Full Employment and “The New Economics”

The day is drawing closer when the modern policies of full employment will be put to the test. So far there has been no test of the validity of the new theories. Notwithstanding the claims of politicians, full employment since the war, in Australia as in other countries, has not been the outcome of the application of any economic plan or theory; it has been an automatic response to world economic conditions brought about by six years of total war. The central economic problem since the war has not been one of providing employment or avoiding depression, but one of preventing runaway inflation. Not that the two problems are not in the long run intimately related; for those countries which have been most successful in controlling their post-war inflation will enter the fight against world recession better equipped than those countries which have not been so successful.

“THE NEW ECONOMICS”

Nevertheless, “the new economics,” set out in numerous government White Papers and in the writings of economists all over the world, have yet to be subjected to the ordeal of practical experience. They are still theories and no more; theories untested and unproven.
Almost in their entirety, the new proposals for maintaining employment and preventing depression are an adaptation of the theoretical structure erected by the late Lord Keynes. (This is particularly true of the Australian White Paper on Full Employment published in 1945.) In essence, they are based on the idea of maintaining and stabilising effective demand, in the event of a threatened decline, through government action to sustain spending by reduced taxation, expanded social benefits, deficit financing and public works, with government spending compensating for the contraction in private spending.

The disciples of Keynes have swallowed these ideas with an undiscriminating rashness which would certainly have shocked the master himself. Keynes, with his extraordinary flexibility and his notorious habit of changing his mind, would probably have been the last to claim that his writings constituted the final word on the business cycle. That he contributed uniquely and greatly to our understanding of the causes of depressions, and of the practical issues which have to be resolved if full employment is to be maintained, is beyond dispute. But in the application of his theories in government White Papers and in contemporary economic discussion there are evident a reckless intellectual abandon and an almost unthinking confidence in their validity.

But Keynes would have been the first to admit that he left many vital questions unanswered. The fault is not with Keynes, but with his followers. The Keynesians have read into Keynes far more than he intended, and have applied his theories in a manner that he would probably never have countenanced.

For one thing, the Keynes' theories were largely evolved on the assumption of a closed economic system, and they do not provide obvious or adequate answers to those intricate practical problems that arise in an international system where the economies of most countries are linked intimately and inevitably with those of other countries. Australia, of all nations, despite the tendency to policies of self-sufficiency by Labour Governments, is one whose economy least resembles a closed system, and one, therefore, where the Keynesian thesis needs to
be applied with the utmost caution and with all those reservations necessary in the sensible practical adaptation of any theoretical structure.

OVER-CONFIDENCE

There is thus an over-confidence in the new theories, in Australia as well as abroad, an over-confidence that has led to a deficiency of discussion and critical enquiry which could prove to be a major source of weakness in the event of a world recession. The impact of a recession on Australia might well find us armed with little more than a set of theoretical principles, but with no down-to-earth practical programme of action. For instance, there has been singularly little attempt to analyse the probable form and course which a recession would take in this country, the industries which it would most seriously affect, and how far the Keynesian remedies would prove applicable to an economy whose fortunes are inextricably bound up with those of the main industrial nations abroad. Also, if the maintenance of full employment is to take precedence over all other objectives of economic policy (as most people believe it should), what contribution and what sacrifices of their immediate objectives need to be made by various sections of the community—particularly trade unions and employers—if the overriding aim is to be achieved? On this question, there has been a notable silence.

The truth is that Australia has, at present, no realistic plan for maintaining employment in the event of the collapse of the world post-war boom. We have a Government White Paper (published five years ago in 1945) which is little more than a series of academic principles, and which unconvincingly skates over the obvious practical difficulties of the policy it proposes; we have a £743,000,000 programme of public works, which, while useful, no thinking person would accept as amounting to anything like a complete remedy for a serious recession in the private sector of industry;* and we have ran-

*The difficulties of timing a vast public works programme to compensate for large fluctuations in private spending are immense. Labour is notoriously immobile. Naturally enough, a man who has established a congenial life in a centre where his home, friends and interests lie, does not take kindly to the thought of moving to a remote area such as the Snowy River or Kiewa. There is also the difficulty of getting the right types of labour for public projects. People displaced from private industries might, in very many cases, not be suitable. Also large public works require huge supplies of constructional materials such as steel, cement, timber, and also adequate heavy machinery and equipment. There is no certainty that they could be organised on the scale required.
Full Employment and "The New Economics" (continued)

dom papers by different economists, some of practical utility, but none offering a comprehensive and water-tight programme for maintaining employment in Australia under conditions of world recession or depression.

It is, therefore, highly necessary that the over-confidence at present manifest in the absence of discussion on full employment and in the arrogant assumptions of the Keynesians, should give way to that intellectual humility which is the precursor of serious questioning and scientific analysis. It is not enough that this inquiry should be confined to economic theoreticians; for the practical man, in both business and trade unions, has much to contribute to this subject, and, one might add, much to learn about his responsibilities if world recession is to be successfully surmounted in Australia.

RECESSION AND INFLATION

What are some of the questions to be answered?

The Keynesian thesis, briefly stated, is that a decline or threatened decline in private spending, or in the private sector of the economy, should be offset by government measures to subsidise consumers through adjustments of taxation and social benefits, by the maintenance of wage rates, and by compensatory spending by governments on capital works and public projects. But would these measures prove effective if the decline in private spending were brought about through a severe reduction in export income following upon a collapse of overseas prices? This would almost certainly be the pattern of the recession in Australia. Previously, situations of this kind have been met, and eventually corrected, usually after prolonged unemployment, largely by internal deflation. The effect of deflation was to restore the overseas position by reducing domestic prices and costs, thus discouraging imports and encouraging exports. The internal economy also responded as a consequence of the effect of a reduction in costs on the profit expectations of businessmen. This policy clearly imposed great sacrifices of a temporary character, particularly on the wage-earning sections of the community.

†In the Great Depression (1929-1933), the corrective measures included inter alia a 10% cut in wages, a 22½% reduction in interest rates, lower salaries, and rentals, and a heavy reduction in government expenditure.
“The new economics” proposes a course almost exactly the reverse of this. In other words, a threatened collapse in private spending, resulting from falling export prices and an unfavourable overseas balance of payments, is to be countered by a policy of internal inflation and the maintenance of wage rates. How this policy can be carried out without aggravating the overseas balance is by no means clear. And if that should prove to be the case, how would we maintain the volume of imports of essential raw materials and equipment necessary to keep our industries in full production, and for public projects? And how would the export industries continue to operate on an economic basis to provide employment where their returns were being squeezed between falling prices overseas and rising or stable costs at home? How, too, would those manufacturing industries in competition with overseas suppliers continue to compete successfully under conditions of rigid internal costs, when overseas costs were declining?

It is no answer to these questions to say that it is the responsibility of the main overseas nations to maintain their economies in a state of high activity and full employment and thus prevent any catastrophic fall in world prices. What if those nations prove, for one reason or another, incapable of fulfilling their responsibilities?—and that is the assumption on which we must work.

THE WAGE LEVEL AND EMPLOYMENT

Many of the disciples of Keynes have also deplored any idea of a fall in wage rates in order to counter recession and maintain employment. A fall in wage rates, they point out, reduces demand and spending, as well as costs, and therefore aggravates the condition it would correct. As a theoretical proposition this contains some elements of truth. But if effective demand could be expanded and unemployment prevented simply by increasing wages then full employment would be absurdly easy to achieve. The proposal does not resolve the practical issue of how a large section of Australian industry could be maintained in profitable operation if Australian wage rates were rigidly fixed in face of declining costs abroad. Is it not conceivable that under these conditions a rigid wage structure would delay recovery and intensify depression?
These are practical doubts which arise and which the Keynesians have by no means convincingly answered. Indeed, so far as wages are concerned, they have almost been inclined to argue, and they have certainly been instrumental in spreading the notion, that the level of wages has little relationship to the level of employment, except that a declining wage rate is, under any conditions, bad for employment. Has the level of wages in an international system no effect on the level of employment? It would certainly be remarkable if it had not, since wages constitute the great bulk of costs, and it is on the level of costs and on expectations of profit that businessmen base their plans for production and investment. It seems highly probable, on the contrary, that the average level of wages is the most important single determinant of the volume of employment. The trade unions as well as all other sections of the community should give this question the most serious thought.

Do the trade unions seriously think that wage rates can be pushed almost to any height without adversely affecting employment? That is certainly a relevant question under today's conditions, just as in the past, one might have been justified in asking employers if they thought wages could be recklessly slashed without reducing the demand for their products—and thus their profits.

The Keynesian remedies would appear to have more validity, if, when a recession hit us, our prices and costs were not too far out of line with prices and costs abroad. But what if our wage and cost structure were greatly above overseas levels when the world boom broke? Would the cure for internal inflation at home and external deflation abroad be still more inflation at home? Or would we be faced with the painful neces-

*Whether, at any given time, a rise or fall in wages would tend to increase or reduce the volume of employment, depends on the relationship of costs to prices, and on the general economic situation when the change is contemplated. Under certain conditions to raise wages might reduce employment, whereas under other conditions it might increase employment. The same applies to a lowering of wages. It is economic nonsense to assume that any increase in wages is, at any time and under any conditions, good for employment, just as it is economic nonsense to argue that, at any time and under any conditions, a reduction of wages is bad for employment.
sity of adjusting our wage-cost structure to the lower level of overseas wages and costs?

The policy with which Australia met the last depression—the famous economists’ or premiers’ plan—has been very severely criticised since for its deflationary elements, particularly the “10% wages cut,” by the proponents of the new economics. But it did prove highly successful at the time in stimulating recovery and lifting Australia out of the depression more rapidly than was the case in most other countries. And it was praised in the highest terms by Lord Keynes himself.‡ Perhaps, faced with the same circumstances again, we would find that we could not do anything greatly different. Certainly the remedies would be applied earlier, but they might not prove to be basically dissimilar.

PREVENTION NOT CURE

What, if any, conclusions emerge from this? One of overriding significance—that the best remedy for a depression is never to get into one. Preventive measures are infinitely more important than the curative. The cure, if we are forced back upon it, is almost certain to be unpleasant, almost certain to require great “sacrifices” on the part of the patient. The seeds of depression are sown in prosperity, and if we do the wrong things when we are prosperous, we will find it exceedingly difficult to avoid depression, and to escape retribution for our misdeeds.

The invariable lesson of economic history is that the greater the boom the deeper and more disastrous the subsequent depression. It is one we would do well to heed in Australia just now. We have already let the post-war boom in Australia develop beyond the bounds of all reason and commonsense. We should endeavour to retrace our steps while there is yet time, and time is rapidly running out. What does this imply? It implies a strong policy of disinflation, in which all sections of the community must join, in an effort to stem further rises in prices and costs and to achieve a measure of stabilisation.

In a report on full employment prepared by a panel of five economists of world reputation for the Economic and

‡ In 1933, Keynes wrote: “I am sure the Premiers’ Plan last year saved the economic structure of Australia.”
Social Council of the United Nations*, it is suggested that "if labour unions, farmers, groups, trade associations, cartels or business monopolies press for increased earnings in such a way as to produce a continued upward pressure on prices," the success of the policy of full employment will be endangered.

THE CO-OPERATION OF ALL

There seems to be a bland assumption in some quarters that full employment is a matter that can be delegated to the government, and that so long as governments do the right and intelligent thing, the rest of us can be left to pursue our own courses and profit with a happy mind and a clear conscience. Nothing (as the United Nations Report, just quoted, implies) could be further from the truth; and nothing is more dangerous. The truth is that no government, and no government policy, can be successful in preventing depression without the full understanding and co-operation of the different sections of the community. This is another fact which the Keynesians tend to overlook. What is economically wise is, unfortunately, not always politically practicable. As we have said before in this journal, economic stability is impossible in an unstable and irresponsible community.

In an economy rigidly planned and tightly controlled from top to bottom, it might be true—although it is by no means certain—that a government could do all that was necessary to assure full employment. But in a free economy (and most Australians show by their actions, if not by their political professions, that they believe in a free economy) all sections of the community must make their contributions toward the objective, or the objective will most certainly not be achieved. The supreme test of the workability of a free society lies in the willingness and ability of its members to act responsibly.

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*This important report has just been published and bulk supplies, at the time of writing, have not yet reached Australia. The panel of economists consisted of Prof. John Maurice Clark, of Columbia University; Prof. Arthur Smithies, of Harvard; Nicholas Kaldor, Fellow of King's College, Cambridge; Pierre Uri, economic and financial adviser to the Commissariat General du Plan in Paris; and E. Ronald Walker, economic adviser to the Australian Department of External Affairs.
and intelligently. Without a decent measure of responsibility we will fall again into depression and unemployment, and in that eventuality it is conceivable that we would vote ourselves into the economic tyranny of the totally planned state.

A TIME FOR GREATNESS

It is for this reason that the supporters of free enterprise have probably far more at stake in the continuance of full employment than any other section of the community. In another depression the losses of business would be much more than mere financial losses; they would be much more than those involved in falling profits, in intense cut-throat competition (with every man for himself), in a mounting roll of business casualties, with the weaker and the more unfortunate going to the wall. They would be losses of personal liberty and business initiative and freedom of enterprise.

What must be clear to all men who think is that another depression of any proportions, by which is meant one in which unemployment rose to 15% or over, would be well-nigh fatal to the political and economic interests of private enterprise. The people would rise in their wrath to denounce a system that could not apparently provide regular work for its members and a new and irresistible impetus would be given to doctrines of socialistic planning. For this reason, if not for the narrowly financial reason, it is imperative for the business community to do everything within its power to aid, encourage, finance and indeed demand further inquiry into the problem of full employment. This is of all times, a time for business interests to display that vision, selflessness, and sense of urgency, and to provide that leadership, without which, apart from an undeserved stroke of miraculous good fortune, the system of free enterprise will not survive. It is, indeed, a time for greatness.

★ ★ ★
There is an urgent need for comprehensive fact-finding on the subject of wages and prices, and the relative shares of the national product going to wage-earners, salary-earners, shareholders, and other sections of the community. The recurring phenomenon of quarterly wage adjustments, abruptly followed by soaring gas accounts and household bills, is leaving the general public very bewildered, if not a little suspicious of unfair play. On the one hand, trade union advocates insist that the living standards of the worker are falling and that his wages must be increased if he is to maintain a decent level of subsistence: and, on the other, producers warn that failing higher productivity they cannot absorb wage increases without risk of losses or without charging higher prices.

The problem resolves itself into several issues. Is it true that workers are worse off than before the war, either absolutely or comparatively with other sections of the community? Is there scope for increasing wages at the expense of other sections without raising prices? Is the wage-earner today receiving a greater or smaller share of the national cake than before the war? Is he receiving a fair share? It is to be deplored that the facts are not readily available to the general public so that they may make up their own minds, and it is with this aim that the I.P.A. has endeavoured to assemble and analyse the statistical data available in order to throw some light on an urgent subject.

We have examined various wage statistics in reports by the Commonwealth and State Statisticians; company profits in manufacturing compiled by the Commonwealth Bank; national income estimates published with the Commonwealth budget papers; the distribution of the national income between different income groups as revealed by the annual reports of the Taxation Commissioners; savings bank figures; also data on retail expenditure and food consumption. We do not claim...
complete accuracy or conclusive authority for these figures, as there are many shortcomings in the statistical data available. It is, however, significant that from whatever angle the subject is approached, the statistics all point to the conclusion that since before the war the wage-earner is better off both absolutely, and relatively to all other sections, with the possible exception of the farming community, which was almost certainly receiving an inadequate share of the total national income prewar.

### DISTRIBUTION OF PERSONAL INCOME

The following comparison of the distribution of personal income is based on estimates made by Mr. H. Brown, Director of Research in the Commonwealth Bureau of Census and Statistics.*

<table>
<thead>
<tr>
<th>Category</th>
<th>1937/8</th>
<th>1938/9</th>
<th>1948/9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries</td>
<td>56.3</td>
<td>59.4</td>
<td>55.6</td>
</tr>
<tr>
<td>Social Services</td>
<td>4.0</td>
<td>4.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Farmers</td>
<td>13.9</td>
<td>10.4</td>
<td>19.5</td>
</tr>
<tr>
<td>Unincorporated businesses</td>
<td>12.0</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>Rent and interest</td>
<td>10.9</td>
<td>11.6</td>
<td>6.3</td>
</tr>
<tr>
<td>Dividends</td>
<td>2.9</td>
<td>3.3</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It will be readily observed that in times of record seasons as in 1937/8, or of boom prices as in 1948/9, farmers received a much larger share of total incomes than in lean seasons such as 1938/9. Comparisons between a poor season 1938/9 and a good season 1948/9 are therefore most misleading. An interesting comparison between the distribution of income in 1938/9

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*Personal income represents the total incomes received by all Australian residents and non-governmental organisations less income not distributed to persons by companies and financial institutions. It includes rental values of owner occupied dwellings. Social service benefits have been bracketed with wages and salaries in the table because they consist of such payments as child endowment, unemployment and sickness benefits and pensions which are primarily intended to supplement the incomes of employees or former employees.
and 1948/9 is obtained if the distortion caused by the inclusion of farm incomes is removed. The percentage distribution is then as follows:—

<table>
<thead>
<tr>
<th></th>
<th>1938/9</th>
<th>1948/9</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of all personal incomes excluding farmers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>66.0</td>
<td>69.1</td>
</tr>
<tr>
<td>Social Services</td>
<td>4.6</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>70.6</td>
<td>75.9</td>
</tr>
<tr>
<td>Unincorporated Businesses</td>
<td>12.8</td>
<td>13.8</td>
</tr>
<tr>
<td>Rent and Interest</td>
<td>12.9</td>
<td>7.8</td>
</tr>
<tr>
<td>Dividends</td>
<td>3.7</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

This table very clearly shows that wage and salary earners are much better off in relation to shareholders and property and bond holders, even before the levelling effects of personal taxation are taken into account.

**Wages and Salaries.**

A defect of this table, which is unavoidable because of the lumping together of wages and salaries in the national income statistics, is that the shares going to the wage-earner as distinct from the salary-earner are not shown. An indication of the relative movements in wages and salaries since 1938/9 can be obtained from the statistics of manufacturing published in the Annual Production Bulletins (Commonwealth Statistician) and Factory Statistics (State Statisticians). The figures show that wages have risen by a greater percentage than salaries.

**Wages and Salaries in Manufacturing (Actual Earnings)**

<table>
<thead>
<tr>
<th></th>
<th>1938/9</th>
<th>1948/9</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages — males</td>
<td>£211</td>
<td>£433</td>
<td>105</td>
</tr>
<tr>
<td>females</td>
<td>105</td>
<td>240</td>
<td>129</td>
</tr>
<tr>
<td>Salaries—males</td>
<td>356</td>
<td>621</td>
<td>74</td>
</tr>
<tr>
<td>females</td>
<td>140</td>
<td>260</td>
<td>86</td>
</tr>
</tbody>
</table>

NOTE.—Because of changes in classification between the two dates the earnings are not entirely comparable, but the differences are not of such importance as to invalidate the general trend.
A study of the salary scales of professional and other white collar workers also suggests that the rise in their earnings, like that of their counterparts in manufacturing, has tended to lag well behind wages. This is important when considering the personal incomes table shown above. It would suggest that the share of wages has increased by a greater percentage than that indicated when both salaries and wages are combined.

**Wages and Profits.**

The following statistics of wage and profit earnings in manufacturing industry throw further light on the share going to wages as compared with the share going to profits.

<table>
<thead>
<tr>
<th>1938/9</th>
<th>1948/9</th>
<th>% increase</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money</td>
<td>Real</td>
<td>Money</td>
<td>Real</td>
</tr>
<tr>
<td>£211</td>
<td>105</td>
<td>£433</td>
<td>38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1948</th>
<th>1949</th>
<th>% decrease</th>
<th>% decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money</td>
<td>Real</td>
<td>Money</td>
<td>Real</td>
</tr>
<tr>
<td>1948</td>
<td>1949</td>
<td>1948</td>
<td>1949</td>
</tr>
<tr>
<td>—5</td>
<td>—8</td>
<td>—34</td>
<td>—40</td>
</tr>
</tbody>
</table>

**Source:** Official wage statistics, Vic. and N.S.W. Statisticians, Commonwealth Bank “Statistical Bulletin,” and Economics Department.

The wages figures represent the average annual earnings of male factory workers, i.e., excluding managerial, clerical and technical staff, and the profits of manufacturing companies are after provision for company taxation (but before taxation on shareholders’ dividends) and are expressed as a percentage of funds employed.

The “real” figures have been obtained by deflating by the C Series Index of retail prices. Since this index purports to measure the change in prices of those commodities and services on which the average wage earner spends his income, when related to the change in money wages it gives a reasonable indication of the increase in “real” wages. On the other hand it would tend to an understatement of the fall in “real” profits.

It seems clear from these figures that the position of the average factory-worker has greatly improved, whereas the position of the average shareholder in manufacturing industry has declined. Whilst it may be argued that the shareholder, still holding his 1938 shares, is 60% better off in capital because of the rise in share values since that time, this is still lower than the general appreciation of capital assets. More-
over, he would be maintaining merely his “real” capital position if the shares were sold at a premium of 60% on 1938.

An indication of the trend in the distribution of the proceeds of manufacturing between the various partners in industry is given by statistics showing wages and salaries in manufacturing as a proportion of net value of production. The “net value of production” represents the actual value added in the process of manufacture. Raw materials and other direct expenses, such as fuel and water, are deducted so that any duplication of output is excluded where the raw material of one factory represents the output of another.

Wages and Salaries as a % of Net Value of Production
(N.S.W.) All Factories.

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Net Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938/9</td>
<td>49.4</td>
</tr>
<tr>
<td>1947/8</td>
<td>57.3</td>
</tr>
<tr>
<td>1948/9</td>
<td>58.3</td>
</tr>
</tbody>
</table>

The share of proceeds paid to employees in 1948/9 is the highest ever recorded in secondary industry. Since 1938/9 wages and salaries have reaped an extra 1/9 out of every £1 of net product. This must, of necessity, be at the expense of the share absorbed by profits and overhead. These amounts cannot be directly ascertained from the statisticians records, but an estimate is possible. An examination of company accounts and a comparison of income tax data with factory statistics suggest that, after payment of wages and salaries and of materials costs, about half the remaining income is absorbed in overhead expenses, the balance representing the profits available for payment of taxation, for re-investment purposes, and for distribution to shareholders and proprietors as a return on their invested capital.*

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*The taxable income of all private and public manufacturing companies for 1943-44 (latest available), was £70m. For the same year, value of production for all non-government factories, less wages and salaries, was £138m.
Combining the estimate for overhead expenditure with the national income figures of company taxation, dividends and reserves, it can be roughly estimated that the net proceeds of N.S.W. manufacturing in 1948/9 (excluding government factories) were distributed somewhat as follows:

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>Share per £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries</td>
<td>57</td>
<td>11 5/11</td>
</tr>
<tr>
<td>Overhead Expenses</td>
<td>21</td>
<td>4 2/11</td>
</tr>
<tr>
<td>Taxation</td>
<td>8</td>
<td>1 7/11</td>
</tr>
<tr>
<td>Reserves</td>
<td>9</td>
<td>1 10/11</td>
</tr>
<tr>
<td>Dividends</td>
<td>5</td>
<td>1 0/11</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>20 0/11</td>
</tr>
</tbody>
</table>

It is clear from this table that an increase in wages of 10%, failing any increase in prices or productivity, would completely wipe out dividends. Average wages paid to male factory workers increased by 13% between 1947/8 and 1948/9. It is obvious that in the absence of an increase in productivity per man (the Queensland Bureau of Industry estimates that productivity per man in Queensland increased by only 2% between 1947/8 and 1948/9) a wage increase of these proportions must cause a serious rise in prices if manufacturing concerns are to pay dividends to their shareholders.

Nor, if economic progress is to be maintained, can reserves be drawn upon to pay dividends. A society which aims at increasing its standard of living and the opportunities of employment for its people must set aside a large proportion of each year’s surplus over costs for re-investment in new plant and equipment and new buildings, and for replacement of worn-out plant, and plant which, for various reasons, has become obsolescent and uncompetitive. This is particularly important for small public companies and private companies who lack ready access to stock exchange flotations.

**Effect of Taxation.**

The effect of the greatly increased rates of taxation since before the war in re-distributing income from the high income groups (such as shareholders, salaried executives, and other business and professional men) in favour of the lower incomes, is considerable.
Unfortunately, prewar statistics are extremely defective, largely because of the absence of uniform taxation. Also the latest figures available are those for 1945/6. But even allowing for the defects in the prewar data, and the lag in the availability of post-war data, the general trend (as shown in the table below) is highly revealing.

**Personal Incomes by Groups—Australia.**

<table>
<thead>
<tr>
<th>Range of Income Before tax</th>
<th>1938/9</th>
<th>1945/6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Incs. 000’s</td>
<td>Average Income Before tax</td>
</tr>
<tr>
<td>£</td>
<td></td>
<td>£</td>
</tr>
<tr>
<td>201-500</td>
<td>998</td>
<td>290</td>
</tr>
<tr>
<td>501-1000</td>
<td>106</td>
<td>650</td>
</tr>
<tr>
<td>1001-2000</td>
<td>29</td>
<td>1350</td>
</tr>
<tr>
<td>2001-5000</td>
<td>10</td>
<td>2940</td>
</tr>
<tr>
<td>Over 5000</td>
<td>2</td>
<td>8700</td>
</tr>
</tbody>
</table>

**Source:** Commonwealth Bureau of Census and Statistics.

There has been a great increase in the numbers in the lower income groups which consist mainly of wage-earners. Not only is the average income of this group well above prewar, it is the only group which has maintained its post-tax position.

The top income group has slightly increased its pre-tax income, but after tax is only about 50% as well off in money terms as before the war.

The equalising of incomes brought about through higher wages at the lower end of the income scale, and by heavy taxation at the upper end, is apparent. This trend towards greater equality has almost certainly continued since 1945/6, particularly if abnormal farm incomes are disregarded.

Taxation has not been appreciably reduced on the top income ranges, but has been greatly cut in the lower ranges; also money wages have risen substantially since 1945/6.
Savings Banks Statistics.

A further indication of the improvement in the position of employees since 1939 is contained in the statistics of savings banks which are predominantly patronised by wage-earners. Average savings per operative account in the State Savings Bank of Victoria have increased from £65 as at June 30, 1939, to £134 as at June 30, 1948, an increase of 106%.

Statistics of the number of accounts in different size groups in all State Savings banks for 1939, 1947 and 1948, are also revealing:

<table>
<thead>
<tr>
<th>Size of Account</th>
<th>1939</th>
<th>1947</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £50</td>
<td>1075</td>
<td>1087</td>
<td></td>
</tr>
<tr>
<td>51-100</td>
<td>118</td>
<td>179</td>
<td>N.</td>
</tr>
<tr>
<td>101-200</td>
<td>98</td>
<td>186</td>
<td>A.</td>
</tr>
<tr>
<td>201-500</td>
<td>86</td>
<td>219</td>
<td></td>
</tr>
<tr>
<td>Under 500</td>
<td>1377</td>
<td>1671</td>
<td>1699</td>
</tr>
<tr>
<td>Over 500</td>
<td>41</td>
<td>125</td>
<td>139</td>
</tr>
<tr>
<td></td>
<td>1418</td>
<td>1796</td>
<td>1838</td>
</tr>
</tbody>
</table>

Source: Commonwealth Finance Bulletin No. 39.

The number of accounts under £500 has increased by one quarter between 1939 and 1948, and the deposits to the credit of these accounts have more than doubled. Victorian State Savings Bank figures indicate further improvement in 1949. The relative position of the average wage-earner as against the average salary-earner is also reflected in savings bank data. Between June, 1939 and June, 1949, average balances at the credit of ordinary operative accounts with the Victorian State Savings Bank have more than doubled in industrial areas comprising wage earners, but less than doubled in residential areas consisting predominantly of salaried people.

Food Consumption and Retail Sales.

Statistics relating to consumption per head of the population do not bear out the suggestions of falling living standards. Information published by the Commonwealth Statistician on estimated foodstuffs, etc., moving into Australian consumption
Distribution of The Proceeds of Industry (continued)

all show increases per head on the pre-war average except for rationed items such as meat and butter. Typical comparisons are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Pre-war average</th>
<th>1947/8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>39</td>
<td>49</td>
</tr>
<tr>
<td>Meat</td>
<td>253</td>
<td>216</td>
</tr>
<tr>
<td>Sugar, etc.</td>
<td>112</td>
<td>132</td>
</tr>
<tr>
<td>Grain Products</td>
<td>204</td>
<td>214</td>
</tr>
<tr>
<td>Fruit and Vegetables</td>
<td>414</td>
<td>479</td>
</tr>
<tr>
<td>Beer, gals, per head</td>
<td>12.1</td>
<td>17.9</td>
</tr>
<tr>
<td>Tobacco, lbs. per head</td>
<td>3.3</td>
<td>4.4</td>
</tr>
</tbody>
</table>


Sales of retail stores (adjusted for the lower purchasing power of the £) show an increase of about 10% per head between 1938/9 and 1948/9.

This would suggest the existence of increased purchasing power in the hands of the lower income groups, which constitute by far the majority of the consuming public.

Conclusion.

The conclusion to be drawn from the statistics presented in this article is clear. All statistics point to a striking improvement in the position of the wage-earner by comparison with other sections of the community. Save for the primary producer and unincorporated businesses, all other sections are relatively worse off than in 1938/9. Even if the wage-earner were worse off, the arithmetic of production costs and prices demonstrates that wages cannot be appreciably raised, without increased productivity per man, if higher prices are to be avoided. Higher productivity is therefore the road to higher wages without higher prices.
PRICE SUBSIDIES

The following comprises the full text of a statement on price subsidies issued to the Australian press on the 2nd February, 1950, by the Editorial Committee of the Institute.

1. The re-introduction of price subsidies as one of the main weapons of attack on inflation would be wasteful, ineffective and unwise. It could not, of itself, prevent increases in prices and living costs, while the basic conditions for effective price stabilisation (i.e. the pegging of wages and other incomes) are lacking. Admittedly, subsidies under present circumstances might help to slow up the rate of increase in costs and prices; but any advantage in this direction would be far outweighed by their manifold disadvantages.

2. Subsidies were first introduced at a critical stage of the war in July 1943 as part of a plan to impose a virtual price ceiling at the level of prices ruling on the 12th April, 1943. They covered potatoes, tea, milk, coal, fire-wood and certain imports (mainly textiles). Subsidies were later extended to include rubber, tobacco, raw wool and coastal shipping freights. Basic wage increases due to quarterly cost-of-living adjustments were also absorbed by the government by refunding employers.

3. This policy was on the whole successful, as over the four years from the introduction of subsidies until late 1946 increases in the retail price index were practically negligible. But in 1947 the retail price index began to rise as basic wage subsidies were cancelled and price increases were permitted to meet rising import costs. It is clear from this that price stabilisation through subsidies is only practicable where virtually all domestic costs, especially wages, are pegged. To achieve price stabilisation where those costs are free to move, and when import costs are rising rapidly, would require a prohibitive level of subsidy payments.

Over the two years 1946/7 and 1947/8 retail prices rose by 12%, and wholesale prices by 17%, in spite of payment of subsidies amounting in all to nearly £60m. Following the prices referendum in May, 1948, price subsidies were progressively withdrawn and, with the exception of the tea subsidy, were all terminated by 31st October, 1948.

4. Two main arguments which are advanced in favour of subsidies are:
   (a) To protect the lower incomes from the impact of rising living costs by the payment of subsidies on essential consumer commodities.
   (b) To offset the cumulative, spiralling, inflationary effects which arise in the Australian economy because of the nexus between wages and prices under the quarterly cost-of-living revisions. This is easily the most potent argument.

5. The arguments against the use of price subsidies to prevent inflation are, however, overwhelming.
   (a) In the absence of other measures, subsidies can only ameliorate the wage-price movement; they cannot prevent it. They do not tackle the problem of inflation at the source; in effect, they accept the existence of inflation and endeavour to offset its impact on the price structure. They, therefore, tend to divert attention away from the real basic remedial measures which must be taken if inflation is to be overcome. They are no substitute for strong measures to deal with the root causes of inflation. They tackle the symptoms of the disease, not the disease itself.
   (b) They are a negation of the free price market, and therefore mean the abandonment of the advantages which the free price market has to offer in the way of securing the most economic distribution of resources, of encouraging the production of commodities in scarce supply, and of providing maximum incentives to efficiency.
The amount of subsidy tends to be based on the costs of the least efficient producer and there is thus little incentive for the more efficient producers to raise their efficiency and lower their costs. Since producers know that rises in costs will be covered by subsidy, the incentive to reduce costs and thus prices is weakened. It is almost elementary in economic theory that subsidies inevitably tend to result in high costs of production in subsidised industries.

They require a complicated and extensive administrative machine if they are to be effectively administered—otherwise the scope for serious abuse would be considerable. Since the virtual abandonment of subsidy payments and the relaxation of price control, it is doubtful whether this machine any longer exists. Moreover, since authority for subsidies rests with the Federal Government, and authority for price control with six different State Governments, the basic requirement for an effective administration, namely a single controlling authority, is lacking.

Since any claim for an increased subsidy requires rigorous scrutiny of the costs and profits of the producer or industry making the claim, the whole process of price adjustments, and therefore of business and trading, becomes slow and cumbersome. When subsidies were in operation, delays in obtaining price approvals frequently amounted to more than three, and sometimes as much as six, weeks. This meant that merchandise, which would otherwise have been immediately available to the public, had to be withheld from sale pending decisions by the prices authorities.

Because subsidies are, of necessity, concentrated on essential commodities the prices of those commodities are held down by comparison with the prices of non-essentials, and manpower and materials are diverted to the latter fields instead of to where they are needed most. This result also follows from the fact that because the prices of the necessities of life are kept down, people have more to spend on the non-essentials or on the luxuries. The effect of the gigantic food subsidies in Great Britain in releasing money for football pools, gambling, and trumpery types of spending is notorious. The present mal-distribution of labour and resources between industries is retarding Australian development and is one of the most serious aspects of the Australian economy.

Subsidies are a wasteful form of assisting the lower income groups because they also assist the higher income groups which are not so much in need of assistance. It would be far more sensible to provide assistance for the lower income groups by special family allowances or by increasing pensions and in other ways.

Subsidies add greatly to the costs of government expenditure and, therefore, increase taxation. Subsidies, thus, have certain inflationary tendencies; firstly because they reduce incentives at a time when greater production is urgently needed; and, second, because they make the attainment of a disinflationary budget surplus more difficult.

6. Price subsidies are no solution to the problem of the Australian inflation and of rising prices and living costs. A policy of a much more fundamental character is required.
BUSINESSMEN HAVE A JOB TO DO

By PHILIP D. REED

When one is fighting a war, be it cold or hot—and particularly a defensive war—the moves and countermoves of the adversary have a very large bearing on one's own plans both strategic and tactical. This is very much our position in the United States today.

We have Paul Hoffman's recent statement that ECA aid should end on its scheduled date of June 30th, 1952. I believe it will in fact end on that date, although it is unlikely that Great Britain, Western Europe and their colonies will by then have achieved a balance of payments with dollar areas at anything like their present level of dollar imports. Whether and in what form further governmental credits might be made available to these countries will depend to a very large degree on what progress Britain and Western Europe have then made toward freeing up intra-European trade, achieving convertibility of currencies and improving the quantity and cost of their production. It may depend equally on whether American and Canadian private capital have been encouraged by then to flow in much larger amounts into foreign investments; whether tourism, an important dollar earner, has been developed as it should be; and last, but not least, whether foreign commodities and goods
Businessmen have a job to do (continued)

are being merchandised aggressively enough to reach the United States market in sharply increasing amounts.

Trend from Government Control.

Last October I visited six countries—England, France, Italy, Greece, Turkey and Egypt—representing the International Chamber of Commerce, the United States Advisory Commission on Information, and my own company, General Electric. In those capacities I was fortunate in being able to see a good many top people in business, banking and government circles. I came away from every country but England (where the government is too firmly committed to change) with the very definite impression that the trend today is away from government ownership or control of industry and in the direction of encouraging private enterprise. This was stated to me flatly by high officials in several governments and broadly inferred by others.

Responsible officials are disillusioned by their experience with government ownership and appalled by the enormity of the task of extending it. I do not mean to say that much has yet been done to release the shackles on private enterprise. That is not the case. But instead of eager, confident reaching for more control and direction of the economy, these governments are talking about encouraging private enterprise and asking what needs to be done to create a climate favorable to the flow of private investments into their countries. I was impressed by the fact that the psychological moment has arrived for competent business leadership in these countries to assist their governments, fairly and objectively, in working out programs looking to the gradual relaxation of restrictions on private business and the creation of a climate favorable to expanding operations.

For what it's worth, these observations are, I think, fortified and confirmed by the recent election results in your part of the world. Readers of this article can judge the significance of these trends much better than I.

We in the United States—although we have not gone as far toward Socialism as many other countries—are, unhappily, still moving in that direction. Our government wants more, not less, central authority to direct and control the operations of business; it wants more, not less authority to spend and it wants more, not less, taxes to finance its operations. It would indeed be tragic if we failed to benefit in time from the experience of other countries, if we failed to stem the tide of ever-growing centralized authority simply and solely because our people do not understand the significance of what is happening to them. For this, it seems to me, is the basic flaw in the armour of America.

Ignorance of Economic Facts.

The reason the mass of our adult population is ignorant of the fundamental economic facts of American life is that nowhere in their life's experience have they been made to understand them. The truths that every businessman must know if he is to remain a businessman are truths he has, in almost every instance, learned the hard way in the course of his business experience. And yet we businessmen are surprised and resentful that our workers and our neighbors in other walks of life do not instantly reject the attractive but unsound proposals made to them by certain politicians and Labor leaders.

The real reason is that too many businessmen believe they have discharged their responsibility to society by producing a useful product, profitably. Too many businessmen regard as extra-curricular or pro bono publico or just plain wasted time and money anything they may be doing to support studies and educational programs aimed at creating a
better understanding of the fundamentals of the American economic system. Too many businessmen have been wearing mental blinders which excludes from their line of vision and effort everything but the day to day task of operating their business under conditions as they find them. They aren’t happy about the conditions and realize they are getting worse, but that they have either the capacity or the responsibility to do something to correct the situation rarely occurs to them. They are like the farmer who plows a fine, straight furrow and grows a rich and plentiful crop but fails to note or raise a hand against the cloud of locust on the horizon which, unless destroyed, will strip his fields.

Businessmen must tackle the job.

The fact is, of course, that of all the people in any American community the businessmen are the logical, indeed the only, ones who have the knowledge, the incentive and the resources to tackle the job of adult economic education in their own back yards. Here in my judgment lies the great hope of the survival of enterprise based on individual initiative. Either we shall succeed in generating a much better understanding of, and a desire to retain, the basic elements of the system which made America great or we shall continue to move in the direction of more and ever more state control and dictation of all that we do.

It is not simply the oft-proven and inevitable inefficiency of government operation or control that destroys the future of any country which goes down that road. Costly as that inefficiency always is to the standard of living of the country, the real tragedy is to be found in the millions of individual enterprises that are never born. Prohibitive taxation or the assumption of direct control of industry by state bureaucracy destroys the incentives that in the past induced the creation of millions of individual enterprises. The productive undertakings of a country thus tend to be narrowed down to those which the government itself conducts or sponsors. The real potential wealth of the country, that is to say the individual resourcefulness and enterprise of all its citizens, is crushed and sterilized.

What we must everlastingly point out is that the function of government is to create and to preserve a climate which invites and stimulates action on the part of others. Its function is like that of rain on a desert area. The moisture creates a condition in which millions of individual organisms in the desert soil are stimulated to life and action, and very soon the barren expanse is rich with output.

It must be a part of our educational program to make perfectly clear that business wants and favors adequate security against involuntary unemployment, old age, disability, etc. But we must point out that for the government to promise such security is meaningless unless the economy of the country is sufficiently vital and productive to provide the products that will make the promise good.

Social Progress and Production

Thus, it is not generally understood that social and economic progress must be twins. Everybody wants adequate social security, but it can become and remain a reality only so long as the economic system of the country is vigorous and strong. In a steadily rising national production of goods and services lies the only hope of social progress. I reiterate, social and economic progress are twins—indeed they are Siamese twins—and one cannot live longer or grow faster than the other.

Many of us know these things, but too many millions do not. Nor do they understand how increased production is achieved. Everyone knows that a worker in
any up-to-date manufacturing plant today produces very much more in a week's time than his father did say twenty-five years ago. But how was this accomplished? Does he work longer hours? No. The fact is that he works much fewer hours in a week than his father did twenty-five years ago. Does he work harder? No, it is almost universally a fact that the industrial worker today is required to expend less physical energy per hour of work than he did a generation ago. Well, is the industrial worker today more skilled than his father was? Again the answer must be no. Indeed, in America, and I expect elsewhere, there are much fewer really skilled craftsmen per thousand industrial workers than there were twenty-five years ago.

Well then, what did account for the very large increase in the worker's weekly output? The worker's arm has been "lengthened" by his employer providing him with power tools and specially designed production equipment which, with less effort and less skill and with shorter hours, enable the worker to produce many times what he could produce with his hands or obsolete tools. This means that money, the savings of investors or the ploughed back portion of corporate earnings, must be spent to buy the tools and equipment which the worker operates. The other part of the answer is that by expert design of the product and by skillful layout of the plant the worker is provided with the maximum opportunity to spend his working hours actually producing. Waste and inefficiency in using his working time are minimized. In short by placing expensive tools at his disposal and by using the most efficient factory and production methods, the worker can produce more product per hour and therefore justify a higher wage for himself than would otherwise be possible.

If this point were clearly and widely understood, labor, even more than management would be championing the cause of adequate incentives to investment in new and improved tools and equipment.

Incentives

The whole subject of incentives needs to be reduced to simple, understandable terms. It is incentives plus freedom of action that distinguish a free from a slave state, a vital growing economy from a static one. There must be incentives, adequate incentives for those who perform every function essential to the operation of the economic system. Thus the worker, the management, the investor and the customer, all must be provided with an inducement, a lively self-interest in doing his part more fully, more effectively and more efficiently than ever before. The fundamental point is that people exert that extra effort or risk their savings on a promising but unproved venture in the expectation of reward, and our free democratic system must provide adequate rewards to all participating elements if the system is to survive. And no economic system known to history compares in vitality, efficiency or productive potential with a system of competitive enterprise based on individual initiative.

These things are well known to businessmen, but we have been keeping them very much to ourselves. There is now in this country, I am glad to say, a lively and growing interest in the development of the best possible methods and techniques of imparting this information to large numbers of people in plants and plant communities. More and more companies are charging a senior officer with responsibility for this educational work, and as a result things are beginning to happen. If everyone will shoulder his share of the load and will exchange with others the results of his efforts, we cannot fail.
But we have much ground to make up. Time is of the essence. And now is the time to get at it.

Responsibility of Educators

Let me say again, too many businessmen the world over have considered their duty to society discharged by the profitable operation of a useful business enterprise. They have failed to appreciate that they themselves, being closest to and therefore knowing most about the economic system under which they operate, have a deep responsibility to their fellow citizens to explain the working of their system. Ignorance and apathy on economic questions are the deadliest diseases a democracy can suffer. Unless the electorates understand what elements are fundamental to the operation of their economy, they cannot know and therefore cannot resist changes which would destroy or irreparably damage it.

Unless and until, therefore, businessmen of all countries accept their responsibility as educators, we shall be living on unfirm and shifting sands. The development of honest, objective economic studies, not by economists but by business leaders themselves, is the first step. The second is the dissemination of this material in simple and understandable form to educators, to government officials, to employees, their families and their neighbors, and to thought leaders throughout the country. This is not primarily a job for business associations, although they can help. It is largely an individual company job that will be done only when business men recognize and accept their responsibility really to do something about lifting the economic literacy of the communities in which they live.

President James B. Conant of Harvard University, while speaking of the prime importance of progress in education, once said: “Behold the turtle, he only makes progress when his neck is out.” Mr. Conant then observed that, as applied to college presidents, he had found that when they didn’t make progress they were very shortly in the soup!

How very true that is not only in education but in all walks of life. One must constantly move forward only to keep his place, and one must assume risks—yes, stick his neck out—intellectually, financially, or perhaps both if he is to lead rather than follow in his field. We know from experience that many of the new, unconventional, even radical ideas of today will be commonplace and conservative tomorrow. We know that the newest and finest products flowing from our factories today will be obsolete tomorrow. And the evidence is overwhelming that only as people, institutions and nations are thinking and acting bravely and imaginatively in terms of the future do they make progress in the full and satisfying sense of that word.

The United States.

Let us apply these thoughts to the United States of America. Although perhaps not always in balance, the accomplishment of America toward providing for the great bulk of its people, the opportunity to live good and satisfying lives is without parallel in history. But in achieving this extraordinary result America concentrated on the development of its homeland. We thought and acted bravely and imaginatively on domestic affairs, but we did so almost to the exclusion of the world around us.

This was both natural and human. The magnitude of our task and opportunities here at home was sufficiently challenging to command all the brains, energy and financial backing we could muster. As a former colony of Great Britain, which for the century preceding World War I maintained with dignity and distinction the Pax Britannica, we suffered from an inferiority complex in the field of international affairs. Indeed, as late as the second world war many good Americans
believed that our diplomats were no match for the smooth and experienced negotiators from overseas. We wanted no entangling alliances with the troubled continent of Europe from which so many of our ancestors came in search of a better life.

We refused to join the League of Nations, thereby rendering it virtually impotent. We failed to recognize the significance of our becoming a creditor nation after the first world war. Instead we redoubled our efforts to sell more of our rapidly expanding production abroad and made ever more difficult the payment for those exports by raising higher and higher tariff barriers against the products of other countries.

To ease this economic paradox and make it possible for our foreign customers to pay, we loaned billions of dollars abroad in the 1920's and saw most of those loans go into default; we bought billions of foreign gold in the 1930's, which we promptly buried in Kentucky and by no stretch of the imagination can be said to have improved our standard of living; and in the 1940's, for different and much more substantial reasons, we made huge Lend-Lease, ECA and other foreign grants to finance a large fraction of our exports with no hope or expectation of repayment.

Indeed, I think it fair to say that the absence of American leadership and of a sound foreign economic policy during the 1920's and 30's contributed more than any other single factor to World War II. This unhappy conclusion seems much clearer to us today as we face with certainty the fact that only through strong, wise American leadership can we hope to restore peaceful conditions and a reasonable degree of political and economic stability in the principal areas of the world.

That we have the responsibility for world leadership is now crystal clear. America emerged from the war far and away the greatest economic power on earth. It is estimated that 50% of the world's production in 1948 was American production.

In my view we have thus far come through the postwar phase with considerably less economic turbulence than I had anticipated and, although I am no prophet, I am quite willing to say that a depression in the United States within the foreseeable future is not one of my worries. We are by no means complacent on this subject in America; but with the far better understanding we now have of the interplay of economic forces and with the new and useful tools we now possess for moderating economic fluctuations, we approach the problem with, shall I say, respectful confidence.

Economic supremacy carries with it military supremacy because war today is won by the side whose industry can provide the greatest and most sustained striking power. And finally, political power among nations being derived, unhappily perhaps but none the less truly, from the power of production for peace and for war, America finds herself possessed of unparalleled strength and responsibility in a world which, if it is not technically at war, is surely not at peace.

How then are we discharging that responsibility? Let's examine for a moment the broad outlines of our policy and program vis-a-vis Russia. Although we are not at war with Russia and few close observers believe that there is more than an accidental chance of war with her in the foreseeable future, we are nevertheless locked in a desperate and deadly struggle for men's minds. The ideological conflict involves more, much more, than has been at stake in any war in America's history. Our way of life, our political and economic freedoms, our profound belief in the dignity and God-given rights of the individual are all at stake. To lose this struggle would be to plunge the world back into the Dark Ages for generations, perhaps
for centuries to come. It has happened before and it can happen again. Accordingly, we have no alternative but to resist with every means at our command the spread of Soviet concepts and control not only in Europe but in other areas of the world both West and South.

A Three-Pronged Program.

Our government is undertaking to contain Soviet Russia and Communism with a three-pronged program involving the use of three quite different instrumentalities. Each has its function to perform in this great struggle for the minds of men and each has, or should have, an equally high place in the strategic plan.

The first prong of the program is rearmament. We are rapidly rebuilding our military strength. We are also helping free nations to do likewise.

The second prong of our three-pronged program is economic. Of no less importance than rearmament, the objective of the second prong is to assist the free countries of Europe to increase their production for home needs and for export, to balance their budgets, to restore sound and convertible currencies and, at the earliest possible date, to become self-supporting, all to the end that living conditions in these countries shall again become tolerable for their people.

The third and final prong is the information or, if you wish to call it that, the propaganda prong. Here we meet the enemy head on. Russia places by all odds her heaviest reliance on propaganda. Spending enormous sums, using her best and most imaginative brains, and employing every trick and device known to man and a good many known only to the twisted minds of Moscow, the Russian propaganda machine has blanketed Europe—not to mention her activities elsewhere—with a barrage of downright untruths, half truths and baseless rumors that can be appreciated only by one who has seen and heard it.

The answer to this campaign is, of course, the truth widely told and oft-repeated. My two and a half years in London during the war taught me that three-quarters of the irritating misunderstandings which kept cropping up between Britain and ourselves were without basis in fact and resulted largely from careless, irresponsible talk. Had these mistaken stories been quickly and pointedly corrected, the going would have been much easier. But imagine if you can how much worse the situation is throughout Europe today with Russia's all-out effort to arouse hatred, suspicion and ill feeling superimposed on a situation already sensitive because of meager and incomplete communications.

The object of our State Department's foreign information service is, by radio broadcasts, news bulletins, publications, motion pictures, libraries and exchange of students, to lift the dangerously low level of foreign understanding of the United States, her deep belief in human dignity and freedom, her way of life and her actions and objectives abroad. The program is under way, but it is homeopathic compared to that of the Russians. The British have a far larger and more effective foreign information service than we.

I am not suggesting our government can or should do the entire job. Quite the contrary. Private organizations and agencies can and should perform signal service in providing a foundation for the government's efforts. Businesses and banks through their foreign advertising, their offices abroad and their foreign travellers, can tell the story most helpfully. Letter writing on a broad country-wide scale and the distribution of American books and periodicals can likewise be exceedingly effective.

Exchange of students, faculty, news and ideas between educational institutions is another important phase. The credit-
ability of information which comes from private sources is far greater than that which emanates from government. The more we who are outside the government can do, the less our government will have to do. Nevertheless, the job is far too great to be accomplished by private groups alone. The State Department's program must fill the gaps and lift the over-all volume to the required high level.

If America is to fulfill her destiny in world affairs she must be understood and trusted by her world neighbors. She must consider well her public relations. This third prong of America's foreign policy has been truly called the "Public Relations of Survival."

But whether our three-pronged program to beat Communism is in balance or not, the fact is that America has a program. We are asserting at long last the leadership the world must have from its greatest power and that we must give if we are to secure our own freedom and our way of life here at home. Our task now is to make that leadership sound, firm and effective. I need not tell you that this cannot be done by a few experts in Washington. Enlightened, understanding public opinion is indispensable to a wise and consistent policy, foreign or domestic.

Unity among the Free Nations.

I would like here to emphasize the tremendous importance of preserving unity among the free nations. I am sure all of us have observed that too often the unity we preserve is a lip-service unity. Under this lip-service unity, honest disagreements are not faced up to. In my opinion we do a disservice to the ideal of unity if we strive to find words of apparent agreement, which are in fact no more than a cover for a mosaic of differing national points of view, rather than searching seriously for international points of view which nations can incorporate into their own policies and way of life.

Many people are disappointed at the dissension and disagreement reported in our daily papers concerning the United Nations. But let's stop for a moment and look at the length of our experience in trying to establish international goals of action and belief.

The first such attempt on a world-wide basis was certainly the League of Nations set up in 1919. The International Chamber of Commerce was set up the same year. The League failed and the United Nations came into its place. The International Chamber of Commerce, while surviving the war, is by the very nature of its membership on trial. That is businessmen throughout the world today are on trial. Businessmen in America generally represent a system of competitive enterprise. They believe that compulsory competition is a vital factor in the high energy, high incentive system we have developed and are fighting to retain. Many businessmen in other parts of the world have the same view, but it is also true that in other countries businessmen honestly believe in the cartel system of enterprise.

It is not surprising that men of business in various parts of the world should have tried different systems of operation. After all, business operations on a mass worldwide scale are less than a century old. But they are older than the efforts at political agreement on a world-wide scale. Now if we measure the time elapsed in these efforts against the known records of civilization, we have one century against 6,000 years; and while human beings have always been experimental animals, they have not experimented in the areas that we deal with today except for a matter of minutes against recorded time.

Therefore, it seems to me that we do ourselves injustice when we allow ourselves to be discouraged because we have not made greater progress than we have.
Our trouble lies perhaps in measuring the span of our own individual lifetimes against problems that will not be solved for generations to come. If we view ourselves as standing in relationship to the future as the pyramid builders of Egypt stood in relation to the future, then perhaps we can have the courage to believe that instead of building a pyramid we are making our contribution to a way of life that we hold dear and that will be here long after we have continued our journey elsewhere.

Mass Production.

Let me list two of the concepts that did not exist a century ago. From the standpoint of the businessman certainly two of the large concepts which he accepts and takes for granted are those of the corporation and mass production. These two concepts have influenced the lives and the livelihood of millions of people. They are part of the thinking of that eminent economist, Peter Drucker, who pointed out in a recent article in HARPER'S Magazine that “mass production•has been as imperfectly understood by its partisans as by its critics—all of whom have seen it as a new ‘technology’ . . . “But,” says Mr. Drucker, “when we analyze this new so-called technology, we find that it is not a ‘technology’ at all; it is not merely an arrangement of physical forces. What it is really is a new concept of organizing men for joint work. It is a principle of social order rather than one of mechanics.”

And then he points out: “Change in the ‘system’, however radical, will not solve anything. In fact, the basic problems of mass-production organization and industrial enterprise are exactly alike whatever the ‘system,’ whether capitalist, socialist, communist, or fascist. Indeed, while changes in the ‘system’ will not affect the basic, the real problems of an industrial society which lie in the new institutions, the solutions we shall find—or fail to find—for the problems of mass-production order and industrial enterprise, will decide under which ‘system’ we shall live and, especially, whether or not that system shall be free.

“The great, the final, issue in the conflict of ideologies which rends our world is over the principles and beliefs on which the new institutions of the industrial order are to be based.”

After reading Mr. Drucker’s article, it occurred to me that he posed a challenge to businessmen throughout the world; namely, to find ways of making that contribution which is so peculiarly theirs to the creating and social institutions and economic policies in keeping with the new technology.

Business and the Public Interest.

I wish to venture it as my opinion that it is easier to make a social thinker out of a businessman than it is to make a businessman out of anybody else alive. Further it seems to me that one reason businessmen have created associations, local, national and international, is to have a means through which they can make their contribution to the preservation and extension of a free society. Indeed, it cannot be too strongly affirmed that what is good for all of the people of a country is for that very reason good for business.

It is perhaps not unnatural that I should be particularly concerned with our economic policy in the United States. I deeply believe that economic literacy in business, in government, in labor and in agriculture is essential to the preservation of our free society. Far too many millions of us do not understand the basic economics of private competitive capitalism. We cannot therefore judge the wisdom or unwisdom of projects or legislation proposed for our communities or for the nation.
Businessmen have a job to do (continued)

It is the clear duty of every citizen to understand the reason for America's amazing economic growth and vitality, to know the basic differences between the free enterprise economy of America, the state ownership economy of Russia, and the so-called mixed economy of Great Britain which endeavors to employ both systems. For if we do not know what we are doing and when our freedoms are in jeopardy we shall be playing into the hands of power-seeking people who do know what they are doing and precisely why.

Two organizations of businessmen with which I happen to be actively associated, the Committee For Economic Development and the International Chamber of Commerce, are outstanding examples of conscientious and thoughtful search for the right answers irrespective of group or sectional interests. All these things are to the good, but the tempo must be stepped up and the movement broadened and deepened. Problems of national and international importance should be under searching and constant study by private citizens and institutions in all the free countries.

Only thus will we refresh our understanding of the economic, political, moral, and spiritual foundations upon which our freedoms, our concepts of the dignity of the individual and the rights of minorities, were so firmly grounded. Only thus will we find the key to the good life for our children and our children's children.
The Committee for Economic Development

"If we are to maintain our free capitalistic economy, enlightened businessmen must intensify their activities as torchbearers for economic literacy and crusaders for the general public interest." (Paul Hoffman, first Chairman of the C.E.D., and now head of the United States Economic Co-operation Administration).

The arrangements for the contributed article in this issue of "Review" were kindly undertaken for the Institute by the Committee for Economic Development in the United States.

The Committee for Economic Development, which was established in 1942, is recognised as having done a job second to none on behalf of free enterprise.

It is a non-profit, non-political association of some of the leading businessmen of the United States, and is supported entirely by voluntary contributions from business concerns. In these respects, as well as in the nature of the work it performs, the C.E.D. is closely similar to the I.P.A. in Victoria. The work of the C.E.D. is based on intense economic and business research combining the practical knowledge and talents of the businessman, with the technical understanding of trained economists. The philosophy underlying the activities of the C.E.D. is also akin to that of the I.P.A. This philosophy is, in brief, that free enterprise can only be preserved, if businessmen devote their energies to the national tasks of maintaining high employment and economic stability; of increasing productivity, living standards and opportunity for all the people; of employer-employee relationships and of national economic education. It is a philosophy of attack and progress, not one of static defence.
The C.E.D. is under the general control of a Board of Trustees, consisting of top-rank business leaders, its detailed activities being the concern of a Research and Policy Committee chosen from the Board. In addition to the Policy Committee, there is a Research Advisory Board, composed of economists and social scientists, which advises the Committee on research projects and on C.E.D. statements on national economic policy.

The first Chairman of the Board of Trustees was Paul Hoffman, now head of the European Recovery Programme. It was perhaps because of the out-standing vision and business-statesmanship displayed by Paul Hoffman in the early years of the C.E.D. that he was chosen for this great world post. The present Chairman of C.E.D. is W. Walter Williams, President of Continental Inc. Philip D. Reed, the author of our article, is a Vice-Chairman. The Research Advisory Board is headed by Sumner Slichter, Professor of Economics at Harvard University.

We have compared above our activities at the I.P.A. with those of the C.E.D. The work of the C.E.D. is, however, on a much greater scale than that of the I.P.A., and provides clear evidence of the energy and vision with which American business is throwing itself into the battle against world trends to socialistic control and planning of the economic system.

The record of the C.E.D. shows that it is performing a great task greatly. The businessmen connected with it have given unsparingly in time, energy and money, and have shown a unique readiness to sink their own immediate self-interest for broader calls of national duty and service. The secret of the C.E.D. success might, we think, be found in these words from a speech last year by Mr. Thomas B. McCabe, Chairman of the Board of Governors of the Federal Reserve System and a former Vice-Chairman of the C.E.D. Board:

"With enough effort, we, in the C.E.D., could work out constructive solutions to these problems. We cannot do it, however, if we think of ourselves as a business organisation in our private interests rather than as an organisation of businessmen in the public interest."