
<td>..</td>
<td>3(2)</td>
<td>+6</td>
</tr>
<tr>
<td>United States</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>+8</td>
</tr>
</tbody>
</table>

(1) March 48-March 49.
(2) April 48-April 49.


Notes.

The accelerating tempo of inflation in Australia in the last two years is graphically illustrated in Table I above. Soaring bank deposits, as a result of abnormal export returns and great increases in money wages and salaries, are swelling the money supply at a rate only comparable with that which was required to finance the astronomical needs of war.

The policy of price and wage stabilisation, which helped to keep the inflationary trend within reasonable bounds for the first two post-war years, was relaxed just when an immense new inflationary factor, in the shape of soaring export prices, was making itself felt. Over the last two years internal prices and wages have been increasing three or four times as fast as during the earlier post-war years.

Table II clearly indicates that all inflationary factors—prices and wages, the volume of money, etc.—are at present increasing at much greater rate in Australia than in the other English-speaking countries. Costs in the United States are falling, exchange appreciation has contributed to a decline in prices in New Zealand, while reasonable stability of prices, incomes and the money supply has been achieved in Great Britain as a result of firm counter measures to inflation. The effect of the devaluation of sterling on British prices and finances is not yet clear.
The comparison of the Australian performance in production over the last decade with that of Canada on pages 21 to 22 of this article is, we think, so startling as to give all serious-minded Australians cause for much heart searching and reflection.

On what foundation does the prosperity of a country, and the material welfare of its people, primarily and ultimately rest?

Until recently, economists, as well as the ordinary citizen, have been accustomed to think of and to measure prosperity largely in financial and monetary terms.

A great deal of argument, for instance, has yet failed to convince the average income-earner that the true value of his income consists not in the number of £ notes in his pay envelope, but in what those notes will purchase in terms of actual goods and services. When money wages and salaries are high, when business profits are soaring, when people have ample savings in savings bank accounts and insurance policies, when unemployment is negligible, then, according to the financial approach and the financial measurements, a state of prosperity exists. If the financial indicators are to be believed, then Australia has been in a marvellously prosperous condition since the end of the war—unemployment has never been lower; business profits measured in money, have seldom been higher; the farmer is receiving exceptional prices for his produce; pay envelopes have never been so bulky; and savings bank accounts are filled to over-flowing. The Australian economy passes all the financial tests with flying colours.

THE PRODUCTION

This way of thinking about economic prosperity is a natural carry-over from the conditions of the pre-war world, when governments and peoples were confronted with the perennial problem of under-employment of men and resources, a problem which periodically reached grave proportions. Economic discussion and governmental policy were concerned almost exclusively with matters of banking policy, budgetary deficits and treasury bill finance, and with the general financial strategy for the cure or prevention of depression. Economic stability, rather than economic progress, was the major obsession of economic theorists as well as of practical politicians.

But full employment, and the tremendous excess of demand over supply in the post-war world, have brought about a change of emphasis. Economists, and not economists alone, but labour leaders, now reiterate, with an almost monotonous frequency, that standards of living and prosperity, in the final summing up, must be measured not by the financial evidence, which is superficial and misleading, not even by full employment, but by produc-
tion and productivity.* If we wish to determine the true economic strength and wealth of a nation, we must refer not to the size of the money pay envelope, not to the level of money profits, but to the volume of production and the standards of productive efficiency achieved by its industries.

How, then, does the Australian economy stand, when subjected to this supreme and ultimate test of prosperity?

The test is, unfortunately, not easy to apply. For, while the financial facts of the economy can be readily and simply ascertained, the physical facts of production are inordinately hard to come by. It is a tremendous drawback to sensible thinking and a sound understanding of the Australian economy, that the overall truth about production and productivity is so difficult to unearth, because of the inadequacy of official statistical information. "The Monthly Bulletin of Business Statistics", published by the Commonwealth Statistician, contains, for instance, a table of indices showing the changes in total industrial production for eleven of the main industrial nations; but, significantly, there is no index for Australia itself.

The I.P.A. has made a painstaking investigation into production information for some of the main branches of the economy—power resources and steel, housing, building materials, roads and transport, primary production and materials and equipment used in primary production. We have endeavoured to compare our own performance in production with that of Canada, a country which in size of population and in resources is not dissimilar to Australia. Canada has been chosen, also, for the reason that since the war it has been governed by a liberal free enterprise government, whose policy has been to make full use of the free market mechanism and to provide attractive incentives, whereas Australia has been, in the main, under a socialist government pursuing a policy of tight economic control, heavy taxation, and nationalisation. *The results of our investigation suggest that, in spite of the

*Mr. Herbert Morrison (the Lord President of the Council of the British Government), "In the cockeyed economy of the thirties people imagined that the great problem was the abolition of unemployment. Today we know that even full employment is not enough. We must secure a greater output of goods and services all round for a decent standard of living: fair shares for all, and adequate incentives for all."

Mr. P. J. Clarey (Past-President of the Australian Council of Trades Unions), "It (the trade union movement), wants production to expand so that higher standards will be possible in the future for all."
apparent financial prosperity in Australia in the post-war period, progress in production has been extremely mediocre, considered both absolutely and relatively to that of Canada and other countries.

* * * * *

1. POWER RESOURCES AND STEEL.

Power — whether from primary or secondary sources — is the basis of a modern industrial economy. There are three main primary sources of power in Australia—black coal, brown coal, and hydro-electricity.

Black Coal.

Total black coal output has increased from an annual average of 12.4 million tons for the years 1937-39, to 15.0 million tons for the financial year 1948-9—an increase of some 21%. The great part of this increase has been absorbed by electricity generating stations and gas works, whose combined consumption has increased from an annual average tonnage of around 3 million, for the years 1937-39, to over 5 million tons. Hence, only a little over a half million additional tons a year of black coal have been available either directly as fuel, or for coking for industrial purposes.

Over the last decade industrial capacity in Australia has expanded considerably in the lighter industries which rely chiefly on electricity; the heavy industries have been forced to eke out a rationed existence because of inadequacy of black coal and coke supplies. For example, major blast furnaces in New South Wales have been operating only at some 60-70% of capacity, with a consequent loss of ingot steel at the rate of approximately half a million tons annually.

Production of black coal in Australia has been estimated to be at least 3 million tons below requirements, not only because of the rapid increase in demand over the last decade, but also because of industrial unrest and lagging mechanisation in the mines, which have retarded increased output.

In the last three years, work stoppages and absenteeism have been responsible for the loss of at least two million tons of coal per annum. The alarming proportions of coal strikes in Australia are shown in a comparison with United States, by no means altogether free from industrial turbulence on the coal fields.

Since 1939, Australia has lost through strikes, per 100 man-days worked, five times the equivalent number of days lost in the United States.

Lack of adequate mechanical equipment is a serious drawback in Australian mines. Although coal seams are broadly similar, the U.S. miner produces twice the output of the Australian miner at the coal face, mainly because of the assistance of machinery. The horsepower ratio of machinery per man employed is 8.5 in United States compared with 4 in Australia. 80-90% of American coal is machine cut and 60% mechanically loaded as compared with 40% for cutting and 30% for loading of coal in Australia. The Davidson Report clearly demonstrated the backwardness of Australian coal mining because of the resistance of miners to
technological developments. The Report contrasts the attitude of American unionists who insist on the introduction of the very latest mechanical devices.

Despite some increase in machine cutting and loading since 1939, output per manshift is still below pre-war levels. However, efforts being made by the Joint Coal Board to secure greater use of machines in underground mines, to expand open-cut mining and to improve working conditions are brighter portents for the future. Production capacity in N.S.W. mines is now 10% greater than in 1942, when a record output of 12 million tons was reached.

With the defeat of extremist leaders in some mining unions, and signs of a changing attitude by the rank and file miners, the year 1950 opens more hopefully.

Brown Coal and Hydro-Electricity.

Victorian brown coal possesses only about a third of the heating value of New South Wales black coal. Production of brown coal rose from an annual average of 3.65 million tons for the calendar years 1937-39, to 7.02 million tons in 1948-49. But 80% of this increased output was applied for the generation of electricity, either directly or in secondary form as briquettes. Hydro-electric expansion, notably in Tasmania, resulted in an increase of from about 700 million kilowatts of electricity generated annually in the pre-war period to around 1,300 million kilowatts in 1948-49.*

However, the increased quantity of electrical power available has not been sufficient to match the current demand, and electricity rationing has become a notable feature of the Australian economy in general, its effects being particularly severe on industry in New South Wales. Inadequacy of generating capacity is the direct cause, but at present it is difficult to see how adequate fuel for new thermal projects can be made available except by diversion of coal from our already hard-pressed heavy industries, or by heavy importation.

The expansion of many light consumer goods industries, which are very exposed to the cold winds of world competition, and which are not in any case, significant from the standpoint of long-term development, has thus been to some extent at the expense of the essential heavy industries.

The post-war expansion of heavy industry in Australia compares unfavourably with that of her sister dominion—Canada. For example, Australian steel production has increased only about 10% since prewar; Canadian steel output has increased by some 120%. Primarily, this Canadian expansion has been made possible by the increasing development of hydro-electric capacity, together with more intensive development of natural gas and petroleum resources—endowments so far denied to Australia. By the usage of these alternative sources of energy, and by heavy importation of coal, adequate quantities of coal have been available for the basic iron and steel industry as well as for other heavy industries.

*Projected developments in Victoria and New South Wales will eventually mean an immense expansion in hydro-electricity generation.
The following table shows the relative sources of energy available in Canada and Australia today compared with annual averages for the immediate pre-war years. The table indicates that while Canada’s available energy sources have increased by some 77%, Australia’s have expanded by only 36%. Per head of population, Canada has double the amount of energy available in Australia.

**POWER RESOURCES—AUSTRALIA AND CANADA.**

<table>
<thead>
<tr>
<th>Production</th>
<th>Yearly average 1937-1939</th>
<th>1948-49</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tens of Bill. Brit. Therm. Units</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aust.</td>
<td>Canada</td>
</tr>
<tr>
<td>Black Coal</td>
<td>33</td>
<td>38</td>
</tr>
<tr>
<td>Brown Coal</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Hydro-electricity</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Petroleum</td>
<td>36</td>
<td>54</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petroleum, etc.</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Coal</td>
<td>38</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>112</td>
</tr>
</tbody>
</table>

*Less than Ten billion units.

NOTE.—(The ratios used in this table for conversion of power resources to British Thermal Units are as follows:—Black coal, 12,000 per lb.; brown coal, 4,000 per lb.; crude petroleum, 18,000 per lb.; electricity, 3,400 per k.w.h.; natural gas, 1,000 per cu. ft.)

2. HOUSING, BUILDING CONSTRUCTION AND BUILDING MATERIALS.

Housing statistics are, in many respects, deficient; but, having regard to the great economic and social urgency of the housing situation, the material available suggests that the rate of building today compares unfavourably with the pre-war rate. In Victoria, production did not exceed the pre-war figure of 9,500 homes until 1948, despite the tremendous backlog of demand. It has been estimated that production for 1949 will be 14,000.

However, the homes are not strictly comparable; the quality is not as good and the average home is now 4 rooms, as compared with 5 before the war. Production has also been greatly facilitated by concentration on large estates for housing commission purposes; before the war housing projects were smaller, and styles were more individual.

The rate of factory and city building is much below the pre-war rate. Prior to the war 24%, on average, of the value of all buildings consisted of factories and city buildings other than dwellings; last year the figure was only 14%. The Building Industry Congress has estimated that we should be constructing in the Melbourne metropolitan area about £5 millions worth of building other than for habitation. During the past three years the average annual total value of new buildings in this classification in the metropolitan area has been £1½ million.

At present, 29,000 persons are engaged in building construction in Victoria as compared with 34,000 pre-war, and the minimum post-war target of 36,000 laid down by the Commonwealth Government.

Nor is labour the only bottleneck. Essential materials are scarce relative to demand. There have been substantial increases in the production of cement plaster sheets, cement building sheets and native timber, but production of bricks, nails, roofing, iron, spouting, piping and other materials made from steel, lags badly. The deficiencies are largely traceable to the shortage of coal, although the labour scarcity is also an important contributing factor.
Restrictive practices are rife in the building industry, due largely to Communist control of the main unions. Before the war bricklayers handled up to 1,200 bricks a day, 700 bricks representing a fair average day’s work. However, the present rate is estimated at 300 to 400 bricks a day; to what extent this ridiculously low rate is due to short supplies of bricks, and to what extent to deliberate restriction, are difficult to estimate. “Go-slow” tactics are also prevalent in other sections of the building trade. Material costs have risen 100% and building wages on average 120% since 1939. The actual % increase in labour costs, including the effect on output of “go-slow” tactics, would be far greater than this.

Those who suffer most are the fellow-workers of the building tradesmen. Thus, in 1939, it took the earnings of only 3 years to purchase a 2 bedroom brick dwelling; it now takes the earnings of 5 years to buy the same house despite the much higher average rate of earnings.

An estimate by the Building Industry Congress suggests that the construction of a medium-sized dwelling now requires 2,600 manhours compared with 2,000 before the war.

A comparison of the number of new dwellings units erected in Australia with the numbers erected in the U.S.A. and Canada is given in the following table:

<table>
<thead>
<tr>
<th>Thousands of Dwelling Units.</th>
<th>Aust. 000's</th>
<th>U.S.A. 000's</th>
<th>Canada 000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>42</td>
<td>515</td>
<td>42</td>
</tr>
<tr>
<td>1947</td>
<td>38</td>
<td>852</td>
<td>72</td>
</tr>
<tr>
<td>1948-49</td>
<td>52</td>
<td>931</td>
<td>76</td>
</tr>
</tbody>
</table>


Whereas production in U.S.A. and Canada is about 80%, Australia is less than 30%, above 1938. There are extenuating circumstances, certainly, but, all in all, the picture is not one of which Australia can be particularly proud.

3. ROADS AND TRANSPORT.

Rocks.

Victoria’s capital stock of roads and highways, because of inadequate maintenance, has been depleted since 1938-39. There has been little new road construction since the war. Many bridges are obsolete.

Labour costs of road maintenance and construction have risen about 160% since 1938. Adjusting actual expenditure on roads by the Country Roads Board by this increase, expenditure on road maintenance last year was only 65% of 1938-39. The labour force employed by the Board dropped from 7,000 to 4,000, although to some extent this was counterbalanced by greater mechanisation.

Expenditure by municipal councils on roads and streets (and incidentally on parks, gardens, recreation facilities and lighting, etc.) is little above pre-war. Allowing for cost increases the real services rendered to the ratepayer are certainly much lower.

There is good reason to believe that the position in Victoria is fairly typical of Australia as a whole.

Railways.

Australian transport facilities are in many respects lagging well behind modern world standards, and the important task of modernisation and expansion is being delayed by shortages of labour.
and of resources of materials and equipment.

Mr. John Elliot, the British railroads expert, in his recent Report on Transport in Victoria, affirms that Victoria’s railways, the backbone of the State’s transport system are gradually but surely running down for lack of staff and maintenance. Relaying of tracks is proceeding at less than half of required rates. The railways can only obtain two-thirds of their requirements of steel rails, and the number of sleepers used has dropped to a third of the pre-war number. Moreover, the quality is not half as good. Owing to the shortage of rails and sleepers, there is no renewal programme and maintenance is piecemeal. The average age of locomotives, trucks and passenger cars is well above established economic life. One-eighth of passenger cars are over 55 years old, or 20 years more than their economic life. Since 1939, despite a 50% increase in goods and live stock carried, an 80% increase in country passenger journeys, and a 30% increase in suburban passenger journeys, staff has increased only by 10%, even with the 40-hour week and increased leave. Current staff is only 90% of requirements.

Shipping.

Inefficiency and “go-slow” are rife on the waterfront. A committee of interested bodies, appointed to investigate the position in 1946, reported that the time involved in voyaging and handling of cargo was 50% higher than before the war, in spite of an increase in gangs and mechanical equipment. Loading rates of Australian general cargo have dropped from 28 to 14 tons per gang-hour. Interstate cargo vessels, on average, now spend three to four months of the year in port as compared with one to two months before the war.

4. PRIMARY PRODUCTION.

In view of the great world shortage of foodstuffs, the urgent food requirements of the British people, and the needs of our own expanding population, Australia’s performance in the field of primary production is one of the most disappointing and disturbing aspects of the post-war economy.

The production of whole-milk, meat and wool is about the same as, or little above, pre-war levels; although, largely because of good seasons, the production of wheat is well above pre-war production. Exports of meat, dairy produce and other badly-needed items of diet for Britain are below the pre-war volume and show no tendency to increase. In fact, exports of these items in 1948-49 were lower than in 1947-48. The numbers engaged in rural industry have fallen by 60,000 since 1939, despite a 10% increase in population and an increase of 500,000 in other occupations.

Compared with our great sister dominion and competitor, Canada, Australian farms are poorly equipped.

In the prosperous year 1937-38, Australia imported 11,000 tractors, but during the war imports dropped to 3,000 per annum. Despite the huge backlog to be overcome, we have not yet reached the 1937-38 level of imports. Nor are the tractors, for the most part, of the heavy duty type suitable for Australian conditions; the majority are of sterling origin and somewhat too light for Australian requirements. In 1941, Canada, with three times our area under cultivation, had 160,000 tractors compared with 40-50,000 in Australia. By 1947, she had added another 150,000 tractors to her holdings, whilst we have added only 30,000 new tractors since 1939.

Similarly, since 1941, Canada has added 50,000 headers and strippers to her farms whilst Australia has barely maintained her pre-war position, because of the comparatively poor output of farm imple-
ments from Australian factories. Production of header harvesters and strip-
ers in Canada rose from 3,000 in 1939 to 12,000 in 1947, but, over the same period, production in Australia dropped from 2,568 to 1,683. This is barely enough to meet replacement needs, let alone re-

requirements for additional equipment.

Production of wire, wire netting and similar supplies is deplorable in relation to pre-war production, especially in view of the great backlog of demand to be overcome, and the favourable financial position of the farming community.

The following comparisons are indicative:

<table>
<thead>
<tr>
<th>PRODUCTION</th>
<th>Pre-War</th>
<th>1948-9 as % of demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fencing Wire</td>
<td>23.4</td>
<td>10.8</td>
</tr>
<tr>
<td>Barbed Wire</td>
<td>10.8</td>
<td>7.9</td>
</tr>
<tr>
<td>Wire Netting</td>
<td>14.2</td>
<td>9.4</td>
</tr>
<tr>
<td>Field Fencing</td>
<td>10.5</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: Production Bulletins, Division of Industrial Development and Bureau of Agricultural Economics.

5. COMPARISON OF PRODUCTION IN CANADA, U.S.A. AND AUSTRALIA.

It is illuminating to compare the progress made in Canada under a progres-
sive non-socialist administration with the record of Australia under governments with pronounced socialist leanings.

Canada, like Australia, has been able to reduce unemployment to negligible pro-
portions (2%), partly because of the un-

bounded prosperity of her export indus-
tries. But Canada, unlike Australia, has increased manhour output by approximately 30% since before the war, com-
pared with an increase in this country of only about 3%.

The table on page 22 covering a wide range of physical production shows a comparative picture, of which Australia cannot be proud. The figures, in fact, are astounding. Canada has far out-

stripped Australia in production of indus-

trial essentials—iron and steel, building

materials, farm equipment, etc.—and managed to equal, or exceed, our achieve-

ment in production of consumer goods for which there is a record demand because of high incomes.

Industrial production indexes for the U.S.A. and Canada show the following in-

creases between 1938-39 and 1947-48:

<table>
<thead>
<tr>
<th>Country</th>
<th>% Increase 1938-39 to 1947-48</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>70%</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>84%</td>
</tr>
</tbody>
</table>

No index is available for Australia. The best indication of the increase in total production in Australia is that pro-
vided by the estimates of Colin Clark, Director of the Queensland Bureau of In-
dustry. Clark’s estimates show an in-
crease of between 20% and 25% over the period 1938-39—1947-48. Clark’s figures which include rural production, are, how-
ever, not strictly comparable with the indus-
trial indexes of the U.S.A. and Canada, which exclude rural production. The inclusion of rural production would give somewhat lower figures for the United States and Canada. “The Economic Report of the President” of the United States for the year 1948 estimates total U.S. production (including rural production) at 70% above 1939. The real comparison between the three coun-
tries is approximately as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>% Increase 1938-39 to 1947-48</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>70%</td>
</tr>
<tr>
<td>Canada</td>
<td>50% to 60%</td>
</tr>
<tr>
<td>Australia</td>
<td>20% to 25%</td>
</tr>
</tbody>
</table>

Economic development of supplies, gov-

ernment, fiscal and other policies, vigor-
ous and efficient management, and hard work by labour, have all contributed to the great success of Canada in raising the living standards of her people to what is now, taking full employment into account, among the highest in the world. Aus-

tralia's failure to make use of its op-

portunities, as revealed by its compara-

tively poor performance in the produc-
tion of goods and services—the stuff of which true standards of living are com-

posed—throws some doubt on the wisdom of the economic policies pursued in this...
country over the last decade. Canada, through a programme of enlightened liberalism, has far outstripped the economic progress achieved in Australia under policies of a strongly socialist character.

### PRODUCTION—PRE-WAR AND POST-WAR. AUSTRALIA AND CANADA.

<table>
<thead>
<tr>
<th>Building Materials</th>
<th>Australia 1938-9</th>
<th>1948-9</th>
<th>Canada 1939</th>
<th>1948-9</th>
<th>% Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber, thous. mil. ft.</td>
<td>0.7</td>
<td>1.2</td>
<td>4.0</td>
<td>5.2</td>
<td>22 167</td>
</tr>
<tr>
<td>Cement, mill. tons</td>
<td>0.0</td>
<td>1.1</td>
<td>0.9</td>
<td>2.4</td>
<td>24 160</td>
</tr>
<tr>
<td>Bricks, million</td>
<td>721</td>
<td>626</td>
<td>165</td>
<td>321</td>
<td>-13 94</td>
</tr>
<tr>
<td>Tiles, million</td>
<td>40</td>
<td>46</td>
<td>14</td>
<td>18</td>
<td>12 29</td>
</tr>
<tr>
<td>Metal, thous. tons</td>
<td>20</td>
<td>18</td>
<td>66</td>
<td>90</td>
<td>-10 38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metals</th>
<th>Australia 1939</th>
<th>1948-9</th>
<th>Canada</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ingot Steel, mill. tons</td>
<td>1.17</td>
<td>1.13</td>
<td>1.49</td>
<td>2.17</td>
</tr>
<tr>
<td>Refined Lead, thous. tons</td>
<td>233</td>
<td>205</td>
<td>170</td>
<td>139</td>
</tr>
<tr>
<td>Refined Zinc, thous. tons</td>
<td>69.8</td>
<td>52.9</td>
<td>157</td>
<td>191</td>
</tr>
</tbody>
</table>

| Consumer Goods | Australia | Canada | |
|----------------|-----------|--------|
| Boots and Shoes, mill. pairs | 14 | 15 | 25 | 35 | 7 40 |
| Jam, mill. lbs. | 86 | 134 | 55 | 96 | 58 75 |
| Biscuits, mill. lbs. | 74 | 107 | 119 | 182 | 65 63 |
| Confectionery, mill. lbs. | 102 | 136 | 84 | 108 | 33 29 |
| Chocolate Bars, mill. doz. | 20 | 30 | 25 | 50 | 25 150 |
| Ice Cream, mill. gals. | 5 | 9 | 8 | 12 | 5 32 |
| Beer, mill. tilted | 90 | 148 | 63 | 131 | 64 187 |
| Tobacco and Cigs., mill. lbs. | 28.5 | 33.1 | 148 | 79 | -3 88 |
| Radio Sets, thous. | 164 | 231 | 193 | 239 | 7 86 |

<table>
<thead>
<tr>
<th>Farm Machinery</th>
<th>1938-9</th>
<th>1947-8</th>
<th>1939</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ploughs, thous.</td>
<td>11.2</td>
<td>10.3</td>
<td>37.8</td>
<td>72.5</td>
</tr>
<tr>
<td>Cultivators, thous.</td>
<td>8.2</td>
<td>13.5</td>
<td>5.9</td>
<td>29.5</td>
</tr>
<tr>
<td>Harrows, thous.</td>
<td>21.0</td>
<td>34.7</td>
<td>32.3</td>
<td>96.2</td>
</tr>
<tr>
<td>Drills, thous.</td>
<td>3.0</td>
<td>4.0</td>
<td>5.5</td>
<td>10.9</td>
</tr>
<tr>
<td>Harvesters, thous.</td>
<td>2.6</td>
<td>1.7</td>
<td>3.0</td>
<td>11.7</td>
</tr>
<tr>
<td>Mowers, thous.</td>
<td>1.0</td>
<td>3.2</td>
<td>8.2</td>
<td>72.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary Production</th>
<th>1937-47</th>
<th>1937-47</th>
<th>1937-47</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat, mill. bush.</td>
<td>171</td>
<td>206</td>
<td>370</td>
</tr>
<tr>
<td>Milk, mill. gals.</td>
<td>1173</td>
<td>1159</td>
<td>1607</td>
</tr>
<tr>
<td>Nails, thous. tons</td>
<td>307</td>
<td>359</td>
<td>443</td>
</tr>
</tbody>
</table>


The authorities for the facts and figures used in this article are as follows:

**GENERAL STATISTICAL SOURCES—**
Australia—Publications of the Bureau of Census and Statistics including Production Bulletins, Parts I and II (yearly); Australian Production Statistics (monthly); Review of Business Statistics (monthly); Summary of Australian Statistics (quarterly); Labour Reports; Hansard; Victorian Year Books; Tractor Statistics; Manufacturing Industries, 1947-48.

**SPECIAL SOURCES—**
Economic News; and other data published by Bureau of Industry, Queensland.
Coal Mining—
Davidson Report on Coal Mining Industry;
Reports of the Joint Coal Board;
N.S.W. Year Books, and Bureau of Statistics and Economics;
U.S. Year Books and Bureau of Mines.
Housing—
Reports of the Commonwealth Housing Commission;
Bulletins of the Building Industry Congress.
Roads—
Reports of the Country Roads Board—Victoria.
Railways—
Report on Transport in Victoria—Mr. John Elliot.
Shipping—
Report of Joint Committee on Shipping Delays.
Primary Production—
Department of Trade and Commerce—Canada;
Department of Commerce and Agriculture—Agricultural Production Division—Australia;
Reports on Agricultural Machinery and Tractors.
BUSINESS AND THE HIGHER EDUCATION

By PROFESSOR GORDON L. WOOD, M.A., D.Litt.
Dean of the Faculty of Economics and Commerce, University of Melbourne.

The relationship of University education to practical affairs is a subject of constantly recurring interest and controversy. Perhaps its classic treatment is still to be found in John Henry Newman's famous discourses on "The Scope and Nature of University Education," which were delivered just on 100 years ago. It was a time of revolutionary change, when the old rural society was dying and a slumbering social conscience was beginning to stir to the abuses of the new urban industrialism.

We, too, are living through times of vast change. Over the last two decades, a transformation has taken place in the conditions under which business is conducted. A shattering depression, an even more shattering war, have overturned the old ideas and upset the old balances, the role of the State in the guidance of both internal and external trading relationships has expanded dramatically, business profits from an end in themselves have become largely a means to the end of a broadly-based social welfare, and new insistent demands, political and social as well as economic in character, press upon the businessman from every quarter.

The author of this article, a leading figure in the University life of Australia, a distinguished economist, and one who has taken a prominent part in public administration, is uniquely qualified to elucidate, in this new context, the greatly increased significance of University education for business leadership, and the material requirements of the University if it is to fulfil its proper function.
Long before the full-employment theory existed, Joseph Addison wrote that “a well-regulated commerce is not like law, physics or divinity, to be overstocked with hands; but, on the contrary, flourishes by multitudes, and gives employment to all its professors.” (By professors, Addison meant merchants.) If he saw the pattern of commerce two centuries later, he would have to admit that commerce was never more completely regulated, and that it never supported so large a proportion of the people as it does now. He wrote in the days when “mercantilism,” the policy of so “controlling” trade as to make the country self-sufficient, was the accepted English commercial policy. Even before the Industrial Revolution, Adam Smith had convinced the industrialists of his day that commerce was most vigorous when it was unhampered, and that close regulation of trade by governments was suicidal. Owing to his powerful denunciation of government interference, England became the champion of free trade. The early years of the 20th century, however, saw a world-wide return to economic nationalism and every kind of obstruction to the free flow of goods about the world. The era of free-trade, it would now seem, has been merely a brief interruption in the traditional practice of trade regulation.

Today, like Lot’s wife, we look backward and crave for the freedom which economic nationalism undermined, and totalitarianism, in our day, would completely destroy. And yet there are incredibly more “professors” of trade who sense the benefits to the world at large and to their own fortunes of “bringing into the country whatever is wanting, and carrying out of it whatever is superfluous”; and countless men of ingenuity and enterprise have, with the help of scientists and engineers, established vast industries and lifted beyond prediction the level of world production. Accompanying this expansion in the world output of all kinds of commodities is a rise in world population which has added hundreds of millions in the last century. The bridge between unrestrained expansion of population and unlimited industrial growth is foreign investment; but it is now realised that international trade is the only instrument which can transform investment capital into the producer and consumer goods which are so vitally needed,
both in backward countries of vast populations, and in the indus-
trially more advanced countries where high living standards prevail.

Trade has not only altered, along with industry, in scope and technical complexity; but it has, in every country, become an instrument of national policy to an extent never before conceived. The climate of world commerce has changed, and is still changing at an unpredictable rate. Politically, trade has become a powerful influence for assisting the nation’s external policy, for use in a nicely calculated strategy of defence, and for consolidating diplomatic alliances of many kinds. And yet, in modern economic theory it has become a basic concept that commerce has a social function intimately connected with both full-employment and the standard of living. So it comes about that international trade has become the centre of social and economic ferments which will be active well beyond the current century.

AN ADMINISTRATIVE TRANSITION

All this means that the theory of modern war has lowered the flexibility of world trade, that in three short decades we have passed through a revolution more violent and widespread than any in economic history, and that the present generation of business men is living through an administrative transition. They know that regulations have to be observed, that goods are carried in ships subject to a multitude of controls, that the dollar-value of the Australian pound has fallen, and that shipping charges and taxation remain high, but the meaning of the change and the pattern of the new national economy often eludes them. Moreover, for natural reasons, they will need to be re-inforced by younger assistants and possible successors who have been educated to perceive changes, taught to understand them, and trained to devise appropriate adaptations. For them, nothing can be more certain than the continuance of uncertainty and of major controls. For that reason alone, they will need a new kind of personal equipment, and a differently trained corps of assistants. The whole purpose
of this paper is to provoke some constructive thought upon education for business in the light of future conditions. Present thought and methods in Australia, except in one or two places, are already outdated. Our apathy in the face of developing world competition is rather frightening because our equipment is both deficient and obsolete. We are in many ways, but especially in training for business, opposing atomic weapons with muzzle-loading muskets. As a business community, Australia is now emerging from shelter to storm; visibility is low, and our ship is not equipped with radar.

To narrow the purpose of this storm warning into two questions, I would suggest that the first concerns the adequacy of financial provision for higher education in economics and commerce, and the second, a more lively interest in the kind of education which will prove most efficient for the needs of the near future.

THE STATISTICS OF UNIVERSITY EDUCATION

The historical approach takes us to the statistics of University education in Australia which, at the best, are very defective. For Australia as a whole, the national income for 1949 was about £2,000m. Expenditure on universities, i.e., for top-level education, was about £5m., which represents about .25 per cent., or say, three-farthings in the pound. The total number of university students is about 30,000, and this means that the cost of higher education is about £166 per student, of which about half is met by students' fees. For Victoria the share of national income is about £650m., and the total expenditure of the University of Melbourne is about £1m. This gives a proportion of .15 per cent., or about one-third of a penny in the pound of national income. The amount spent upon training in economics and commerce is not easily discoverable, but it is a mere fraction of total University expenditure. Such a low proportion of expenditure upon research and training would be ridiculed by a business of any size.

"TOO BAD TO BE TRUE!"

When it is interpreted in this way, the outlay upon training for public and private business seems too bad to be true, but it is, unfortunately, beyond dispute. What would be a
reasonable cost for the training of executives of all types to administer the nation’s business? To answer such a question would be impossible, even if we accept the expenditure which is standard in other countries. Expenditure for this purpose in American universities, contributed from public and private sources, would be, for us, impossibly high. The University of California has at its disposal for research alone in all faculties $36m. The expenditure upon business training at Harvard, Chicago, Columbia, Pennsylvania, to name only four universities, would appear to Australians colossal. As a start, however, Australia should be expending upon teaching and training in university courses in economics and commerce not less than £2m. a year, and that would be a mere insurance premium of one-tenth per cent. of national income, and on a cut-rate policy at that. It would not enable the establishment of even one School of Business Administration, which would alone require £250,000 for a modest beginning.

“BORN-SKILLED” BUSINESS EXECUTIVES

When we have covered (in theory) the costs of ensuring that our business efficiency will be comparable to that of other countries, we must then decide upon the kind of education required for business; i.e., whether it should be “general” or “technical.” We can, in Australia, I believe, ignore as academic the protest that technical courses have no place in a university. In practice, for generations ahead, all the professions will demand that the universities provide and protect their professional training. Medicine, science, law, find an unquestioned place in most universities; but it would be difficult to support the view that these courses are purely cultural rather than practical and technical. They are, in fact, the least liberal courses that universities provide because they are so narrowly technical. If the only distinction between a profession and an occupation was that the practitioner was paid in guineas and not in pounds, the question might be settled on a quid pro quo basis—but it is vastly more complicated than that. Against the establishment of professional business training, conserva-
tive academics have fought doggedly and the doughtiest resisters have been the philosophers and the medicos. But the old-style business leaders are not resistant so much as contemptuous and fearful of modern university training for business. By some dispensation they had needed no training for their great responsibilities—they possessed a business genius which was born, not made, and they found for themselves fruitful opportunity. Does any realist, viewing the conditions surrounding the process of business efficiency and survival, still believe we can afford to rely on the supply of “born-skilled” business executives? It is almost unnecessary even to ask such a question.

THE CARR-SAUNDERS REPORT

Let us, however, not limit such an inquiry to Australia. The British economic crisis has provoked a welter of controversy about many aspects of national life, but more particularly about the relative efficiency of British industries and commercial procedures. Logically enough, much of the blame for Britain’s plight has swung towards an educational system which has been described as impractical, “failing to meet the needs of the day,” and “insular.” Naturally enough, the education of those who will have to raise and maintain business efficiency has become a focus of discussion. The Government, somewhat appalled by the volume and acidity of the comment, set up a committee headed by Sir Alexander Carr-Saunders of the London School of Economics to find the facts. The committee’s report entitled “Education for Commerce,” was published last month, and the greatest surprise it contained was the emphatic approval of “general” rather than “specialised” education in the schools as a basis for careers in business. The committee reports that they “found on all sides advocacy of a good general education, and distrust of pre-employment training for specific occupations,” as well as a belief that training for business should be left to the universities. The swing
in that direction had already been shown by the interest in modern accounting as a social technique, an interest that was keen even in the pure air of Oxford and Cambridge.

A somewhat hostile reviewer, writing in the Educational Supplement of the London Times, said that "Reports have, perhaps, necessarily to plan for an ideal world. The emphasis of this one on maintaining general (school) studies so that vocational training for the higher business skills does not begin till 18 is expensive. Its demands for finer buildings also promises expense . . . . Its preference for day-release as against evening classes is as much humane as luxurious; but, for day-release on a large scale to be practicable, business will have to provide the premises." He said, further, that the claim that such reforms would raise business efficiency was perhaps beyond argument, but "the fact remained that there were other national needs competing for limited funds." This is, of course, a standstill attitude towards all reform, and it is difficult to take it seriously when the huge national expenditure upon unessential industries such as horse racing and "the dogs" are considered.

The committee, however, drops a weighty brick when it advocates, so wholeheartedly, purely cultural courses for personal and intellectual development as university training for the business men of the future. The difficulty is precisely that faced in a practical world by the professions of medicine and law. If the bread-and-butter techniques are not acquired along with higher education for developed personality, they will be acquired in legal offices and hospitals, but at so late an age in the life of the student that the process becomes too expensive for the ordinary person. The developing techniques of business like the improved techniques in diagnosis and surgery, must find a place in university courses because full-time students must spend from four to six years after matriculation in covering honours courses, and then, at the age of 25 or 26 years, commence the higher-level special studies. This is not practicable, at least in Australia, without private or governmental subsidies at a much higher level than have been customary in the past. As far as training for business is concerned, only critics who are unaware of the extent to which
the study of national income is becoming the centre of economic planning, and of the contribution which social accounting is making to economic theory could advocate such unpractical courses of action. It would seem that, in young vigorous countries which are short of trained experts of all kinds, the economic urgencies will outweigh some of the pleas for general culture and dalliance in non-economic fields of learning.

A CRISIS OF FUNCTIONS

University authorities, in Australia as in Britain, are wrestling with this crisis of functions in education. That crisis involves, at bottom, the kind of response the universities are making to the demands of the community. Rightly or wrongly, that part of the Australian people which is interested in higher education in relation to professional training does not see eye to eye with the purist academics. That section understands, logically enough, that the division of the university into faculties upon largely professional lines is a realistic if reluctant acceptance of community pressures. There is, however, a basic confusion of education with training; and some compromise, whether upon well-considered principles or not, seems the inevitable solution. It is socially, very important in our highly specialised society that students be given the opportunity to acquire resources other than those which are essential to narrowly professional employment.

Many industrialists are, however, troubled by another problem. They accept the view that business and industrial administration need men and women who have been trained, generally and specially, to the highest pitch of their aptitudes. Other industrialists, however, are urging more highly technical training, and the establishment of technological universities which will train specialists at all levels, from foremen to general executives, despite the fact that world-famous centres, such as Massachusetts Institute of Technology, are now emphasising the dangers of specialisation and the benefits for business efficiency of all-round education as well as of technical instruction.
"EDUCATION FOR BUSINESS,
NOT TRAINING IN BUSINESS"

Education for business, not training in business, is the dominant purpose of the Faculty of Economics and Commerce in Melbourne. In co-operation with business associations, the training has taken the pattern of a fusion of liberal education with specialised economic studies. The social function of business and industry is a background upon which is projected optional specialisations of several kinds. This structure is widely approved, although, like all vigorous disciplines, it is under salutary criticism. But it is a mere general framework; and the logical expansion will be, almost inevitably, towards the establishment of a post-graduate School of Business Administration. Much thought and planning must precede so important a development; but leading universities overseas have co-operated with governments and private organisations to provide urgently needed training at post-graduate levels. Harvard, Chicago, Columbia, California, Cambridge and Oxford are among scores of universities which have established, or are preparing to establish, professional training at the highest possible levels.

THE COST

And now, assuming that, in the main, business leaders are convinced that these views of education for business are sound and that provision must be made for higher training, the question of cost arises. A fully staffed and equipped medical school now requires very large sums for capital costs and maintenance. The medical schools of Australia are estimated to have cost not less than £5,000,000 to establish, and to require not less than £250,000 a year for staff and maintenance. Ancillary medical and health departments (excluding physical sciences) required perhaps another £500,000 to establish, and an annual expenditure of £100,000. Establishment for these professions thus cost £5,500,000, and annual maintenance costs £350,000. Engineering and architecture represent capital and revenue expenditure of about £2,000,000 and £150,000 respectively. When we come to the physical
sciences (physics and chemistry) with their expensive buildings, large teaching and research staffs, and elaborate equipment, we must think in terms of £5,000,000 for capital costs and £500,000 for maintenance. These are instances of large schools of the highest national importance.

The capital cost of the Commerce Building at Melbourne University, completed in 1938, was about £35,000. Since that time, and despite a rise in student enrolment from about 750 at that time to the 1947 peak of 1900, two war huts costing about £2000 represent the only expansion of accommodation. Only the generosity of the Education Department in permitting the use of part of the University High School for night classes saved the situation. The existing building was intended to provide a theatre, half a dozen class rooms, and accommodation for one professor, 8 lecturers and about 16 tutors. Teaching and maintenance before the war cost less than £10,000 a year.

The enlarged faculty is already hopelessly cramped. A new building is required to house at least 6 professors, 20 full-time and part-time lecturers, 30 tutors and at least 12 research workers. It will cost, when building is possible, at least £200,000, and maintenance costs can be expected to rise to about £80,000. Research will cost about £10,000 annually. Such estimates, however, are little better than guesswork; and are not put forward as the considered views of the faculty. They indicate, however, the order of the provision which, in my view, will be required to make possible, in this State alone, the necessary higher education for the businessmen of the future. The consideration of ways and means has already become an urgent problem only 25 years after the establishment of the School of Commerce.