The Import Cuts

The policy of import restriction announced by the Federal Government on March 8, is the most far-reaching economic measure (excluding wartime) taken in this country since the depression of the early thirties. The frighteningly rapid depletion of our overseas balances over the last few months had suggested that some degree of quantitative import control would be unavoidable. But the extent and severity of the restrictions surprised everyone.

The effect of the Government's decision is to reduce imports from an estimated £1,100 million for the current financial year, 1951/52, to possibly between £500 million and £600 million for the year 1952/53—a cut of about 50% in value, and, if import prices continue to rise, by more than 50% in quantity. A large range of goods considered the least essential will be cut by 80% below the value imported in 1950/51. These include motor cars, washing machines, textiles, and clothing, cigarettes and tobacco, whisky, china and glassware, cement. Other items considered somewhat more essential will be reduced by 40%. Among these are coffee, cocoa, cotton goods and timber. Some goods, such as tea and petrol and oil, may not be cut at all.

Whatever one may think about the import cuts—and there is no doubt that they represent a near economic tragedy for this country—in view of the position that had arisen, the Commonwealth Government was compelled to take immediate corrective action. The flow of imports was so greatly in excess of the income we are earning from our exports that funds held in London were disappearing at a truly alarming rate.

The bald facts can be briefly stated. At the end of the 1950/51 financial year, London funds stood at the record figure of £845,000,000. On the face of it we were entitled to feel that our position was reasonably
secure against any adverse movement in our trade position. But six months later, by December 1951, overseas balances had declined alarmingly to £544,000,000. And the worst was yet to come. Throughout January and February this year, the volume of imports was so great and so much in excess of export earnings that overseas balances had fallen by another £100 million. At this rate it was clear that soon Australia would have nothing in the bank at all, and the Government was forced to take decisive steps.

What, then, were the causes of this extraordinary deterioration in our external position?

First and foremost was the near collapse in export income brought about by the sharp decline in wool prices. From the peak price of 202 pence per lb. in March last year wool had fallen to 71 pence per lb. by February, 1952. In the current financial year, export receipts from wool are estimated at £300 million as compared with £636 million in the previous year. Total income from exports for the current financial year may be of the order of £650 to £700 million, compared with £979 million for 1950/51.

Second was the immense increase in the value of imports. Part of this was caused by rather over-optimistic estimates by many importers of market prospects in Australia. These estimates were based in part on the abnormally buoyant trade of the early months of 1951 which was akin to a buying panic on the part of the public. They did not make sufficient allowance for the degree of this trade that was attributable to forward buying by Australian consumers in anticipation of future price rises; nor did they make allowance for the steady development of buyer resistance throughout the Australian economy to the high level of prices. Even these miscalculations might not have had such catastrophic effects had it not been for a strangely unfortunate combination of circumstances which was almost impossible to predict. For years past Australian importers had been in the habit of ordering goods for delivery dates ahead of requirements in order to ensure seasonal deliveries on time. This was necessary owing to delays which took place in manufacturing overseas, and to delays arising from shortages of shipping and slow turn-rounds. The heavy ordering which followed upon the abnormal buying of early 1951 happened to coincide with a recession in some trades—particularly clothing and textiles in Britain and America. As a result goods were delivered more speedily; also the shortage of shipping was resolved, as it were, overnight. Australian importers were then suddenly embarrassed by the rapidity with which outstanding commitments were delivered from mills and factories overseas, and by the prompt shipment of such goods. Broadly speaking, twelve months’ supplies of goods arrived in Australia within six months. This was the immediate cause of the import crisis.

The third, and perhaps most fundamental reason for the crisis arose from severe inflationary pressure which has persisted in the Australian economy in the postwar years in spite of the efforts that have been made to stem the tide.

The economics of this are simple. The external balances are to a large extent a reflection of internal financial conditions. Inflation is simply the process of trying to spend more and more of a static, or only slowly increasing, supply of goods and services—the familiar process of "too much money chasing too few goods." This spending may be made by individuals in a personal capacity, or by businesses seeking additional quantities of materials or equipment or labour or by governments in their various activities. When available supplies fail to keep pace with the money demand, competition for the short supplies ensues and prices rise. Where home production is inadequate, the excess spending spills over into overseas sources of supply and the quantity of imports rises correspondingly. So long as the inflation of export income matches the heavy demand for imports made possible by too much money, there need be no balance o
payments problem. But should export incomes be suddenly deflated by a fall in export prices, then a serious deficit in overseas payments sets in.

An important contributory cause—perhaps the root cause—of the Australian exchange crisis is thus internal inflation or, in other words, an increase in the level of money incomes, and consequently costs, not paralleled by increases in productivity. The more serious the extent of inflation, the more critical is the external payments problem likely to be.

A curiosity feature of the crisis, and one of which the general public are quite unaware, is the manner in which our overseas balances were built up from £208 million in June 1946 to £843 million five years later in June 1951. The addition to overseas reserves over this period of £635 million is almost identical with the large amount of capital invested in this country by private sources abroad. A good part of this represents permanent investment by overseas interests in Australian industries. But a sizeable proportion represents money placed in this country by overseas speculators and held in liquid form in the hope of exchange appreciation. The amount of this “hot money” is impossible to estimate, but it could possibly range from anything of the order of £100 million to £200 million. There is also a large amount of money brought here by immigrants which cannot be assessed. At the same time on the other side of the capital ledger we paid off overseas debts to the tune of £81 million.

The volume of imports that has nourished the Australian economy over these years has thus in great part been made possible only because of an abnormal inflow of capital. It is clear that as a nation we have been living far beyond the standard justified by the scale of our own efforts and by our current earning capacity. We must now expect that the inflow of capital will diminish rapidly—there are already signs that this is occurring—and this must add to our difficulties.

It is possible that the import restrictions will be of long duration. It would be wrong to regard them merely as a temporary emergency measure to meet a temporary crisis that may soon pass. The truth is that the Australian balance of payments crisis is something deep-rooted in the instability and weakness of the Australian economy and it is likely to be with us until those instabilities and weaknesses have been eradicated.

In the meantime the immediate outlook is for reduced standards of living all round—with the greatest burden falling as always on the long-suffering unorganised middle classes—and for a greatly reduced rate of development in both government works and private business. It should be clear that it is impossible to cut the volume of imports by 50% or more without the most serious consequences on standards of comfort, on business prospects, and on national development. The immediate prospect is for further inflation, still higher costs and prices. With the reduction of competition, a stimulus will inevitably be given to high costs and inefficiency and to uneconomic forms of production. By tight control the Government may be able to offset the latter, but it has no weapon for coping with the former.

In addition, we are being forced back, despite all our efforts to break free, into a tightly controlled economy. The import restrictions will inevitably vest immense powers in a bureaucracy, most of whose members will have little experience of business processes. Fresh encouragement will be given to the black marketeer, the under-the-table transactions, and to all those parasitic elements operating on the murky fringes of the economy. And most serious of all, the great developmental programme, on which the prospects of expanding the production of essentials and the future of Australia as a nation so largely depend, will be gravely interrupted. And this will still be substantially true, even if we are successful in obtaining dollars from the World Bank.

Some of the more drastic features of the imports cuts might have been avoided had there
THE IMPORT CUTS

existed a closer liaison between the Government and business. For instance, the trend of imports might have been more accurately assessed had the Government been furnished with statistics of the forward commitments of importing firms.

The balance of payments crisis is at root a crisis of low productivity and inadequate production—inadequate production of exportable commodities and low productivity in many branches of the Australian economy. The attempt to carry out, at the same time, a large developmental and immigration programme, to expand private business at an unprecedented rate and to build up standards of living, at an inadequate level of production, must lead to inflationary instability with rising prices. This is what has happened.

The two courses before this country—and these are inter-related—are to greatly expand productivity and to correct inflation. The former is easy to talk about but difficult to achieve. What is certain is that we will never achieve it unless there is a drastic overhaul of the whole Australian attitude to this problem. The latter may mean that some cuts in the income structure may be forced on the Australian economy.

AUSTRALIA — EXPORTS AND IMPORTS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>£A.m.</td>
<td>£A.m.</td>
<td>£A.m.</td>
<td>£A.m.</td>
<td>£A.m.</td>
<td>£A.m.</td>
<td>£A.m.</td>
</tr>
<tr>
<td>Exports of Merchandise ...</td>
<td>150</td>
<td>265</td>
<td>397</td>
<td>522</td>
<td>595</td>
<td>979</td>
</tr>
<tr>
<td>Import of Merchandise ...</td>
<td>110</td>
<td>208</td>
<td>338</td>
<td>415</td>
<td>538</td>
<td>743</td>
</tr>
<tr>
<td>Trade Surplus (or deficit) ...</td>
<td>+40</td>
<td>+57</td>
<td>+59</td>
<td>+107</td>
<td>+57</td>
<td>+236</td>
</tr>
<tr>
<td>Invisible Items (net) ...</td>
<td>+5</td>
<td>-105</td>
<td>-55</td>
<td>-79</td>
<td>-106</td>
<td>-152</td>
</tr>
<tr>
<td>Current Balance of Payments ...</td>
<td>+45</td>
<td>-48</td>
<td>+4</td>
<td>+28</td>
<td>-49</td>
<td>+84</td>
</tr>
<tr>
<td>Capital Inflow ...</td>
<td>+11</td>
<td>+49</td>
<td>+86</td>
<td>+147</td>
<td>+249</td>
<td>+122</td>
</tr>
<tr>
<td>Government Capital Transactions* ...</td>
<td>-49</td>
<td>-18</td>
<td>-15</td>
<td>+3</td>
<td>-14</td>
<td>-13</td>
</tr>
<tr>
<td>Gain/Loss London Funds ...</td>
<td>+7</td>
<td>-17</td>
<td>+75</td>
<td>+178</td>
<td>+186</td>
<td>+193</td>
</tr>
</tbody>
</table>


NOTE: For the first eight months of the financial year, 1951/52, payments for imports exceeded earnings from exports by £318 million. Over the same period last year, exports exceeded imports by £108 million. Imports for the eight months to the end of February, 1951 were 64% greater than imports for the corresponding period of the previous year, while exports showed a decline of 21%. In the eight months since June 30 last, overseas balances have declined by approximately £400 million, representing the total net deficit on trading invisibles and on capital account.
TAXATION AND INCENTIVES

This financial year, total tax receipts are expected to rise to £957 million compared with £718 million for last year—an increase of £239 million or 33%. As a percentage of national income, taxation may rise from 25% to around 30%. Part of this increase has been forced upon the Government by growing defence commitments; part is the outcome of the Government’s decision to use the tax weapon as an anti-inflationary device to reduce spending power and to encourage resources to move into essential forms of production at present in short supply.

Under present circumstances a high level of taxation is inescapable. But there must come a point where mounting taxation becomes such a serious threat to initiative and enterprise, such a serious detraction from incentive to raise output, that it brings about lowered production and reduces the rate of industrial expansion. So far from being a corrective for inflation, heavy taxation then tends to become a force making for further inflation. It aggravates the disease it is intended to cure.

Where is that point, and have present rates of taxation already gone beyond it? It is not easy to give a definitive answer to this question. But what is certain is that taxation in most modern communities is now absorbing such a large share of the national income that governments and peoples should be acutely alive to the danger that it represents. To tax a community beyond the point where it is prepared to give its best in work and enterprise is the path to industrial stagnation. Producers generally are discouraged from increasing their efforts and from taking the risks of fresh enterprises when the major part of any additional return they may expect to obtain will be absorbed in taxation.
Heavy direct taxation on incomes is especially dangerous in a young economy such as Australia in which the primary emphasis must be on rapid development and the encouragement of every shred of enterprise and adventure the country can command. The post-war history of Australian primary industry seems to provide unassailable evidence of the disincentive of high taxes once producers get it into their heads that they are only "working for the Government."

Besides its serious effects on production and industrial development, heavy direct taxation may add to inflation and distort the economy in other ways. Firstly, companies and other businesses and farmers are encouraged to boost costs and expense accounts in order to reduce their taxable incomes and conversely they are discouraged from striving to cut down these expenses. Employers are not so enthusiastic about cutting costs and achieving economies when they know that a large part of the anticipated gains will be taken by the Treasury. Second, activities are steered away from constructive enterprises into channels in which the burden of taxation may be escaped, even by such legitimate means as capital gains. Third, high taxation may compel taxpayers to draw on liquid reserves and investments or to increase their bank overdrafts. Potentially frozen funds are thus transferred to governments who spend the proceeds. Fourth, producers are encouraged to spend a greater proportion of their incomes rather than to reinvest it in their farms or businesses to improve their profitability.

COMPARATIVE TAXATION LEVELS HERE AND OVERSEAS

There is evidence to suggest that Australia has erred in leaning too heavily on direct personal taxation rather than indirect taxation as a source of revenue. The following table shows the proportion of national income absorbed in direct and indirect taxation in Australia, United Kingdom, United States and Canada in 1939 and 1950.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Taxes on Persons</td>
<td>4.2</td>
<td>11.7</td>
<td>7.9</td>
<td>11.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Indirect Taxes</td>
<td>11.9</td>
<td>10.7</td>
<td>15.5</td>
<td>22.5</td>
<td>17.6</td>
</tr>
</tbody>
</table>

NOTES—
1. Direct taxes on persons include income tax and inheritance and gift taxes, death duties, etc.
2. Indirect taxes have been taken to include customs, excise and sales taxes and all state and local government rates and taxes other than on income, etc. They include payroll taxes in Australia and employer-employee contributions to National Insurance Funds, etc.—4% of National Income in United Kingdom, 2% in Canada and 3% in U.S.A. The portion contributed by employees is, of course, in the nature of a direct tax, but has been included in indirect taxes as it would be difficult to segregate and as it would make only a small difference to the figures.

Australia shares with United Kingdom the distinction of very high levels of direct taxation but, with the exception of U.S.A., imposes the lowest level of indirect taxation. Unlike Canada and United Kingdom, which in 1950 levied indirect taxes respectively 16.3% and 22.5% of national income, indirect taxes in Australia in 1950/51 amounted to only 10.7%. As they bear relation to expenditure and not income, the payment of indirect taxes is much less painful to the taxpayer than payment of direct taxes. The significance of direct taxes is brought home to everyone in diminished pay envelopes and lower earnings.

Relative to national income, direct taxation on persons in Australia has increased from 4.2% in 1938/9 to 11.7% in 1950/51. This has been brought about largely by steep increases in taxation rates on middle and upper income earners. The following table sets out the amount retained of each £ of income at various income levels in 1938/39 and 1951/52.

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>1938/39 Amount Retained out of each £ of income</th>
<th>1951/52 Amount Retained out of each £ of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200</td>
<td>19/4</td>
<td>19/7</td>
</tr>
<tr>
<td>400</td>
<td>18/9</td>
<td>18/9</td>
</tr>
<tr>
<td>600</td>
<td>18/4</td>
<td>17/9</td>
</tr>
<tr>
<td>800</td>
<td>18/-</td>
<td>17/-</td>
</tr>
<tr>
<td>1,000</td>
<td>17/9</td>
<td>16/11</td>
</tr>
<tr>
<td>1,500</td>
<td>17/4</td>
<td>15/11</td>
</tr>
<tr>
<td>2,000</td>
<td>16/11</td>
<td>14/10</td>
</tr>
<tr>
<td>2,500</td>
<td>16/5</td>
<td>13/11</td>
</tr>
<tr>
<td>5,000</td>
<td>14/5</td>
<td>13/11</td>
</tr>
<tr>
<td>10,000</td>
<td>12/3</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: These figures relate to personal exertion income only and make no allowance for dependants. The 1938/39 figures cover combined N.S.W. and Commonwealth taxes. Victorian taxpayers would have retained a higher proportion of their incomes, taxpayers in other States possibly less.
Before the war the burden of income tax was fairly light on most income earners. The great part of the community escaped with taxation payments of less than 2/- in the £. Few paid more than 5/- in the £. In contrast today probably about 100,000 persons pay taxes ranging from 5/2 in the £ at £2,000 up to 12/4 in the £ at £10,000. If account is taken of property income, the rates become even higher.

**MARGINAL RATES OF TAXATION AND INCENTIVES**

Most taxpayers, when considering whether or not they should work more overtime or expand their output, take into account *marginal rates* of taxation rather than *average* rates. Marginal rates of taxation are the amounts which go in taxation out of each *additional* £ earned. Examples of marginal tax rates at various income levels are as follows:

<table>
<thead>
<tr>
<th>Income (£)</th>
<th>Tax on an extra £ of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>700</td>
<td>4/5</td>
</tr>
<tr>
<td>800</td>
<td>4/9</td>
</tr>
<tr>
<td>1,000</td>
<td>5/10</td>
</tr>
<tr>
<td>1,400</td>
<td>7/4</td>
</tr>
<tr>
<td>2,000</td>
<td>9/6</td>
</tr>
<tr>
<td>2,800</td>
<td>11/-</td>
</tr>
<tr>
<td>5,000</td>
<td>14/8</td>
</tr>
<tr>
<td>10,000</td>
<td>16/6</td>
</tr>
</tbody>
</table>

Once taxpayers reach an income which they consider adequate for their main needs, they increasingly ask whether or not it is worth while making an extra effort when they retain a much smaller proportion of each additional £ of earnings. Thus, in answer to the query why man-hour output in certain fields of mining is inadequate, the men answer: “Why should we bust ourselves? It is true we make more money, but as every pound we make puts us into a higher taxation grade, what we net out of the extra exertion is relatively so small there is no point in busting ourselves.”

The wheat-grower is asked why he won’t grow more wheat and the dairy farmer why he won’t produce more butter-fat, and they retort in similar vein: “We are not going
to take the risk of cropping more wheat or running more cows when the Government will take more than we get out of the extra return." Administrators and executives in like manner tend to shun the mental strain of higher responsibilities. "Why should we aspire to the Managing Director's post? At £2,000 a year the Government gets 9/6 in the £ out of bonus additions to our salary. If we do reach £5,000 a year our bonuses will be worth only 5/4 in the £ after paying taxes."

Present rates of tax are so heavy as to discourage the adventurous, striving, ambitious individual from attempting big enterprises. This type of rare person has been the inspiration of economic progress in the past and it is certain that no society—in the foreseeable future—will be progressive unless he is retained. The man prepared to risk the long, hard, hazardous ascent to the heights must not be deterred from so doing by failure to place glittering prizes at the summit. The nation must reward its great men greatly if it is not to deny itself the fruits of exceptional skill and enterprise.

**PRIMARY PRODUCTION AND TAXATION**

Resentment at existing levels of taxation probably reaches its most acute form among primary producers, the majority of whom earned comparatively small incomes before the war. Few paid more than 1/- or 2/- in the £ in income tax. With the enormous increase in average farm incomes, from £140 in 1938/39 to £2,520 in 1950/51, many farmers and graziers have now moved into the high tax brackets.

Based on Victorian data, the spread of incomes (employers and self-employed) in primary production in Australia, before the war, was roughly as follows:

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Nos.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £501</td>
<td>305,000</td>
<td>96.5</td>
</tr>
<tr>
<td>501-1,000</td>
<td>8,500</td>
<td>2.7</td>
</tr>
<tr>
<td>Over 1,000</td>
<td>2,500</td>
<td>.8</td>
</tr>
<tr>
<td></td>
<td>316,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Taxation Report—Victoria, 1940, Commonwealth Year Book.
Estimated figures for the current financial year 1951/52 are:

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Nos.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £1,001</td>
<td>164,000</td>
<td>54.6</td>
</tr>
<tr>
<td>1,001-4,000</td>
<td>100,000(3)</td>
<td>33.1</td>
</tr>
<tr>
<td>4,001-6,000</td>
<td>16,500(2)</td>
<td>5.4</td>
</tr>
<tr>
<td>Over 6,000</td>
<td>21,000(2)</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>301,500(1)</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Sources:
1. Primary Production Bulletin No. 43.
3. 30th Report of the Taxation Commissioner. Income grades shown in the Taxation Commissioner's Report have been adjusted upwards in line with latest data in the National Income Estimates and in Hansard.

The primary producers in the very top brackets derived their phenomenal incomes almost entirely from wool growing. But there is still a considerable number with gross incomes around £1,000 per annum who must make decisions whether or not they shall plant more wheat or expand their dairy herds or increase their deliveries of fat lambs and pigs to market. It is here that high levels of taxation tend to build up a psychological antipathy to appeals for greater output of food. Primary producers weren't used to paying heavy taxes in the past and they resent the fact that the community wishes to share in what may now be a fortuitous prosperity. Farmers have got it into their heads that the Government is getting too large a share of their returns and a substantial cut in income tax levels may be all the encouragement they need to expand their acreages or increase their herds and flocks. It is rather significant that the acreage of sown grasses in Victoria has more than doubled since 1938/39, but the output of milk has only risen by 18% and the output of fresh meat has dropped by 6%. Given adequate incentives there is undoubtedly great capacity for an increase in output in these urgently needed products.

A COMPARISON WITH CANADA

Those who still believe that all is well with the Australian economy might study the position in our great sister Dominion, Canada. Like us, Canada has great primary and secondary industries and vast resources still to be exploited.
Since the war Canada has far outstripped Australia in the production of industrial essentials—iron and steel, building materials, housing and farm equipment—and managed to equal or exceed our achievement in the production of consumer goods for which there is a record demand because of high incomes.

It is highly significant that direct personal taxation as a proportion of national income has increased in Canada from 2.6% in 1939 to 5.2% in 1950, whereas in Australia it has increased from 4.2% to 11.7%. Also, as rates of taxation are more progressive in Australia, a much greater burden of taxation has been imposed on the upper tenth of taxpayers than in Canada. Comparative rates of taxation on different income levels are as follows:

**COMPARATIVE RATES OF TAXATION**
**CANADA AND AUSTRALIA, 1951/52.**

<table>
<thead>
<tr>
<th>Income Converted to Aust. £.</th>
<th>At Official Rate of Exchange ($1 = 9/-) £</th>
<th>At Arbitrary Rate of Exchange* ($1 = 5/-) £</th>
<th>% of Income Taken in Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000</td>
<td>900</td>
<td>500</td>
<td>8</td>
</tr>
<tr>
<td>3,000</td>
<td>1,350</td>
<td>750</td>
<td>12</td>
</tr>
<tr>
<td>4,000</td>
<td>1,800</td>
<td>1,000</td>
<td>14</td>
</tr>
<tr>
<td>6,000</td>
<td>2,700</td>
<td>1,500</td>
<td>17</td>
</tr>
<tr>
<td>10,000</td>
<td>4,500</td>
<td>2,500</td>
<td>22</td>
</tr>
<tr>
<td>20,000</td>
<td>9,000</td>
<td>5,000</td>
<td>33</td>
</tr>
<tr>
<td>40,000</td>
<td>18,000</td>
<td>10,000</td>
<td>43</td>
</tr>
<tr>
<td>60,000</td>
<td>27,000</td>
<td>15,000</td>
<td>49</td>
</tr>
</tbody>
</table>

* For purposes of this comparison, the internal value of the Canadian dollar is assumed to be 5/- Aust. rather than the artificially determined rate of 9/-.

In 1937, before depleted dollar reserves necessitated drastic devaluation of sterling and the Aust. £, the Canadian dollar was equivalent to about 5/- Aust. A further indication may be found in the fact that in 1950 average weekly earnings in manufacturing in Canada were $2,280 as compared with £550 in Australia.

In 1949, 88% of Canadian taxpayers earned less than 4,000 dollars a year, contrasted with 94% of Australian taxpayers who earned below £1,000 per annum in 1948/49. This means that the great bulk of taxpayers in Canada and Australia are taxed at almost identical rates, i.e. 8% to 15% of their incomes. But whereas in Canada, the taxation scale ranges from 14% at 4,000 dollars to 49% of annual income.
at 60,000 dollars, in Australia the equivalent scales are 15% to 69%. It would seem that Australia has something to learn from Canada in the matter of taxation and incentives. It is surely much better to lighten the individual strain of taxation by imposing a very small burden on a large number of taxpayers, than to take too big a proportion of their incomes from a relatively small number of taxpayers, and thus destroy the incentives to production and expansion which will provide the source of higher real incomes for all in future years.
A New Publication for Employees

FOR some time past the Council of the Institute has recognized the need to supplement the educational work being done by “The I.P.A. Review” by bringing the viewpoint of private enterprise more directly within the reach of the man in the street. Accordingly, we have now produced the first number of a small publication called “Facts.” The encouraging and enthusiastic response we have already received from industrial companies throughout Australia has convinced us that there is a widespread demand for such a publication. It has therefore been decided to produce “Facts” regularly.

A prosperous and healthy economy, with rising standards of living, depends not so much on government policies, or on the actions of a few large industrialists, as on the underlying attitude of mind of the people themselves. But this attitude of mind of the mass of the people is, in turn, conditioned by their knowledge, or lack of knowledge, of the basic inescapable truths of economics. This is now generally recognized both in Great Britain and the U.S.A., where strenuous efforts are being made by private organisations, as well as by governments, to place before their peoples the true facts of their economic difficulties and the essential foundations of economic prosperity and higher all-round standards of living.

So far little of this kind has been done in Australia. The Council of the I.P.A. has now decided that the Institute should endeavour to make some contribution towards this undoubtedly pressing and important problem.

“Facts” has been written specially for circulation among key factory and staff personnel, such as foremen, departmental supervisors and other interested workers. The aim of “Facts” is to do a job of simple economic education on a regular basis and in a way that has not been attempted to any extent before in Australia. In each issue we shall endeavour to present a simple story in plain language, making use of pictorial and
graphical illustrations. Our aim will be, in the main, to publish the facts and to let the facts speak for themselves. We desire to keep the publication objective and free of partisanship. In this way we hope that “Facts” will earn a reputation for fair-minded reporting. By constant repetition of basic economic truths, we shall endeavour to make some contribution towards our economic progress and a better life for the Australian people.

Among the important matters with which this publication will deal in future issues are such questions as increased production, the link between individual productivity and the community’s standard of living, the problem of inflation and information aimed at securing a better understanding about the part that wages, prices, costs and profits play in our national life. We hope, also, to be able to communicate the viewpoint of management to employees and to counter some popular misconceptions about the ownership of industry.

A number of companies have already sent us contributions towards the cost of producing “Facts” and others have offered financial support. It is quite apparent that the circulation of “Facts” will grow in time to many thousands of copies and the Institute hopes that the business community will be prepared to make some reasonable contribution towards the cost of this service.

* * * * *

If you desire to have copies of “Facts” for circulation within your organisation, would you please indicate how many copies you would like to receive regularly for distribution by writing to:—

The Secretary,
Institute of Public Affairs—Victoria,
289 Flinders Lane,
MELBOURNE, C.1.
THE chart which appears below was one of several published in the first issue of "Facts" to illustrate a short article on living standards. The theme of this article was that increased productivity per man-hour is the only way of widening the range and quality of the goods which can be brought within the reach of the average person.

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<thead>
<tr>
<th>Hours of work required to buy certain commodities in Australia and U.S.A.</th>
<th>AUSTRALIA</th>
<th>U.S.A.</th>
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<tr>
<td>Man's Suit</td>
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<td>28</td>
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<td>Pair of Men's Shoes</td>
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<td>Refrigerator</td>
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<td>Radio Set</td>
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<td>Motor Car</td>
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Government Control

To What Ends?

The British crisis has brought to the fore, once again, the major economic controversy of this generation. Shall we conduct our economic affairs through a system dominated by government direction and intervention or through a system in which the chief role is played by free enterprise? Shall the allocation of productive resources between industries and of finished goods between consumers be determined, in the main, by governments or, in the main, by individuals operating through prices responsive to changes in demand and supply? Shall the individual person control the spending of the great part of the income he earns from his own efforts or shall the government appropriate a considerable part of his earnings and spend them for him?

Since the end of the war the United States has continued its traditional reliance on free enterprise and has achieved one of the most astounding economic successes of modern times. Great Britain, at the other extreme, under its great experiment in the state-controlled economy, has stumbled from crisis to crisis. Australia has had a piece of both worlds, but our economy is nearer perhaps to the British model than to the American. Our performance in production has fallen far short of what should have been possible and, indeed, looks pathetically poor alongside the magnificent achievement of the U.S.A. But on the financial side, we have been greatly and fortuitously assisted by the high post-war level of world prices for food and raw materials.*

Of course, in strict logic, it may not be possible to draw from these experiences any hard-and-fast conclusions about the comparative merits of free enterprise and state control. But the fact remains that, adhering substantially to free enterprise conceptions, the United States has achieved a production performance that borders on the miraculous, whereas Great Britain after a decade of socialist planning is at a low ebb in her economic fortunes.

* * * * *

* But not sufficiently, as the import cuts bear witness.
IN the last few months, the British predicament has led to an assault on overall government planning by three of the leading economic authorities of Britain—Geoffrey Crowther, the Editor of “The Economist”; Roy Harrod, joint-editor of “The Economic Journal” and one of the most controversial and outspoken of British economists; and John Jewkes, Professor of Economic Organisation at Oxford University.

JEWKES

Jewkes is perhaps the most uncompromising in his attacks on the centrally planned economy. In an article in the December, 1951, number of the American publication “Fortune,” he writes: “Thinking Americans should ask one important question: If the United States had, since 1945, followed the policy of Great Britain in nationalizing industries, maintaining detailed controls on the whole economy, equalizing incomes by the present British rates of taxation, would the United States then have been capable of her great achievements in this period—the rapid increase in the standard of living, the acceptance of world leadership, the generous assistance to impoverished countries, the swift rebuilding of her fighting forces and armaments effort? I doubt it.” He states categorically: “Every thinking person in Britain realises that British central planning has failed.”

CROWTHER

Geoffrey Crowther, in an address to the Cotton Board at Harrogate, last October, contrasts British experience since the war with that of the United States, Soviet Russia, Belgium and other countries. He sees the British economy out of hand, moving from crisis to crisis in progressively worsening degrees of severity, whereas other countries, even Western Germany and Japan, he says, are unmistakably on “the way back.” The reason, he claims, is that whereas Britain has been operating under what he calls a “soft economy,” the other countries have operated under “hard economies.” “A soft economy” he defines as one in which nobody can get hurt and nobody can be very successful. It is one from which both the penalties of failure and the rewards of achievement have been removed. The only hope for Britain, he
Government Control —To What Ends? (continued)

says, is to infuse some degree of hardness into the British economy. Inflation must be corrected; a man must not be able to "toss" his job with impunity; taxes must be reduced and the individual allowed to retain more of his own earnings; businesses must be forced to compete; price control wherever possible must be abolished and the food subsidies drastically cut back. In other words, Britain must take a decisive step away from the government-controlled economy.

HARROD

Roy Harrod* says: "... controls are in the nature of a disease, which proliferates and tends to spread through the whole economic organism. One control gives rise to the need for another control and as the controls multiply, new disequilibria appear and create an apparent need for still more controls; crises of ever-growing intensity occur, each in turn seeming to cry for direct government handling, which after an interval produces a further crisis." He concludes: "The important point is that we should rely mainly on the self-adjusting forces that reside in a free system, rather than on a multitude of detailed pressures for getting our balance right."

ONE would be on fairly safe ground in saying that these appeals for a rejection of rigid governmental planning, and for a greater reliance on the motive forces of free enterprise, working through the free price market, would be supported by most leading economists in both Great Britain and this country. And yet on the economics profession falls the great bulk of the blame for the methods of governmental direction which have been such a prominent feature of the economies of Britain and Australia in the post-war years. But today it is the economists—except those who reside at West Block, Canberra, or Whitehall—more so than governments (even of a conservative bent) and perhaps even more so than some businessmen, who most strongly support the traditional economic tenets of free enterprise.

Why is this? Partly because there is still in the minds of most people a distressing confusion about the real objects of government planning. The economist, it is true, led the

* In an article "More or Less Controls" appearing in "The Director", December, 1951 (the Journal of the Institute of Directors).
attacks against the old-time laissez-faire system in which there were violent fluctuations of employment, great inequalities of opportunity and often unjustifiable disparities between the incomes received by different sections of the community. Their leader and mentor in this movement was the late Lord Keynes, but Keynes himself insisted that within the framework of government intervention necessary to cure these evils, the great traditional advantages of individualism—the driving force of self-interest, the efficiency arising from the wide decentralisation of decision, the individual's freedom of choice—should be preserved. Only a minor proportion of the recognized leaders of the economics profession has ever advocated detailed government direction. Admittedly, in wartime the economist was largely responsible for the complex system of controls used to contain war-time inflation and to divert resources into war production. But, in general, those methods, which were basically alike in all the allied countries, worked with praiseworthy effectiveness. And in total war there was no practicable alternative to total government direction of the economy. But for peace-time, few top economists have regarded detailed price controls, subsidies, rationing, direction and allocation of materials, massive government spending or government trading as workable substitutes for the automatic adjustments performed by the free price mechanism or for the incentives provided by the prospect of private gain and competitive business. The purpose of economic planning is not to regulate the price of a string of artificial pearls, but to provide a healthy and enlivening economic environment in which the free system can carry out its work most effectively.

Harrod claims that in Britain the decline in the belief in the free system has occurred among members of all parties and of no party, among businessmen as well as civil servants, among plain citizens as well as long-haired intellectuals. It has occurred even among those who are foremost in paying lip-service to the principle of economic liberty. Perhaps the same could be said of Australia. Certainly there is among a small minority of business people evidence of a growing disinclination to accept the losses along with the gains. There have been examples where businessmen have refused to accept
the blame or the financial penalties of their own miscalculations. At the first sign of stress criticism is heaped on the government and the cries are loud in the land for government assistance. It has been partly true of all sections of the community that they have wanted the prize without the struggle. It is this prevalent psychology that has been at the root of what Crowther has aptly called "the soft economy" in Britain, which is another name for the government-controlled economy. No one must be permitted to get hurt. Everyone must be protected, even against his own follies or miscalculations. No one must be allowed to suffer the consequences of his own mistakes. There are to be no penalties for failure, but equally there are to be no worthwhile rewards for success or achievement. No sticks and only small anaemic-looking carrots!

* * * * *

The belief in detailed government planning in Britain, and to a less degree in Australia, is to be seen most clearly in the field of price control, which is of course the central lever of the government-controlled economy. Over six years have passed since the end of the war, supplies have overtaken or nearly overtaken demand over a wide range of goods, yet price control on individual items persists over a considerable part of the economy. Can there be any rational justification for this?

If price control has been regarded as an essential means of controlling inflation, then all that can be said is that price control in Australia has been accompanied by the biggest peace-time inflation of prices in Australia's history. Since the end of the war prices have risen by nearly 100% yet many people blindly and obstinately adhere to the notion that price control must be continued as a safeguard against further inflation. One may legitimately ask whether prices would have been any higher than they are today if the great bulk of prices had been freed soon after the war. Again, if price control is regarded as a means of limiting the profits of avaricious producers, then, during the period of control, money profits have been astoundingly buoyant. And over the period of operation of price control does anyone suppose that it has been the most enterprising, hardest-working and responsible
producers that have made the biggest profits; or is it rather the irresponsible, the black marketeers and those engaged in the easy trades to whom the richest gains have accrued?

Still further, if price control is regarded as a means through which governments can obtain the production of the things most essential to the economy, and to limit the production of those things not so essential, then the era of price control has been the era of the "milk bar" economy. Finally, governments in their passion to control the prices of individual commodities have utterly failed in their prime duty of controlling the price level as a whole. The stability which the new conceptions of government planning were to have introduced has proved to be, in fact, one of the greatest periods of instability in Australian economic history.

If, in the face of this record, the advocate of controls should reply that price fixation has been ineffective only because the Commonwealth Government was not given the power to carry out the job and to pay subsidies, then two answers can be made. First, if price control by the States is futile, then where is the point in persisting with it? And second, even if the Commonwealth Government had been given the authority to control prices, then the bill in the form of subsidies necessary for a reasonable stability in the price level would have been too terrific to contemplate.

And then there is the British example! Britain has attained much greater stability of prices than Australia; but at what cost? First, at the cost of rigid wage-pegging. Would the advocates of government control in Australia have been prepared to accept that? Second, at the cost of some £500 million a year in subsidies which have to be financed by taxation.* Would the control advocates in this country have been prepared to accept that? And, if so, are they so sure of their economic knowledge that they are prepared to blithely ignore the opinion of leading British economists on this point, with all their experience of the working of the subsidy system in Britain? Crowther states emphatically that he can-

* Subsidies were cut back substantially in the British Budget introduced in March. Undoubtedly a move in the right direction.
not see how the British people can be any worse off if the moneys saved from the abolition of subsidies are handed back to the people in lower taxation to spend as they wish and not as the Government machine sees fit. Jewkes takes the argument further: "The food subsidies now amount to £470 million; the total taxes on beer and tobacco to £1,000 million. If the food subsidies were abolished then the government could afford to reduce the taxes on beer and tobacco to about half their present level. People would be no worse off. They would pay a higher price for food, but they would buy their luxuries more cheaply." And then Jewkes puts his finger on a vital point. How, he asks, can services be properly distributed and a proper economy exercised in their use unless a price is put upon them? All experience, he points out, suggests that when things are free, or sold below their market cost, they will be wasted; and he instances the classic case of free medicine in Britain under the National Health service.

We may go further. How is it possible to ensure that those things we need most and of which we desire to increase the supply will be forthcoming unless the free price mechanism is allowed to do its work? The answer is that it is not possible. What fantastic anomalies arise as soon as government enters the field of price fixation! Take the example of wheat and wool in Australia at the moment. The price of wool in Australia is allowed to go free; the Australian price is the world price. But, with a glorious inconsistency, we insist that wheat should be sold on the home market at a price substantially below its world price. We then purport to wonder why farmers concentrate on growing more wool and consequently less wheat, and why we are faced with the serious national problem of a rapidly declining acreage devoted to wheat. Here surely is a classic example of how government interference with the price mechanism leads to a distortion in the pattern of production and aggravates the very condition it is designed to correct. For the basic purpose behind a home consumption price for wheat lower than the world price is to hold down the price of bread in the interests of the Australian consumer. But how does it work out? The supply of wheat falls, thus tending by the operation of the law of supply and demand to bring about higher prices;
the amount of wheat available for export diminishes, thus helping to bring about an acute balance of payments problem and impairing our ability to pay for imported goods necessary both to the improvement of living standards now and in the future.

* * * * *

HOW long, as a community, will we blindly adhere to the notion that our salvation is to be found in still stricter and more far-reaching price controls with all the supplementary controls and heavier taxes to which they must inevitably give rise? Is Australia now to follow in the footsteps of Britain, in face of the disastrous experience of that country during its period of rigid and detailed government planning?* Or are we to move, wherever we reasonably can, in the direction of a freer economy with its incentives and sanctions such as broadly obtain in the United States? If there are advantages to over-developed Britain in a greater reliance on the free economy, burdened as she is with economic difficulties of a fundamental deep-seated character, how much greater are those advantages likely to be in under-developed Australia with its need for flexibility, imagination and individual resourcefulness of a high order?

The time is overdue for a complete overhaul of our thought on the subject of government planning to ascertain where we are going astray. Let us, by all means, plan the things that we need to plan—something we are not doing at the moment, as witness our lamentable failure to manage inflation. But let us, wherever we can, dispense with the multitude of futile and petty government controls that are overshadowing and confusing the real purposes of economic planning by the state.

* It looks as if we are going the same way. Consider the import cuts.
PAUL HOFFMAN is one of the outstanding world figures who have emerged in the post-war years. The superb quality of his leadership of the Economic Co-operation Administration, responsible for the administration of the immense and generous dollar assistance provided under the Marshall Plan, has been recognised throughout the free world.

Paul Hoffman's career provides a first-rate example of a process not uncommon in the United States—a highly successful business man becoming a great national leader. He was formerly President of the Studebaker Corporation. He became Chairman of the Board of Trustees of the Committee for Economic Development, an organisation of leading businessmen formed in 1942 to explore ways and means of maintaining a high level of employment, and one performing an outstanding job in the United States today. His work with the C.E.D. preceded his appointment as Administrator of E.C.A. He resigned from E.C.A. a little over twelve months ago to take over the position of Director of the colossal Ford Foundation. General Eisenhower said of him: "By his deeds, Paul Hoffman has served America well, and thereby the cause of freedom throughout the world."

Mr. Hoffman has sent the accompanying article to us for special publication in "Review." We regard it as one of the most important that have appeared in this journal.

MY younger brother, who served with the American Expeditionary Forces in World War I, used to tell me that "Australians are more American than Americans." Having in mind the high spirits of his Australian friends, he meant this as a great compliment.
In the business world, those same high spirits are behind the determination of members of Australian business management to contribute what they can to the strength of the Australian free economy and to the cause of the free world.

American and Australian business managers are agreed that they can best serve their own economies and humanity by seeking to bring about greatly expanded production. In view of the high level of employment which exists throughout most of the free world, this increased production can be achieved only through higher productivity—higher output per man hour. One of Wendell Willkie's stirring battle cries was the phrase: "Only the productive can be free!" It was relevant in 1940, and it has even more pointed application to our situation today.

While present emergency conditions give a special urgency to our need for increasing productivity, we would find it necessary to achieve it even if the free world were not faced with the need for rearming in order to prevent Communist aggression. The Communist threat is very much in our minds. How could it be otherwise? But there is another fact of life that is even more pervasive, one that we must wrap our minds around—the determination of men everywhere to better themselves. We see this in societies that are relatively prosperous. We see it among long-slumbering peoples of the earth, who are today in ferment. The Kremlin did not create this urge for a better life, although it exploits it as a means for gaining acceptance of its own programme of enslavement.

The Kremlin proposes, of course, as a first step that the "haves" be stripped of all their possessions for the benefit of the "have nots." Perhaps I should add that even in our free societies, there are always those who advocate this delusive and superficially expedient method for improving the lot of the masses. It is a definitely unpleasant method as far as the "haves" are concerned but, even more importantly, it offers at best only transient help to the "have nots." The end result is always the distribution of poverty and not of prosperity.
EXPANDING OPPORTUNITY

The fact that the methods of the Communists are doomed to failure does not relieve a free society of the responsibility of providing methods that will work. Far from it. If our free economies are to survive, they must prove that they can offer to the people not only the dignity for the individual that can come only with freedom, but also an expanding opportunity to live in decency and comfort.

I hope you will not dismiss it as the boasting statement of an American businessman when I say I believe that the free economic system here in the United States is giving a convincing demonstration of its capacity to serve all men well. Furthermore, the benefits accruing from our system have been steadily increasing.

From the standpoint of opportunity for individual material advancement, progress in the United States has been little short of miraculous. Here are a few cold statistics that tell part of the story. In 1900, the American economy offered about 27 million jobs—only fair jobs—to a nation of 75 million people. Today there are more than 62 million jobs available to our 150 million people—and they are much better jobs. Hourly wages of factory workers have more than doubled; insurance, retirement and medical plans for employees have gained almost general acceptance. The work week has been shortened from 60 to 40 hours.

ECONOMIC STABILITY

Perhaps the most spectacular changes in our system have been the introduction of measures to provide economic stability and to prevent another catastrophe like the Great Depression of the '30's—measures designed, for example, to maintain buying power on the part of the unemployed and to increase the buying power of the aged and underprivileged.

These advances are almost entirely due to the spectacular increase in industrial and agricultural productivity that has been taking place in the last half century. Industrial output per man hour in 1950 is roughly three times what it was in 1900, and agricultural productivity is up about the same.
The increases in productivity that have taken place in other countries in the last fifty years are not of the same dimensions as those that have taken place here. The tempo of improvement in the United States has been much faster. For example, today industrial output per man hour in the United States is more than $2\frac{1}{2}$ times that of Western Europe, whereas there was little difference in 1900.

There are many good reasons why this is so. Europe has felt the full brunt of two World Wars. America has some advantages in the way of natural resources. We also have advantages accruing from a large single market. But these advantages alone do not account for the disparity between productivity in other countries and American productivity. They do not account for the fact that the United States produces one-third of the world’s goods and one-half of the world’s manufactured goods, because we do not have anything approaching one-third of the world’s people, or one-third of its land area, or one-third of its natural resources. The fact is that we produce one-third of the world’s goods with one-fifteenth of the world’s people, one-fifteenth of its land area and one-fifteenth of its natural resources.

**HARD THINKING**

If we are going to find the real explanation for the great upsurge in productivity that has taken place in the United States in the last fifty years, we will have to look beyond the physical to the psychological factors. Why is it that we have made such intensive use of non-human energy in the United States? Why is it that we have put eight horsepower behind every worker, as compared with two and a half horsepower in Europe?* Why is it that American factory managers have been willing to invest so steadily and intensively in new and improved machines? Why is it that there has been such a constant striving to improve production practices?

The answer, in my opinion, lies in the fact that conditions in the United States have forced the managers to engage constantly in hard, purposeful thinking. Now thinking is a painful process; it is one of the most unpleasant forms of human effort. Most of us think hard only when forced to do so.

* In Australia this is 4 horsepower per worker.
American businessmen dislike thinking as intensely as anyone else. The fact that they do think hard about how to turn out better goods at lower cost, about how to raise wages and offer lower prices to consumers, has been due to pressures generated by this economic system of ours.

**STRONG INCENTIVES**

One pressure comes from the strong incentives that have been part of our system. There have been rich rewards to the individual who has been able and willing to think creatively. A pressure of a different type lies in the penalties that befall the business manager who either cannot or will not think creatively. He is very apt to go broke, because in this highly competitive system of ours the only security for the individual lies in a continuing forward march.

There's no denying that this combination of pressures makes for a rugged life for business executives. There are moments when most of us would enjoy that surcease from painful thinking that comes from price-fixing, market allocations and similar arrangements with competitors. That was proved in 1934, when businessmen rushed to Washington to help set up the National Recovery Administration, which gave legal sanction to myriad devices for “civilizing” competition. But, as you know, the NRA experiment was short-lived, and, except for the brief period of its operation, most American businessmen have had to compete and compete successfully if they wanted to live.

Any attempts on our part to avoid competition by entering into arrangements with our competitors put us in danger of going to jail. Our anti-trust laws had their birth in the late 1890's, but it was Teddy Roosevelt, “the trust buster,” who in the early 1910's took the warpath on their behalf and fought against any and all convenient arrangements to stifle competition. Since then, the American anti-trust laws have been made sharper and tougher, and our government maintains a large staff of vigilant experts to see that they are lived up to and to plug up any leaks that might develop. The anti-trust laws, however—like all laws—derive their real significance from the fact that they grow out of and reflect the temper of American society, rather than from the legal mechanics of enforcement.
The stress that I have placed on competition as a vitalizing factor of our economic system does not mean that I underestimate the importance of co-operation. Here in the United States the members of a given industry, while asking and giving no quarter in competing for the market, co-operate enthusiastically to expand the total sales of their industry. Our laws forbid “co-operation” in fixing prices, and allocating markets; but they encourage our working together for the common good of the industry and the welfare of our country.

Let me give you a concrete example of the twin forces of competition and co-operation with which the American business executive meets the twin pressures of reward and penalty. It is an example from the industry that I know best—the automobile industry.

As a measure of competition, I would like to point out that since the turn of the century, about 1,500 automotive manufacturing firms have gone out of business, and only 56 survive—competing with 20 makes of automobiles, 39 makes of trucks, and 20 makes of motor buses.

The mortality rate among firms constantly striving to build a better product at a lower cost has been severe, but the benefits to our economy and to consumers have been enormous.

The record of co-operation in the automotive industry is as outstanding as the record of competition, and equally important. Companies that have competed sharply—and continue to compete—have worked together continuously to solve common problems and to meet public issues growing out of the use of motor vehicles.

The first automobile show was jointly sponsored by the industry in 1900. At about the same time, the industry led the effort to support a federal system of highways. When this co-operative effort began, America had about 7,000 motor cars and there were virtually no hard-surfaced roads connecting our cities. Today, there are more than 50 million vehicles in America and our vast highway system connects every city and hamlet in the country.

The highway network alone, as the result of low-cost cars, not only gave rise to a vast construction industry and allied
industries providing goods and services, employing millions of people and billions of private capital, but actually has resulted in lower costs of goods and services to the ultimate consumer, not to mention providing military mobility.

Another adventure in co-operation that gave great impetus to the growth of the automotive industry was the cross-licensing system for patents worked out 35 years ago. In the early days, patent suits, threats and counter-threats, were the order of the day. Since this voluntary system has been in effect there has not been a single lawsuit involving patent infringements in the industry.

Through the Society of Automotive Engineers, the manufacturers agreed on standardization of basic parts and materials as early as 1905. One of the things that some countries have difficulty understanding is how members of a highly competitive industry in America can come together and swap information and help each other out in an organisation like the Society of Automotive Engineers.

Another example of peacetime industry co-operation is the work of the Automotive Safety Foundation, which has brought together elements of the entire industry—manufacturers of cars, trucks, parts and tyres, as well as dealers, finance companies, insurance companies and all the others with a stake in the problem—to make a stupendous saving of life and property possible.

One could go on for a long time talking about the benefits growing out of the apparent paradox of fighting one another to the death for a larger share of the market and working together like brothers for the common good. We know that this is not paradoxical; it is practical and realistic common sense. I have dwelt heavily upon this phase of American business life, because I believe it is the greatest of the so-called secrets behind American productivity.

RESEARCH ORGANISATIONS

Another secret of our competitive system is the belief that a fair percentage of our time, devoted to causes not necessarily directly connected with our businesses, and sitting around conference tables with our associates and our com-
petitors, is fundamentally profitable; profitable not only in terms of our individual affairs but, perhaps more important, in terms of the welfare of the country, and the quality of economic and political climate concerning all of us. I believe the great majority of leading American industrialists belong to one and perhaps up to five or six non-profit organisations devoted to objective study and research cutting across individual interests. We do not ask for Government support for these enterprises, believing that it is to our interest in the broadest sense to support them with our money but perhaps more importantly with our time.

There is still another management factor! Increasingly in recent years, American business management has come to realise that its responsibilities are much broader than they were once thought to be. This new concept is sometimes called the "social consciousness of business."

In addition to the owners of the business, management now generally recognizes responsibility to employees and consumers as well. The only possible way in which management can fulfil its responsibility to all three groups—that is, to give owners a fair profit, employees good wages, and customers the best possible product at the least possible cost—is by increasing productivity.

Let me give you one concrete example of the way this works—again from the automobile industry.

In 1934, the average hourly wage in the automobile industry in the United States was 54c. By 1940, the average hourly wage had risen to $1.00, and yet the labour cost per car was no higher in 1940 than it was in 1934. The increase in hourly rates had been offset by increased output per man hour, but to achieve this result the members of the management groups in our plants had lain awake a good many nights figuring out improved methods for handling material, developing new machines, and figuring out ways to save a nickel here and a penny there.

It was a better automobile for the consumer’s money. The wage rate was nearly doubled, and there were more people to work in the industry. Finally the owners of the business were getting a better return on their investment.
BENEFITS OF HIGH PRODUCTIVITY

Out of the painful thinking that has resulted in a sharp increase in productivity in the United States have come collateral benefits that far exceed in importance the direct economic benefits. Our productivity has given us a surplus beyond our immediate material needs. Out of this surplus has come the means of providing all of our people with the opportunity for a free education. Out of this surplus, too, has come an enormous increase in leisure time and the corresponding opportunity for cultural development.

Far be it from me to suggest that we have made the most of our educational and cultural opportunities. I am well aware that we have not. But at least we have succeeded in creating a new kind of social problem—the problem of how best to use our surplus to enrich the spiritual and intellectual lives of our people. Possession of the problem is, if I may say so, in itself a really wonderful achievement of a free society.

The solution of that particular problem, like America itself, is unfinished business. If it has sounded as if I were bragging about my country, please believe me when I say that we Americans realise the imperfections and inadequacies, and we know how far we have to go.

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