INCREASED PRODUCTION
THE NEXT STEP

The Australian economy continues to groan and creak on its inefficient way. The internal stresses and weaknesses are being to some extent concealed by the fortuitous prosperity spread by an altogether extraordinarily high and long-continued level of export prices. But not entirely; for the cumulative pressure of the special demands of defence, development and immigration is producing a grave aggravation of the inflationary drift, and this will continue unless either the demands themselves are drastically reduced, or there is a great increase in efficiency and productivity.

It is here that the seat of the malaise affecting the Australian economy lies—namely, in the failure, almost abject failure, to achieve in the post-war years the increases in output, especially in essential production, necessary to restrain inflation and to provide the resources urgently required for defence, development and the real improvement of living standards. A sudden drop in export prices—which, admittedly, appears improbable in the immediate future—would expose, in glaring fashion, the fundamental weaknesses of the present position.
The great need, the over-riding need, then, is for a rapid improvement in productivity. There is nothing novel about this statement. The Australian people have been constantly exhorted over the last few years to produce more, and these appeals have been intensified in recent months. But what good do all these exhorations do? So far they seem to have had remarkably little effect.

The truth is that the stage of general exhortation has been over- prolonged. It is now long past the time when mere appeals should have been followed by concrete action. The great question is what form should this action take?

The economic arguments for increased production have been stated and restated. Economists, notably Professor Sir Douglas Copland, have explained in terms which admit of no dispute that the only way in which the Australian economy can meet the demands that will be made upon it over the next decade, without a lowering of living standards, is through a vast increase in production. It is clearly impossible for Australia to meet its responsibilities in the defence of the democratic way of life (which have suddenly become paramount) to carry out the ambitious developmental programme which it has set itself, and to cater for the requirements of immigration on an unprecedented scale, without a very substantial improvement in productive efficiency. This truth has been further demonstrated in an important booklet on the economics of immigration issued recently by the Commonwealth Bank.*

The economic arguments pointing to the need for increased production are clear and irrefutable.

Arguments and exhortation, then, for increased production are not lacking. What is lacking is any strong determination to back the arguments with action.

THE A.C.T.U. AND COMMONWEALTH GOVERNMENT

Following upon the Arbitration Court’s decision in the basic wage case, the President of the A.C.T.U., Mr. Monk, announced the support of the A.C.T.U. for increased production and he appealed to unionists to play their part in assuring that the wage increase granted by the Court would, in

* In an article in this booklet, Mr. H. W. Arndt, now Professor of Economics, Canberra University College, argues that unless overall productivity is rapidly raised and/or imports of capital equipment increased, Australians might have to face a reduction of living standards of something like 10% in order to achieve development and defence objectives over the next three years.
fact, represent a real, and not just a nominal, improvement in the workers' standards. This appeal is no different, in essence, from similar appeals made by Mr. Clarey when he held the office of President of the A.C.T.U., and also since he became a member of the Federal Parliament.

But where do all these exhortations lead?

So far they have failed to produce any noticeable results. Mr. Monk has now gone one step further in indicating in January this year that the unions would be ready to consult with employer organisations in an effort to improve production. Up to the time of this suggestion the A.C.T.U. had been singularly lacking in taking any specific measures to translate its occasional general affirmations in favour of increased production into an effective policy.

The Federal Government is open to criticism on the same grounds. Several times while the Labour Government held office, the Prime Minister, Mr. Chifley, pointed to the need for greater production and appealed to the nation to respond. But apart from that his Government took no specific action. Again a lamentable failure to back words with deeds! And last October, in announcing its anti-inflationary programme, the present administration stated its intention to conduct a national production drive. But that was last October, and now it is February and apart from the proposal of an employer-union conference there is still no sign of the Government doing anything concrete. Is the Government preparing its plans, which it will shortly announce, or, has the first fine flush of enthusiasm evaporated into the strange inertia which invariably seems to surround this supreme problem?

Of course, increased production is much easier and more pleasant to talk about than to accomplish. For one thing, those who urge the need of it are usually careful to add the qualification that increased production does not necessarily mean harder work. This is palpable hypocrisy! There is no simple magic by which man-hour productivity can be raised without harder work. The unpalatable truth is that if Australia is to achieve simultaneously all the goals it has set itself—defence, development, immigration and the improvement—even maintenance—of living standards—it must work harder.
Managements must think more intelligently and intensively, workers must throw their backs into their tasks uninhibited by the misguided fear that by working harder they are only making more profits for the boss.

AN ATTITUDE OF MIND.

Increased production in Australia is as much a matter of the national psychology toward work as it is of better managerial methods and techniques, of labour-saving machinery and mechanical devices. From the many reports made by the British teams sent to the United States under the sponsorship of the Anglo-American Productivity Council to seek the reasons for the American supremacy in production, this lesson stands out unmistakably. American man-hour output is high not so much because of the much-lauded American industrial “know-how” as of the American attitude of mind and approach to work. Firmly engrained in the consciousness of the majority of Americans is the realisation that only by greater production and by raising man-hour outputs can their standards of living be improved. Once this fundamental truth is understood and accepted in Australia all the rest — better machinery and techniques, more-intelligent management, more efficient workers, more horsepower — will follow.

Therefore, what is wanted more than anything else in Australia is an assault on the prevailing national psychology toward work and production. This should comprise the next step in the effort to achieve greater production, and it is one which should be taken by the Commonwealth Government, trade union and business leaders without further delay.

But where is the machinery to do the job? How is the vast campaign of education, which will be necessary, to be formulated, organised and carried out?

A NATIONAL COUNCIL.

There is Mr. Monk’s suggestion of a national conference on production. But it would be altogether too much to hope that one conference could go very far toward solving Australia’s production problems, which have so far proved intractable to years of exhortation and recommendation. It is perfectly clear, and has been for some years, that what is re-
quired is not one conference between capital and labour at the national level, but a series of conferences at regular intervals by a body of at least a semi-permanent character constituted especially for the purpose.

From time to time suggestions have been made from varying sources for the establishment of a national committee or council—on which employers and unions would be represented—to advise the government on matters of production and industrial relations. A committee of this type would provide the right kind of machinery for promoting the drive for greater productivity. In May, 1950, a school for business executives organised by the Melbourne Technical College sat in discussion for one week on managerial problems, under the chairmanship of Sir Herbert Gepp. The main outcome of the deliberations comprised a resolution, unanimously supported by the 130 executives attending the school, that a National Joint Advisory Council should be constituted by the Commonwealth Government. A similar proposal was made fairly recently by Professor Sir Douglas Copland. In speaking to the Trades Hall Council in Victoria, Sir Douglas urged that a National Productivity Council be set up to assist in a drive for greater production.

These suggestions appeal most strongly to us. A national council or committee of this type would provide not only the machinery by which a national educational campaign for greater production could be organised and put into effect, but also the medium by which employers and unions could discuss regularly matters of common concern, and particularly the means by which improved industrial relations might be secured throughout industry.*

These are not tasks, of course, that can be achieved in a day. We would suggest, therefore, that the Commonwealth Government should establish such a body on an advisory basis, and with necessary staff and secretarial assistance for an experimental period of three years. Its prime purpose would be to endeavour to bring about as rapidly as possible an im-

* This proposal for a Joint Industrial Council should not be confused with the National Security Resources Board recently established by the Commonwealth Government. The job of the National Security Resources Board is primarily to advise the Government on the priorities that should be accorded to various national tasks and thus to achieve a proper balance between defence commitments, national development projects and the requirements of private industry. What is now proposed is a body representative of employers and unions to promote industrial goodwill and to lead a drive for increased output.
Increased Production: The Next Step (continued)

improvement in national productivity. The Government would invite leading trade union officials and employers to constitute the body, and other people whose qualifications and experience would enable them to be of special assistance. An economist of the standing of Sir Douglas Copland would, needless to say, be invaluable on such a council.

precedent in britain.

A similar body to the one proposed here has operated with a considerable measure of success in Great Britain over the last ten years. This body, the National Joint Advisory Council, was established almost immediately on the outbreak of World War II, to advise the British Government on all matters affecting labour and on those concerns in which employers and workers have a common interest. It consists of representatives of the two sides of industry. According to a report prepared by the Ministry of Labour, the contribution which it made during the war “cannot be exaggerated.” At the end of the war it was obvious that regular organised consultation between employers and workers at the national level would continue to be important. The British Labour Ministry’s Report, published in June, 1950, is worth quoting. “The continuance during peace-time of these arrangements to which the exigencies of war had given rise has been of the utmost value in maintaining industrial harmony and stability. Political changes have not altered the nature or diminished the value of this consultation and we can justifiably take pride in the national good sense and reasonableness which have made it possible for the National Joint Advisory Council to continue to flourish.”

There is thus a very good precedent for the establishment of a somewhat similar type of body in Australia. It has worked in Britain—indeed, not merely worked, but worked so well that it has become an indispensable part of the British machinery of industrial relations and joint consultation between employers and unions. With perseverance, and in time, it can be made to function in Australia. No one should expect that at the start such a body would work perfectly. In fact it would be surprising if for some time it functioned anything else but most imperfectly. But with persistence, patience and wise leadership, it would, in our view, establish itself even-
ually as an essential and valuable part of our industrial arrangements in Australia.

In fact, there is no doubt that sooner or later the natural evolution of economic and industrial forces will compel the institution of a body of this kind. The failure in industrial relations in this country is not so much a failure at the plant levels, where on the whole relations between management and men are fairly good—certainly far better than is generally realised. The real failure of industrial relations in Australia lies in the artificial emphasis of differences between organised bodies of employers and unions at industry and national levels. It is here that a better understanding and greater degree of cooperation in the national interest are urgently needed. These conflicts between organised labour and employers with the Arbitration Court as battleground, have become woefully unreal and outdated. In the old days there was quite a lot worth quarrelling about. In these days there is precious little worth quarrelling about, and a great deal worth working together to achieve. Workers and employers in these times must sink or swim together; in the realm of union-employer relations they have been doing their best to sink.

EDUCATIONAL CAMPAIGN.

Unless top management and union leaders can begin to learn to pull together—at least on those matters where their interests are identical—the outlook before Australia is bleak indeed. The raising of man-hour productivity is clearly one of those matters. The first task of a national council on production and industrial relations of the kind we have described should be to organise an intensive and widespread educational publicity campaign for greater production. This campaign should be designed to reach individual managers and workers throughout the length and breadth of Australian industry. Every weapon and medium of publicity should be availed of; the publicity itself should be prepared by high class men with a real understanding of the psychological forces at work in industry today. Too much should not be expected of such a campaign in the early stages. Only by constant repetition, by intelligent persuasion, by continuous appeals to the good sense and reason of Australian workers, can results be achieved.
Clearly the A.C.T.U. would have to play a major part in this educational drive; in fact without the unstinted co-operation of union officials it could not hope to achieve success.

For some years the British Government has been running a campaign of this kind in Britain and, if the spectacular rises in productivity in Britain over the last 12 months are any guide, this campaign is beginning to bear good fruit. As part of such an effort the national council suggested might consider recommending that the Commonwealth Government should send a joint delegation of union officials and representatives of management to the United States to study the reasons for the outstanding American successes in the field of productivity. On their return the members of such a delegation might be asked to undertake lecture tours covering Australian industry to assist in the educational campaign for greater production. But whatever methods are adopted, it is clear that the stage of general exhortation has passed its usefulness and that the next step should be a determined attempt to enlist the enthusiasm of the individual Australian for increasing production.

* * * * *

The great need now is for real concrete action in regard to these matters. Henceforth mere exhortation should be viewed not merely with a mild scepticism but with active suspicion and distrust. The initiative must come from the Commonwealth Government with the full unqualified support of business and trade union leaders.
Owing to the very strong inflationary situation in Australia company profits are very much before the public eye. A number of misleading statements have been made about the size of profits and their general trend over the post-war period. This article attempts to clear up these misconceptions and shows that company profits have had a negligible influence on present-day prices.

HIGH PRICES AND COMPANY PROFITS

The consumer is paying today distressingly high prices for practically all the things he purchases. A pound of rump steak costs 3/- compared with 1/9 in June, 1947; a man's tailored suit £25 compared with £10 before the war; the price of gas is now 10/3 per 1,000 cubic feet; in June, 1947, it was 6/1; an average 5 or 6 roomed house now costing £4,000 could be bought before the war for less than £2,000.

Moreover these prices never stand still. Almost month by month, to the dismay of the housewife and breadwinner, they go higher and higher. No wonder the subject of high prices generates so much heat that it is difficult for anyone to reach a calm and balanced view of the problem.

Profits, particularly company profits, have been singled out as one of the main causes of rising prices. How far is this criticism justified? Is the present abnormal level of prices largely due to excessively high profits, or is it in the main due to other factors?

Many people reading the newspaper headlines of record profits jump to the conclusion that the mounting cost of living is accounted for by high profits, and that if profits were reduced the cost of living could be substantially lowered. Two basic misconceptions lie behind this belief—first, that profits over the whole of industry are, in general, excessively high; and second, that profits constitute a large element in prices, and thus in the cost of living.

Let us deal first with the notion, widely held, that business profits are today at unduly high levels.
High Prices and Company Profits (continued)

Newspaper headlines which speak of "record profit" usually refer to the total money profits of a particular company, not to the profit made by the company on each unit of the product it sells, or to the profit made in relation to the total capital employed in making it. But a little reflection will show that total profits are not a fair standard by which to judge the size of profits, unless they are considered in relation to the volume of sales and to the amount of capital invested in the business. These are facts well known to the businessman, but they are frequently overlooked, and sometimes perhaps conveniently forgotten, by those who indulge in sweeping condemnations of business profits.

To take a simple example! A motor-car distributing firm selling, say, 10,000 cars will naturally make a great deal more profit than if it sold only 1,000 cars, other things being equal. But that, by itself, surely, is no reason for angry criticism of the firm and its profits. The community is clearly much better off when it is in a position to purchase 10,000 cars, than it would be if only able to buy 1,000 cars. The real test of whether the motor-car company's profits are excessive is the amount of profit it makes on every car sold. If it sells a great number of cars it may make good profits in total even though the rate of profit per car is comparatively small.

In prosperous times when people have plenty of money to spend, business profits increase, not necessarily because businesses are making a greater profit on the things they sell, but simply because they are selling many more things. A time of good business profits is invariably a time of economic prosperity for the community as a whole. When profits are low and many businesses are making losses, then there is a state of economic depression and unemployment. Nobody wants that. Prosperity for the community means good profits for businesses. Profits are certainly high today, but so are wages. The statistical records show that profits and wages invariably rise and fall together. If there should be a large drop in profits, unemployment and short time would begin to appear and earnings above award rates would be eliminated. How would the community benefit, then, if profits were greatly reduced?
THE ACID TEST.

The acid test of whether profits are fair and reasonable is the rate of profit earned on the capital invested in the business taken in conjunction with the conditions under which the business is operating. A person who has invested £10,000 in a business is obviously entitled to expect a greater total return on his money than one who has invested only £1,000. Similarly a company with a capital of £1,000,000 will usually make, and must make if it is to survive, a greater total profit than a company with a capital of £100,000. The real test is how much these profits amount to compared with the capital required to earn them.

Nobody wants to argue that there are no instances of excessive profits, or that some companies are not enjoying great bounties because of fortuitous circumstances such as record overseas prices, which, incidentally, are beyond our control. But taken over the whole range of activity these cases do not constitute a large proportion of total profits. To determine which companies are making excessive profits would involve an examination of the circumstances under which each individual company is operating.

EACH BUSINESS MUST BE CONSIDERED INDIVIDUALLY.

A profit of 10% on capital might, for instance, be regarded as excessive for one company, but quite reasonable, perhaps even inadequate for another. It depends entirely on the circumstances under which the businesses are working and these circumstances vary widely from one company to another, even between companies engaged in the same line of business. Company A for instance, may have been established for generations, built up large reserves from profits ploughed back and generally have achieved an almost impregnable financial position. Company B on the other hand may have only recently been established, and consequently have had insufficient time to strengthen its finances by earmarking funds for reserves. Can it be rightly argued that a profit that may be excessive for Company A is also excessive for Company B?
Again, one business may be engaged in the production of goods and services for which demand is fairly constant no matter what the state of business conditions. But another company may be concerned with the production and sale of commodities or services for which the demand is acutely sensitive to changing economic circumstances. The latter company may need to make very high profits in boom conditions to cover the low profits or losses it will incur in times of business depression. But over a long period of time covering booms and slumps, the first company may average a higher rate of profit. Thus, before it can be established definitely whether or not profits are excessive, one must consider the age of companies, the type of business they conduct, the risk involved, the efficiency of their operations, the cost of their assets and the depreciation allowances accrued, payments for intangible assets such as goodwill and a host of other factors which are familiar only to the expert in company finances. You cannot lay down for general application a figure such as 5% or 10% or 15% on capital employed and say that anything above that figure is excessive. The important point is that each business has to be considered on its merits.

However, what is of practical concern to the man in the street is not so much whether profits are higher than they should be, but the connection between profits and the prices he pays for the goods he buys over the counter. The crux of the matter is whether or not profits constitute a large part of the final selling price to the consumer.

To judge profits in their proper perspective one must forget for the time being the isolated instances of excessive profits and survey the whole national economy and consider the story told in the aggregate statistics published by official authorities such as the Taxation Commissioner, the Commonwealth Statistician, and the Commonwealth Bank. An impartial examination of these figures will show conclusively that profits are a relatively minor element in total costs, and therefore in selling prices.

NATIONAL INCOME ESTIMATES.

The best statistical presentation of the items which go to make up the cost of goods and services sold to the Australian public is given in the 1949-50 National Income Estimates.
prepared by the Commonwealth Statistician for the information of members of the Federal Parliament. The Estimates show the division of the proceeds of the net sales of goods and services (after paying for imports), made by all trading enterprises (financial enterprises such as banks and mutual life assurance companies are excluded), amongst all the people and institutions who contributed their property and their labour and skill to the national production stream. Taking the first post-war year, 1945/6, as a base it is relatively easy to ascertain who have profited most from the great rise in the value of sales from £1243m. in 1945/6 (just before controls were relaxed) to £2422m. in 1949/50. (Not all of this increase, of course, represents higher prices; a good proportion of the rise is due to a greater volume of output).

DIVISION OF THE PROCEEDS OF TRADING ENTERPRISES BEFORE PAYMENT OF INCOME TAX.

<table>
<thead>
<tr>
<th></th>
<th>1945/6</th>
<th>1948/9</th>
<th>1949/50</th>
<th>Increase 1945/6 to 1949/50</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
</tr>
</tbody>
</table>
| 1. Employees   | 537    | 867    | 965    | 428                      | 80%
| 2. Farmers & Unincorp. Businesses | 250    | 569    | 730    | 480                      | 192%
| 3. Governments | 132    | 216    | 257    | 125                      | 95%
| 4. Companies   | 134    | 215    | 230    | 96                       | 72%
| 5. Property Holders | 94    | 114    | 121    | 27                       | 29%
| 6. Depreciation Funds | 60    | 94    | 125    | 65                       | 108%
| 7. Government Undertakings | 36    | 2     | -6     | -42                      |
| TOTAL          | 1243   | 2077   | 2422   | 1179                     | 95%

It is quite clear from this table that the greater share of the proceeds of production is paid to workers, both brain and hand workers, and not to employers and property holders. In 1949/50 about four tenths was paid to employees in wages and salaries (See item 1 in table), another three tenths (except for a small proportion representing a return on invested capital) was paid to farmers, shopkeepers, professional men, contractors and independent craftsmen for their labour and skill (See item 2). After the Government reaped a tenth in sales tax, customs and excise tax, flour tax, entertainment tax, etc. (See item 3), only two tenths was left as a reward other
than for labour and skill. Of this companies took one tenth as profit on their operations (See item 4), and a final tenth remained to provide for replacement of capital assets and to remunerate those people and institutions who loaned money or rented out property (See items 5 & 6). It is interesting to note that from the proceeds of production, governments are taking today in indirect taxation £27m. more than was taken by company profits. Company profits represent such a minor proportion of the total sales value of goods and services that it would require an extremely large increase in profits to have any material influence on the course of prices. Between 1948/49 and 1949/50 total profits increased only by £15m. whereas the value of sales increased by £345m.

Although the value of sales has nearly doubled since 1945/6, company profits have not increased proportionately. Apart from increased physical turnovers, the factors mainly responsible for the higher money sales are returns to farmers (due to the sharp rise in export prices since 1945/6) and increases in wages and salaries since the lifting of wage-pegging in 1946.

The statistics bear out the conclusion of the Commonwealth Bank in its latest annual report that "while part of the increase in prices (over the last year) was directly or indirectly attributable to higher prices for imports and exportable products, much of it appears to have been due to the continued pressure of internal demand on domestic production operating largely through increased pressure for, and willingness to grant wage increases."

It is difficult to see how profits can be blamed for the increase in prices between 1948/9 and 1949/50, when company income increased by only £15m.

Shareholders, of course, will derive little immediate benefit from this increase in company incomes. Most of the additional £15m. will go to the Taxation Commissioner in company tax or will be reinvested in stocks, buildings and equipment, thus providing further employment. This is indicated by the trends in the distribution of the profits of all companies,
including banks and life assurance companies, between 1948/9 and 1949/50.

**DISTRIBUTION OF INCOME OF ALL PRIVATE AND PUBLIC COMPANIES IN AUSTRALIA IN 1948/9 AND 1949/50.**

<table>
<thead>
<tr>
<th></th>
<th>1948/9</th>
<th>1949/50</th>
<th>Increase 1948/9 to 1949/50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Tax</td>
<td>74</td>
<td>85</td>
<td>11</td>
</tr>
<tr>
<td>Dividends to People Resident in Australia</td>
<td>46</td>
<td>50</td>
<td>4</td>
</tr>
<tr>
<td>Dividends and Undistributed Profits Accruing Overseas</td>
<td>21</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td>Undistributed Profits</td>
<td>86</td>
<td>85</td>
<td>-1</td>
</tr>
</tbody>
</table>

As all shareholders are taxed on their dividends at property rates, and many of the incomes fall into the top income tax brackets of 12/- to 15/- in the £, a good proportion of dividends paid out by companies ultimately also finds its way into the Treasury. *The increase in dividends in 1949/50 of £4m. compares with a £135m. rise in all wages and salaries.*

**PROFITS ONLY A SMALL PART OF TOTAL COST.**

Public Opinion Polls conducted both here and abroad suggest that very few people have any idea how large profits really are, and that the public is only too ready to accept exaggerated versions of the size of profits. The remedy is fuller information about profits by government statisticians and by individual companies. Unfortunately most official data is very scanty and is often out-of-date when published. The 28th Report of the Taxation Commissioner has only recently made public the taxable incomes of companies in 1945/6.

Using this data (for want of better) and information published by the Commonwealth Statistician it is possible to demonstrate the relative insignificance of company profits in relation to the total sales of manufacturers. Although this cannot be illustrated with companies other than manufacturing (because information is unavailable) the story would still be very much the same. The following table sets out the main elements, including company profits and taxation, which went to make up the cost of manufactured goods in 1945/6.
**High Prices and Company Profits (continued)**

**MANUFACTURING—AUSTRALIA 1945/6.**

<table>
<thead>
<tr>
<th>Industry</th>
<th>1 Wages and Salaries £m.</th>
<th>2 Materials, Power, Repairs £m.</th>
<th>3 Cost, Taxes £m.</th>
<th>4 Profits all cons. after tax £m.</th>
<th>5 Profits over 5% on Funds after tax £m.</th>
<th>6 Public Co. Profits after tax £m.</th>
<th>7 Value of Output £m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering &amp; Metals</td>
<td>89</td>
<td>145</td>
<td>4.6</td>
<td>9.7</td>
<td>0.8</td>
<td>274</td>
<td></td>
</tr>
<tr>
<td>Textiles &amp; Clothing</td>
<td>31</td>
<td>64</td>
<td>2.1</td>
<td>4.3</td>
<td>0.4</td>
<td>115</td>
<td></td>
</tr>
<tr>
<td>Food, Drink &amp; Tobacco</td>
<td>29</td>
<td>170</td>
<td>6.2</td>
<td>12.1</td>
<td>1.3</td>
<td>232</td>
<td></td>
</tr>
<tr>
<td>Paper and Printing</td>
<td>11</td>
<td>21</td>
<td>1.7</td>
<td>3.5</td>
<td>0.3</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Rubber, Leather, Timber, Furniture</td>
<td>20</td>
<td>48</td>
<td>1.1</td>
<td>2.4</td>
<td>0.2</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Gas and Electricity</td>
<td>4</td>
<td>12</td>
<td>0.7</td>
<td>1.4</td>
<td>0.1</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>All Other</td>
<td>22</td>
<td>55</td>
<td>4.4</td>
<td>8.3</td>
<td>0.9</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>206</strong></td>
<td><strong>515</strong></td>
<td><strong>20.8</strong></td>
<td><strong>42.2</strong></td>
<td><strong>4.0</strong></td>
<td><strong>867</strong></td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:**—The classifications adopted by the Statistician and the Taxation Commissioner are only approximately comparable. Columns 2, 3, and 7 were extracted from the Production Bulletin—Secondary Industries No. 40., and columns 4, 5 and 6 were extracted from the Taxation Commissioner's 28th Report. The figures in column 6 were derived from statistics compiled by the Taxation Commissioner under the operations of War-time Company Tax. This tax was imposed on all public companies, i.e. predominantly those listed on the stock exchanges and to which attention is often drawn in newspaper headlines. Private or proprietary companies and co-operatives were expressly excluded and the tax was levied on profits in excess of 5% of capital employed, after other taxes had been deducted.

The figures in Column 6 provide some answer to the suggestion that company profits are grossly excessive. Assuming that 5% on funds employed is a reasonable rate of profit for manufacturing industry as a whole—and many would argue that it is inadequate—of the earnings of public companies only £4m. out of a total manufacturing output of £867m. fell outside this category.

These figures of course relate to 1945/6. Up-to-date statistics on the profits of public companies engaged in manufacturing are published periodically in the Commonwealth Bank Statistical Bulletin. According to this source, profits in manufacturing industries as a percentage of shareholders' funds increased from 6.3% in 1946 to 7.8% in 1949—(for 218 companies compared with 306 companies surveyed by the Taxation Commissioner in 1945/6). Preliminary figures suggest that the final figure for 1950 will be about the same as 1949. It is a fair inference to draw from the Commonwealth Bank data that profits in 1950 though higher than in 1946 are still not so much higher as to invalidate the general conclusion that profits in manufacturing, in excess of 5% on
shareholders' funds, are an insignificant element in the total cost of manufacturing output.\(^*\)

*The total elimination of profits over 5% on shareholders funds for public companies engaged in manufacturing would not reduce the cost of goods by more than 1d. to 2d. in every £'s worth of goods.*

The minor role played by profit in the determination of the ultimate selling price of any commodity or service is further illustrated on pages 20-21, with examples taken from the actual results of leading companies engaged in manufacturing, distribution and other activities in 1950.

It will be observed from the table that materials are the largest item in costs—approximately 10/- in the £ of manufacturing cost and upwards of 15/- in the £ of retail selling price. Manufacturing payroll averages about 5/- in the £, and allowing for overhead expenditure such as advertising, depreciation, rent and interest, the margin to cover taxation, dividends and profits re-invested, rarely exceeds 2/- in the £ of sales. Dividends range as low as ½d. in the £ of net income—averaging about 6d. in the £. In most cases the Taxation Commissioner reaps a larger share of each £ of sales than do the Company's shareholders.

The predominant items in costs are clearly wages and salaries and the cost of materials. In the final analysis 80% of costs are labour costs.\(^†\) While wages and salaries continue to rise prices must rise in line, unless productivity is greatly stepped up. All the misleading propaganda in the world cannot get away from these facts substantiated by the statistics of the Taxation Commissioner, the Commonwealth Statistician and the Commonwealth Bank.

* Profits of manufacturing companies in the Commonwealth Bank sample exceeding 5% on shareholders' funds appear to have increased from £3m. in 1946 to £7m. in 1949. But, at the same time, the value of manufacturing output has risen from £867m. in 1945/6 to £1425m. in 1948/9.

† See Appendix on page 18.
APPENDIX:

Labour Costs as a Proportion of Total Production Costs

In the article "High Prices and Company Profits" the statement is made that "around 80% of costs are labour costs."

During January, an interesting dispute was reported in the "Argus" between Mr. Anderson, State President of the Liberal Party and Mr. F. Crean, M.L.A., on this subject. Whilst Mr. Anderson maintained that wages represented about 80% of costs, Mr. Crean pointed out that wages and salaries constituted only 54% of national income in 1950 and that this fact disproved Mr. Anderson's claim.

In the "Argus" of the 18th January, a statement from Canberra was published, suggesting that wages represented only 25% of the cost of manufactured goods. It would, however, be palpably incorrect to infer from this statement that wages comprise only 25% of the final price of a manufactured article. The predominant part of the costs of the manufacturer consist of the prices he pays for his raw materials, fuel and power—according to official statistics about 60%. But the cost of all these items is in turn very largely made up of wages and salaries incurred in the course of their growth or extraction, processing and transport to the factory gates. The true cost of the manufacturing process, considered by itself, is the cost incurred in transforming the raw or semi-finished materials into the finished product. Of the cost of this process wages and salaries comprise the major proportion—again about 60%—and this, incidentally, ignores the large element of wages and salaries in the manufacturer's overhead, which includes such items as advertising and insurance.

Taking national production as a whole (not just manufacturing production), the National Income Estimates of the Commonwealth Statistician suggest that the figure of 80%
put forward by Mr. Anderson is not very far out. In 1949/50 employees received 52½% of the national income in wages and salaries, whilst property incomes, i.e. profit, rent and interest took 15½%. The remaining 32% represents the incomes of farmers, shopkeepers, professional men such as doctors, and self-employed persons. A large part of the incomes of these people strictly speaking represents a payment for work and skill and not for the ownership of property. According to Mr. H. P. Brown, former Director of Research of the Commonwealth Bureau of Census & Statistics, at least three-quarters of the incomes of this group must be regarded as being in the nature of a payment for labour and skill. On this basis, therefore, something like 75% to 80% of national income would represent payments for personal effort and in that sense constitute a labour cost.
DISTRIBUTION OF EACH £ OF REVENUE OF LEADING AUSTRALIAN PUBLIC COMPANIES.

<table>
<thead>
<tr>
<th>Company</th>
<th>Materials</th>
<th>Payroll</th>
<th>Other Expenses</th>
<th>Taxation</th>
<th>Paid out in Dividends</th>
<th>Profit Reinvested in Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MANUFACTURING—</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Aust. Paper M'fers</td>
<td>7/8</td>
<td>5/6</td>
<td>5/2 1/2 (1)</td>
<td>9 1/2</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Berlei Corsets</td>
<td>8/10</td>
<td>6/2</td>
<td>3/2</td>
<td>10</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Brighton Gas Co.</td>
<td>10/7</td>
<td>6/-</td>
<td>2/2</td>
<td>5</td>
<td>10 (2)</td>
<td></td>
</tr>
<tr>
<td>Carlton &amp; Un. Breweries</td>
<td>1/9</td>
<td>1/5 1/2</td>
<td>2/5</td>
<td>13/7 (3)</td>
<td>6 1/2</td>
<td>3</td>
</tr>
<tr>
<td>Electronic Inds.</td>
<td>12/8</td>
<td>3/8</td>
<td>2/9</td>
<td>7</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>General Motors</td>
<td>11/5</td>
<td>4/5</td>
<td>2/5</td>
<td>1/4</td>
<td>1/2</td>
<td>4 1/2</td>
</tr>
<tr>
<td>Goodyear Tyre</td>
<td>9/24</td>
<td>3/11</td>
<td>3/2 1/2</td>
<td>2/6</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Holeproof Hosiery</td>
<td>10/5</td>
<td>6/5</td>
<td>1/8</td>
<td>9</td>
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<td>4</td>
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<tr>
<td>ICIANZ</td>
<td>15/2</td>
<td>3/-</td>
<td>6</td>
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<td>4</td>
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<tr>
<td>Jantzen Knitwear</td>
<td>9/6</td>
<td>5/-</td>
<td>3/6 1/2</td>
<td>10</td>
<td>4</td>
<td>9 1/2</td>
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<tr>
<td>National Radiators</td>
<td>10/2</td>
<td>4/6</td>
<td>3/1</td>
<td>11</td>
<td>8 1/2</td>
<td>7 1/2</td>
</tr>
<tr>
<td>Rocla Pipes</td>
<td>6/6</td>
<td>7/9</td>
<td>3/10 1/2</td>
<td>9 1/2</td>
<td>7 1/2</td>
<td>5 1/2</td>
</tr>
<tr>
<td>Valley Worsted Mills</td>
<td>9/4</td>
<td>5/- 1/2</td>
<td>2/9</td>
<td>1/4</td>
<td>1/6 1/2</td>
<td></td>
</tr>
<tr>
<td>Yarra Falls</td>
<td>9/10</td>
<td>4/5</td>
<td>2/10</td>
<td>1/4</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Colonial Sugar</td>
<td>-</td>
<td>-</td>
<td>19/6 1/2</td>
<td>-</td>
<td>5</td>
<td>1/2</td>
</tr>
<tr>
<td>Henry Jones—Jam etc.</td>
<td>-</td>
<td>-</td>
<td>19/2</td>
<td>-</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td><strong>DISTRIBUTION—</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Department Stores—</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foy &amp; Gibson</td>
<td>15/4</td>
<td>-</td>
<td>3/6 1/2</td>
<td>5</td>
<td>4 1/2</td>
<td>4</td>
</tr>
<tr>
<td>Mantons</td>
<td>15/2</td>
<td>-</td>
<td>3/11</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Myer Emp.</td>
<td>15/2</td>
<td>-</td>
<td>3/9</td>
<td>8</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>David Jones</td>
<td>13/8 1/2</td>
<td>4/2</td>
<td>11</td>
<td>7 1/2</td>
<td>2 1/2</td>
<td>4 1/2</td>
</tr>
</tbody>
</table>
Motor Cars—
Larke Hoskins ...... 13/5 9 1/9 3/3 1 9
Austin Distributors ...... 12/6 7 1/11 3/9 2 1/1
Standard Cars ...... — — 16/4 2/10 2½ 7½

Other Industries and Services—
A. G. Healing ...... 14/10 1/9½ 1/7 10 4½ 7
Ampol Petroleum ...... — — 19/- 3 4 5
McPhersons ...... — — 18/1 10 5 8
Permewan Wright ...... — — 19/4½ 2 2 2½
Ansett Transport Inds. 5/11 4/5½ 8/-⁽⁴⁾ 11½ 5½ 2½
Burns Philp ...... — — 19/9 — 2½ 1½
Herald & Weekly Times 8/9 5/2 4/6 6 1 1/1

N.B.—Great caution should be exercised in making any comparison between companies in the absence of information about capital employed and the particular circumstances of each business. The data is compiled from information published or furnished by each company, and is predominantly for 1950. Classifications are not entirely uniform—some companies include indirect taxation as well as direct taxation under the item “taxation”, e.g. Taxes paid by Goodyear Tyre include Sales Tax, Primage and Customs Duties and Income Tax.

Where separate figures are not available for materials, payroll or taxation, these items are included with other expenses. Other expenses also includes depreciation.

Notes:—(1) Includes 3d. debenture interest.
(2) 1949. 1950 results show a loss.
(3) Includes 12/11 excise tax.
(4) Includes 2/8½ accommodation paid on behalf of tourists.
CONTROLS,

SOCIALISM,

AND PRIVATE ENTERPRISE

By PROFESSOR WILFRED PREST

Dean of the Faculty of Economics and Commerce, University of Melbourne

The restoration of war-time controls over production and consumption prices and wages, appears to be imminent in many countries. In the United States the President has declared a state of emergency and taken power to re-impose rationing, price control and wage pegging. In Australia it is proposed to restore the control of capital issues, but for the time being it is apparently hoped to re-allocate man-power and materials by indirect methods such as the regulation of bank credit.

The prospective restoration of controls so soon after their relaxation (or, in some cases, total abolition) will be a matter for widespread dismay. It is not only that the circumstances of their restoration—re-armament and renewed military preparations—are deplorable. The restoration of controls would also disappoint all those who hoped for the opportunity after the War of deciding for themselves what pursuits they would follow, what goods they would buy and, if employers, how they would conduct their businesses. The restoration of controls would inevitably restrict individual freedom of choice in all these matters. It does not follow, however, as is sometimes alleged, that the restoration of controls is a step towards "socialism."

I

Socialism can mean many things and one specialised meaning will be indicated below. A basic element in all socialist programmes, however, is the "social" as distinct from the
private ownership of the means of production. This in turn, for all except the Syndicalists and the Guild Socialists, implies ownership by local, state or federal governments. The distinction between public and private property is not, however, the same as that between central control and individual freedom of choice. On the contrary, these distinctions cut across one another. This is so in spite of the facts that, on the one hand, the economic system of Soviet Russia seems to be characterized by public ownership and fairly extensive control over prices, production and consumption. However, our war-time experience shows that central control is by no means incompatible with the existence and the recognition of private property.

This was also true of “planning” in Nazi Germany, as is recognized by Professor Eucken in his recently translated “Foundations of Economics.” (page 85). Eucken further observes that there have been historical instances, for example, the Empires of the Ancient East, where the absence of private property did not imply central direction of production. Indeed, the society contemplated by many modern socialist economists is one in which the means of production are publicly owned, but in which their management is decentralized and free markets exist both for consumers' goods and for labour. Even in Russia government controls are by no means all-embracing and free markets exist for at least some types of consumers’ goods, although the prices of many goods are beyond the reach of most people. One distinguished exponent of the economics of socialism has suggested that the term “socialism” should be reserved for a system under which public ownership and free markets co-exist; the term “communism” being applied to a society under which public ownership is combined with centralized direction and control. (O. Lange, “On the Economic Theory of Socialism”).

Thus we may distinguish four types of economic systems:

(1) Our “normal” pre-war system, which for want of a better term we call “private enterprise.” This is characterized by both private property and individual freedom from centralized direction and control.
(2) A War Economy, in which private property still exists but in which the individual is subject to bureaucratic controls over man-power, production, consumption, prices, wages, etc. In Nazi Germany and Fascist Italy these restrictions upon economic freedom were also combined with considerable limitations on the political freedom of the individual.

(3) A “Socialist” system, in Lange’s sense, in which the means of production are publicly owned, but management is decentralized and individuals are free to choose their jobs and spend their incomes as they wish. Such a system has never actually been realised, although the practice of Soviet Russia may have approximated towards it in the days before the first five year plan.

(4) A “Communist” system, again in Lange’s sense, in which the means of production are publicly owned, and in which production is centrally controlled, and individuals are subject to rationing and man-power controls.

The inter-relationships between these four systems can be illustrated by the following scheme:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Free Markets.</td>
<td>Private Enterprise.</td>
<td>“Socialism”</td>
</tr>
<tr>
<td>Central Planning.</td>
<td>War Economy.</td>
<td>“Communism”</td>
</tr>
</tbody>
</table>

In this classification of economic systems it is the vertical dividing line which marks the great historical controversy between the socialists and the non-socialists. The horizontal dividing line has been comparatively neglected, and its importance has only been recognised in recent years.

II

It is becoming increasingly clear that the ownership of the means of production is no longer a matter of such major importance as was once imagined. This is partly because of the development of the statutory corporation as an instrument
of public ownership, and partly because of changes in the internal structure of large joint stock companies. Let us briefly examine each of these developments.

(1) The device of the statutory corporation is one which has been widely adopted in many countries as an instrument for the administration of publicly owned enterprises, such as the S.E.C. in Victoria, the T.V.A. in America, and the new nationalized industries in Britain. Its net effect is to enable a publicly owned undertaking to be operated in accordance with approximately the same canons of efficiency and financial success as a privately owned undertaking, instead of in accordance with the administrative methods appropriate to a government department. This implies that the management enjoys some degree of financial independence and freedom from political interference.

There is a great variety in the constitutions and powers of different statutory corporations, and on this point we cannot do better than quote Mr. D. N. Chester: "Most people who were asked to define a public corporation would probably reply by giving an example—the B.B.C., or the Central Electricity Board or the National Coal Board, or even perhaps the Port of London Authority.

"This is probably a sound instinct, for though the creature is usually recognisable it is less easy to define. There is no single pattern or model. The elephant and the squirrel are animals, and the British Transport Commission and the Port of London Authority are public corporations and the differences are not without importance. True, there are certain common features: there is usually a board of management, appointed and not elected, with defined statutory duties and powers and with a revenue usually derived from the sale of its products or services. The board is usually a body corporate, with perpetual succession, a common seal, and power to hold land without a licence in mortmain. But each Corporation has its own peculiarities; it may for example, differ in the numbers and tenure of the members of the Board, or in the way it obtains its capital, or in its relations with the Minister." (D. N. Chester, "The Nationalized Industries." Institute of Public Admin., 1948).
(2) Simultaneously with the development of statutory corporations there has also been a transformation in the internal relationship between the proprietors and the management of many joint stock companies. In order to take advantage of the economies of large scale production joint stock companies have grown larger in size and their shareholders have become more numerous with the result that in the large companies all but a few, even of those whose shares carry voting rights, are unable to take any active interest in the business or to exercise any of the traditional rights of ownership. The general effect has been to increase the independence of the Board of Directors, who are nominally elected by the shareholders but in large companies are virtually co-opted. In some cases there has also been a further devolution of control within the Board to the Chairman or the Managing Director and his associates. Effective control over the policy of the company may thus be concentrated in few hands and this may be achieved without any substantial shareholding. Legal accountability to the shareholders still remains in theory, but is only likely to become a reality in the event of flagrant mis-management.

Twenty years ago the extent to which this separation of ownership and control had up to that time progressed in the United States was examined by Berle and Means in their notable book on “The Modern Corporation and Private Property.” The authors found that of the 200 largest non-banking corporations in the United States 88, controlling 56 per cent. of the combined assets, were controlled by the management. In none of these companies was more than 5 per cent. of the capital held by any one shareholder. Included among them were such famous concerns as the American Telephone and Telegraph Company and the United States Steel Corporation. The former had nearly half a million shareholders, no one of whom held more than 6/10 of 1 per cent. of the total stock. In many other of the 200 corporations examined, the authors found that although individual shareholdings were relatively larger, effective control was still retained by a minority holding, buttressed sometimes by legal devices such as pyramiding. During the last twenty years the thesis developed by Berle and Means has been taken up by many writers. In particular, James Burnham in his book “The Managerial Revolution” ex-
tended and popularized it but at the same time obscured it with a good deal of mythical history and pseudo-philosophy. Little has been done to bring the facts presented by Berle and Means up-to-date or to provide comparable data for other countries such as Australia.

From the present point of view the significance of the development of the statutory corporation, and of the separation of ownership from control in joint stock companies, is not so much that they both increase the independence of management as that they tend to narrow the importance of the question of formal ownership. Whether a business is owned directly by the public, as its shareholders, or whether it is owned indirectly by the public, as government bond holders, tends increasingly to become a matter of detail. It is, of course, a detail that is important, and management would generally prefer the first arrangement, as likely to leave it with a freer hand than the second, but in the event of gross maladministration public criticism and enquiry is likely whatever the form of ownership. Moreover the above developments concern only large businesses. They do not apply to small businesses which after all are the growing points of a dynamic economy. In this sphere private ownership and the rights to set up in business for oneself are the mainsprings of enterprise and efficiency.

Recognition of this fact leads to the advocacy even by many socialist writers, of a “mixed” economy in preference to the old demand for complete nationalisation. It may also be noticed that nationalisation has traditionally been advocated not so much as an end in itself but as a means of securing a more equal distribution of wealth. The form in which wealth is held however, does not in itself modify its distribution. Distribution would be just as unequal whether wealth was held in the form of Government bonds or in the form of company shares.

III

The shift of interest from the question of the ownership of industry to that of its control began in the 1930’s, when the first Russian five year plan and the Nazi four year plan attracted the attention of a world that was floundering in the chaos of depression.
At that time Mrs. Barbara Wootton wrote a widely read book called "Plan or No Plan," the implication of the title obviously being that the private enterprise system, unlike the Russian, is planless and chaotic. This view was once, and perhaps still is, widespread. The truth of the matter, however, is that the private enterprise system suffers if anything from too many plans rather than from no plan. Every firm has its own plan, embodied in its production and sales programmes. Similarly every decision made by a consumer concerning his expenditure or by a worker concerning his choice of job entails a "plan." Moreover every society plans to spend part of its income communally on the provision of services such as defence and education.

A system under which there is not one big plan, but many small plans, all framed independently by entrepreneurs and governments, by workers and consumers, would seem to be peculiarly exposed to the danger of producing too much of some commodities and too little of others. There seems to be no necessary reason why producers should turn out goods and services in the quantities and at the times that consumers are prepared to buy them.

In the actual working of the private enterprise system gluts and shortages do occur, as the critics have not failed to observe. Nevertheless the remarkable fact is not that they occur sometimes but that they are ever avoided. "Even in bad times the vast majority of the productive resources of society, both human and material, are being utilized, and the faith in which they have been launched into various channels of endeavour is found to have been not misplaced. And on the whole the wants of consumers, so far as these wants can be expressed in the offer of a money price, are punctually and fairly abundantly supplied. When we reflect on the apparent chaos of the whole proceedings, the wonder surely is, as Dr. Johnson hinted in comparing the woman who writes books with the dog which stands on its hind legs, not that the thing should not be done better, but that it should be done at all." (Dennis Robertson, "The Control of Industry," pp. 86-87).

How is it done? The explanation is that decisions to buy and consume, or to produce and sell a commodity are
framed on the basis of existing and estimated prices, including not only the selling price of the commodity but the prices of competitive goods, of raw materials and of labour. If, in the outcome, too much is produced the selling price of the commodity will fall, and if too little is produced it will rise, until demand and supply are equated and the market is cleared. Producers and consumers will then revise their plans on the basis of new prices. Thus, in free, uncontrolled and competitive markets, prices are the data upon which individuals frame their plans. At the same time such prices are the result of the decisions made and the actions taken by individuals acting collectively as buyers and sellers. It is the price system which co-ordinates the plans of individuals, and brings their multitudinous projects into alignment with one another.

The above system obviously has great merits. It is decentralised and requires no Superman to run it. It is highly flexible and fosters experimentation. Above all it ensures that production is directed towards the goods which people are willing and able to pay for, instead of towards those which some bureaucrat thinks they ought to have. The price mechanism enables consumers to register their demands as though they were voting in a daily referendum. These merits of the system have commended it to the modern school of liberal socialists, whose purpose it has been to explore the theoretical possibility of combining free markets for consumers' goods and labour with the public ownership of, at least, "key" industries. In this way they hope to "combine as much as possible of the decentralised freedoms and peculiar efficiencies of the price mechanism with that large extension of the field for State planning and control over total money demand, over private monopoly, which is necessary to avoid the chief evils of the inter-war system." (Meade: "Planning and the Price Mechanism" p. 10).

In some respects the description given above of the operation of the private enterprise system is, of course, an idealised picture. In the first place markets are not absolutely free and uncontrolled nor are they purely competitive. Even in the absence of government price control many prices are fixed by convention, or by the policy of trade associations, and wages are fixed by awards, thus there are serious obstacles to
the speedy adjustment of prices and wages in response to changes in demand and supply. Secondly, even where prices are adjustable, supply—and, to lesser extent, demand—does not always respond quickly or readily to a change in price. As often as not machinery cannot be converted, and labour does not readily transfer itself from customary occupations to new jobs in new places. The unfettered working of the price system could be an uncomfortable process for many people, and some of the present clamour for the reimposition of controls arises from a fear in some quarters of the consequences that would follow the restoration of free markets.

It would be a misrepresentation of the present situation, however, to suggest that this is the only, or even the main reason for the reintroduction of controls. In the United States, at least, the restoration of controls is in prospect not because of any unwillingness to let the price system work, but because it would obviously be impossible to re-arm by relying solely on higher prices to call forth all the arms required, and higher military pay to attract all the recruits that the forces need. The military demands for manpower and materials are so insistent that the limit is soon reached beyond which increased supplies cannot be attracted merely by bidding up prices. Any attempt to do so simply involves the all round inflation of prices, wages and profits without securing the necessary diversion of resources. It is for this reason that any community, no matter how strong its attachment to economic freedom in peace time, has to resort to controls in War time.

The price mechanism is in fact a fair weather system, appropriate enough in peace time when only comparatively small adjustments in production and consumption are called for, but unworkable in war time when larger adjustments are required. Acceptance of controls under these circumstances, however, is not to admit their superiority in peace time nor does it imply the imminent socialisation of the economy.
NOTICE. TO READERS

We desire to advise our readers that at the request of the Council of the Institute; the Director, Mr. C. D. Kemp, has undertaken a visit overseas, mainly to the United Kingdom and the United States. As a consequence it is our present intention to publish this year only four numbers of “Review” instead of the normal six.

The 1951 numbers will cover the following periods:—

January/February.
May/June.
September/October.
November/December.

After Mr. Kemp’s return “Review” will continue to be published on the usual bi-monthly basis.

The purpose of Mr. Kemp’s visit is to gain knowledge of economic and political conditions abroad, and to investigate the work of organisations with similar objectives to the Institute, such as the Committee for Economic Development in the United States. Mr. Kemp will have discussions with many people in overseas countries, including leading businessmen and economists, representatives of the press, and prominent political and trade union figures. We confidently anticipate that the results of Mr. Kemp’s visit can be put to great advantage in the production of “Review” in the future, and in the general work of the Institute. Mr. Kemp will endeavour to arrange valuable connections for the Institute in other countries to assist with the provision of vital information and also to enable us to maintain the quality of contributed articles in “Review” on the highest possible plane.

Mr. Kemp left Australia on the 1st February and will be returning early in August this year.