Much present-day thinking on industrial problems is distorted by the emotions aroused by a social order that is now no more than a museum piece. Capitalism or Free Enterprise 1950—or whatever one prefers to call it—no more resembles Capitalism 1900 than the original T-model Ford resembles the latest Custom-line. And yet union leaders, churchmen, politicians and even some economists persist in discussing the economic system of today as if it bears a close affinity to the 19th Century system, and as if the last half century had produced no changes of fundamental importance. The 1950 economy is assailed as if it possessed the same inequalities, the same harsh injustices, the same moral and structural defects, and the same restricted philosophies of business and government as the economy of fifty or more years ago.*

People rarely see what is happening before their eyes and the revolutionary changes that have occurred in the economic system in this century have escaped the attention not merely

* A recent and prominent example of this was an article “Christianity v. Capitalism,” by Mr. D. Lovegrove, Federal President of the Australian Labor Party, that appeared in the Melbourne “Herald” of the 11th July.
of very large numbers of ordinary people, but even of some businessmen and labour organisers.

What were the salient features of 19th Century Capitalism?

The mass of the people dwelt in conditions of appalling poverty. For most people it was a struggle to keep alive. There was little time, energy or financial surplus available for recreation and enjoyment. Hours of work were long. Wages were low. In England, women and children were employed in coal mines; children worked in textile mills for 12 to 15 hours a day. Labour was little more than a beast of burden. It had no status. There were no highly organised trade unions and the individual worker had little or no protection against his employer. Social services were insignificant in extent. The individual worker was at the mercy not merely of his employer, but also of the trade cycle, and he could at any time be dumped on the scrap-heap of unemployment without any outrage to the social conscience of the times. The modern concepts of economic security and full employment were unknown and governments recognised little or no responsibility to provide for either.

There were many enlightened employers, but there was also widespread greed and irresponsibility. The pursuit of personal profit was the exclusive preoccupation of the businessman and this was justified by the accepted economic and political theories of the day. This did not, of course, mean that the majority of employers were devoid of humane feeling. It meant rather that they were victims of a political and social ideology sanctioned by the generally accepted thought and standards of the times.

Wealth and security on the one hand contrasted with great hardship and insecurity on the other. But the extreme inequality in possessions and incomes was not the chief cause of the penurious conditions of the wage-earners. The predominant cause was that insufficient wealth was produced to provide the toiling millions with a decent standard of life. The real cause was low productivity. And where productivity was low, wages must be low and hours of work long. Production was low because industrial technology was in its infancy and because capital equipment was both inefficient and insufficient. On many tasks the worker's back had to carry the burden now carried by the machine; and where machines were used they were pitifully inadequate by modern standards. The conditions of the farmer who worked for himself and tilled the virgin soil were often little better than those of the factory employee. The application of science and technology to industry was in its infancy. The scientific planning of production processes was virtually unknown.

Of course this was not the whole story. In spite of all, progress was being made. Surely, if gradually, social conditions were improving. The foundations of 20th Century industrialism were being established. Modern industrialism was in its birth pangs. In the circumstances of the 19th Century, the accumulation of capital was a necessary prerequisite to better conditions of life for the masses, and to some extent this was aided by the very inequalities that existed. The wealth and savings of the fortunate few were ploughed back into industry with beneficial results for all.

The shocked outcry of humanitarians and, in this country, the activities of such bodies as the Anti-Sweating
League, the introduction of social legislation especially that concerned with conditions of work and employment, and the steady advance of applied science, gradually brought about an improvement in the lot of the workers and the elimination of the more glaring abuses; but, even by the end of the 19th Century, in the highly industrialised countries, poverty, disease, and insecurity were never far from the doors of the great mass of the people.

* * * * *

How does the economic system of today compare with the industrial and social order just described?

The most obvious difference is the vast improvement in the material circumstances of the working population. Real wages are very much higher. Hours of work are very much shorter. Working conditions have improved out of recognition. In most industries the back-breaking tasks have been transferred from man to the machine. In cleanliness, ventilation, lighting, amenities, recreational facilities, safety precautions, the modern factory bears no resemblance to its 19th Century counterpart. Annual leave, and, in some countries, sick leave are universal. Social services concerned with health, housing, and education and cash benefits to assist the unemployed, the aged and the family man, have become a major pre-occupation of all democratic governments.

But, as most things are relative, just as important to the contentment and peace of mind of the wage-earner as the improvement in his absolute standards of life, may be the improvement in his relative standards. The gross inequalities of income and wealth of the late 19th Century have been erased. Karl Marx, of course, predicted that this was impossible in a capitalistic society. He predicted that the rich would get richer and the poor get poorer. In fact, the reverse has occurred. The rich have become very much poorer and the poor very much richer. It is interesting to speculate whether, if Karl Marx were alive today, he would still see the pathway to a better life for the common man in the "class struggle" and the overthrow of private capitalism.

The grand old man of Australian statistics, Sir Timothy Coghlan, estimated that, at the turn of the century, the top 5% of income earners in Australia received 40% of all incomes. Official statistics show that today the share of the top 5% has fallen to 20%. And this is before tax, amounting to 15/- and over in the £ on the highest incomes, is deducted. After tax, the relative share of the top 5% would be reduced to about 17%.

But the re-distribution of income is not perhaps so significant as is the vastly wider spread of capital possessions. 19th Century industry was owned by comparatively few; the ordinary man was divorced from ownership; he had little stake in industry and consequently he shared only to an insignificant extent in its profits. 19th Century capitalism was distinguished by the fact that there were few capitalists. The capitalism of today is a people's capitalism. Of 3½ million people engaged in Australian industry, 1/4 million, or one in every seven, own shares in public companies and thus participate in their profits. A substantial proportion of these are ordinary wage and salary earners. But that is by no means the full story. Hundreds of thousands of people owning no shares nevertheless participate in industrial profits through the savings they have invested in insurance policies and in provident and superannuation funds. It would be safe to say that to-
day only a small minority do not share in some way in the profits of industry. The 19th Century picture of a comparative few wealthy capitalists seizing for themselves the great part of industrial profits bears no relationship whatever to the facts of the middle 20th Century.

Although this transformation could not have occurred without a striking advance in the standards of living of the mass of the people, which made it possible for them to put something aside out of their current earnings, it could also not have occurred without a fundamental change in the character of industrial organisation itself. Until quite late in the 19th Century “big business” was often dominated by the great individualists such as J. P. Morgan and John D. Rockefeller and by family groups who built up and personally controlled industrial empires of vast extent. But the progressive extension of the principle of public company organisation has helped to alter all this. Ownership, instead of being concentrated in a few wealthy individuals and families, is now dispersed widely through hundreds of thousands of shareholders.

For example, Standard Oil of New Jersey, but one of the many corporations broken off from Rockefeller’s original Oil Trust, now has 254,000 shareholders, none of whom owns more than 3% of the total shares. Holdings of the 14 directors amount to only 0.1% of the total share capital. The original Bell Telephone Company is now owned by 1,100,000 different shareholders, of whom 200,000 are employees of the Company. The biggest holding amounts to less than 1% of total holdings. Ownership of Andrew Carnegie’s mighty steel empire is now diffused among 272,000 shareholders.

In Australia, the original syndicate which formed the B.H.P. has been transformed to a vast enterprise owned by nearly 35,000 shareholders. Australia’s largest trading bank, the Bank of New South Wales, has 13,000 shareholders. 73% of holdings are small investments of 25 shares (£20 denomination) or less. The Bank’s Deed of Settlement (articles of association) specifically provides that no one person shall own more than 4% of the shares. Dozens of Australian companies have over 10,000 shareholders. Typical of medium-size concerns is the Sydney department store, David Jones Ltd., with 3,500 shareholders. Sir Charles Lloyd Jones, present Chairman and grandson of the first proprietor, owns less than 5% of the ordinary capital.

In 1889, industrial companies listed on the Melbourne Stock Exchange numbered 43 and their combined capital totalled £3m. Today, the industrial listing contains over 500 companies with share capital nearing £500m. Anyone with savings can, if he wishes, buy a share in the ownership of these companies.

With dispersal of ownership has gone a dispersal of control. Real power and authority in the majority of big industries today rarely rests with some giant personality. Nor does power, in the strictly practical sense, entirely rest with the Board of Directors. It rests with the management, the representatives of which often have little or no financial stake in the profits of the companies by which they are employed. Rarely are they wealthy individuals. The main source of their livelihood is their salary. Moreover, unlike the “industrial monarchs” of old, they are not concerned almost exclusively with the interests of a few shareholders. Industrial management
now gives prior concern to the interests of the employees of the enterprise, partly because it realises that the contentment and goodwill of the working force are the most important capital assets the business can have.

In addition, the management of the large business should, and generally does, pay the closest regard to the impact of its policies on the public and on the general national interest. The old "public be damned" philosophy has no place in the psychology of modern industrial management. This change has come about not merely because it is good business to cultivate public goodwill, not merely because of the realisation that what is in the end good for the nation must be good for business, but also because of the growth of a "social conscience" among businessmen themselves. The business leader today must be, and in many cases is, much more than a businessman. He must have a working knowledge of economics and of the industrial and social environment within which his industry is required to operate. He must have a close knowledge of public opinion and of prevailing political tendencies. At his best he should be a leader of public thought on economic and industrial issues. Frequently he gives liberally of his time to national affairs and sometimes is called aside from his main occupation in life to undertake work of high national importance. The "J. P. Morgans" have been superseded by the "Paul Hoffmans".

All this means that industrial leadership has become democratized. The big businessman of the 19th Century could operate behind closed doors in an atmosphere of the strictest secrecy. Today, big business must operate in the open light of day and in the revealing glare of modern publicity. The rugged individualists of the last century hardly gave a hoot for public opinion. Modern management must have its finger constantly on the pulse of public opinion. In his relationship with labour the businessman of the 19th Century was near supreme. If he decided to dispense with the services of a few hundred men at short notice that was his affair. Today, he would feel compelled to provide the public with the fullest explanation of his action, and even then it would have industrial and economic implications stretching far beyond the confines of the business directly concerned. When the businessman of the 19th Century trampled ruthlessly on his competitors, sometimes with methods of dubious morality, that was more often than not attributed to superior business ability. Today, public opinion would be outraged. A half century ago business could do virtually what it liked, free of government interference or control. Sometimes it even controlled the government. Today it is subject to legal restrictions and provisions which affect almost every aspect of its operations.

But the most far-reaching change of all, and one that has altered the entire character of the industrial system, is the transformation in the industrial and political power of the worker. No longer is the worker powerless as against his employer. The essential conditions of his employment and the level of his wages are, in large part, outside the control of his employer altogether. They are established, as in Australia, by legally constituted tribunals or, as in Britain and the United States, by collective bargaining conducted between representatives of management and highly-organised trade unions. And, in either case, the general standards accepted by society of what is right and fair set the broad
limits within which determinations and decisions must be reached.

In his trade unions, the worker possesses institutions which, in industrial power and authority, at least equal "big business" itself, and which, in political power and authority, certainly surpass "big business". In Australia, at the beginning of the century, about 100,000 workers, only 8% of all wage and salary earners, were members of trade unions. Today there are 1,637,000 members of trade unions, 60% of the total employed population. The immense collective power which this represents is employed zealously in safeguarding the interests of the workers, and unremittingly in bringing sectional pressure to bear on the determination of practically every issue of national importance.

Under 19th Century Capitalism the worker had little or no industrial or political power. Under the capitalism of today he has both in abundant measure.

FINALLY, there is the revolution in the role of government.

Fifty or sixty years ago government had very little to do with industry. In accordance with the accepted economic theories of the day it was thought that the best results would be achieved if government left business alone, kept its hands off industry, and let the free price market do its work virtually unhindered. The prevailing economic philosophy, "laisser-faire", was accepted by some of the most humane thinkers of the times. 19th Century Capitalism was a planless capitalism.

This general picture obtained in America and even, in the main, in Britain and Australia, up to the great 1929 Depression. It is a picture in striking contrast to that of today.

“Middle 20th Century Capitalism” is a planned capitalism. It is one in which government, from being little more than an umpire, has become a major participant. And the most striking evidence of this is to be found not in the growth in the numbers of nationalised industries—in Australia, particularly, this has not been very pronounced—but in the responsibilities assumed by all democratic governments for full employment and social security. Under “19th Century Capitalism” the ordinary man-in-the-street had little or no economic security. There was no conception of a basic standard of life which society should be called upon to guarantee to all citizens in concession to any accepted standard of decency and morality. There was no such thing as a minimum wage. Government provision for the aged and the sick was of no more than token proportions. And a man displaced from his occupation was dependent for his existence almost entirely on what meagre savings he might have been able to accumulate and on private charity. The concept of “full employment” was unknown. On the contrary some unemployment was accepted as the natural and necessary order of things. Governments did not regard it as their responsibility to provide for either full employment or social security.

WHAT a change to the conditions of today!

Now there are few lengths to which governments (no matter of what complexion) will not go to preserve high employment. The whole range of economic, monetary and fiscal instruments under the control of governments are now employed to that end, and to that end almost exclusively. Political parties compete with one
another in the range of social benefits and services they dangle before the electorates, regardless often of the economic and financial implications of the policies they propose. The considerable armoury of modern economic knowledge is brought to bear by governments to ensure security of livelihood for the common man.

This, indeed, has, in a sense, become the whole objective of present-day capitalism—the objective of raising the standards of living of the great majority. The capitalism of the last century was devoted in the main to the pursuit of private profit, of amassing riches for the privileged few. Any improvement in the standards of life of the masses was regarded almost as a fortunate, although logical, by-product of the main pre-occupation of the pursuit of profit. Under the capitalism of today the positions have been reversed. The standards of living of the majority have become the first concern. The pursuit of profit is secondary and is justified only in so far as it contributes to high standards of living for all. Under 19th Century capitalism, profit was an end in itself. In the economic system of today, it is a means to an end.

ONLY in the fact that the great part of economic activity is still carried out by individuals acting in a private capacity does the capitalism of today bear any resemblance to the capitalism of the late 19th Century. In its structure, in its essential nature, in its ruling philosophies, present-day capitalism adds up to an entirely different economic and social system from its predecessor. Standards of everyday life have improved beyond recognition. Desperate poverty, once widespread, has been practically abolished. Glaring inequalities of income have disappeared. The state without welfare has been succeeded by the welfare state financed out of the productivity of modern capitalism. Wealth and the ownership of property have been re-distributed. Industrial power has been re-distributed. A capitalism in which labour had no practical status has given way to a capitalism in which the status of the individual worker is established and in which his collective authority is at least equal to that of any other section of society. A capitalism in which the sole test of the successful business was its profit-earning capacity has given way to one in which the test of the successful business lies also in its relations with its employees and the public, and the degree to which it is performing a national service. The omnipotent industrial autocrat has been replaced by the professional business manager subject to all the checks imposed by governments, powerful trade unions and a better informed public opinion.

A capitalism in which the instruments of production were owned by the few and operated for the direct benefit of the few has vanished. It has been succeeded by a capitalism in which the instruments of production are owned by the millions and operated for the benefit of the millions.
The chart on the opposite page reveals the essentially public character of the modern large-scale industrial enterprise. The General Motors Corporation of U.S.A. founded in 1908 with the merger of three small motor car firms had less than 2,000 shareholders as late as 1916. The ownership of General Motors today is spread over hundreds of thousands of shareholders. Its profits go to benefit not just a few people but millions. The owners of General Motors are not just a few wealthy individuals but countless small investors, students, insurance policy holders and beneficiaries in estates.

The widespread lines of G.M. ownership—direct and indirect—are typical of big American corporations today. They would also be typical of the larger Australian enterprises.

The distribution of G.M. ownership by size of holdings is shown below:

ALL SHAREHOLDERS

<table>
<thead>
<tr>
<th>Shares</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 100</td>
<td>18%</td>
</tr>
<tr>
<td>51-100</td>
<td>19%</td>
</tr>
<tr>
<td>26-50</td>
<td>24%</td>
</tr>
<tr>
<td>1-25</td>
<td>39%</td>
</tr>
</tbody>
</table>
GM OWNERSHIP
BENEFITS MILLIONS...

DIRECTLY...

THROUGH 387,710 INDIVIDUAL SHAREHOLDERS, AND...

THROUGH 65,160 JOINT ACCOUNTS

INDIRECTLY...

THROUGH 39,750 INSTITUTIONS AND GROUPS OWNING GM STOCK

WITH ACKNOWLEDGMENTS TO GENERAL MOTORS CORPORATION U.S.A.
COMPULSORY UNIONISM

AUSTRALIA is the most highly unionised country in the English-speaking world. Two out of every three Australian wage and salary earners are members of trade unions compared with only one in three in United States and Canada and less than one in two in the United Kingdom and New Zealand. But not content to rest on these laurels, local union leaders have recently been agitating for legislation to secure the millennium of 100% unionism.

Since the power of the Commonwealth in industrial matters is narrowly limited by the Constitution, compulsory unionism on any wide scale could probably only be introduced through the vehicle of State legislation. Because of the fear of infringing basic democratic rights, no State Labour Government, except in Queensland where the opposition parties have been in a hopeless minority for many years, has yet dared succumb to the dictates of its industrial supporters. This caution has abated somewhat in Victoria and New South Wales since the recent election victories of Labour and the Governments in these States are no longer turning a deaf ear to trade union demands for the introduction of compulsory unionism.

That non-unionists share in the benefits of awards secured by the unions rankles deeply with some union leaders. It is argued that these people are getting something for nothing, something to which they are not really entitled and that, therefore, they should be made to contribute to the cost by being obliged to join a union. The possibility of discrimination by employers in favour of non-unionists as against members of unions is also another sore point which it is claimed would be overcome by compulsory unionism.

Some union leaders go so far as to suggest that employers themselves would derive great benefits from compulsory unionism. Any union with a complete record of employees could act as a sort of labour exchange. Vacancies could be
automatically filled simply by contacting the union secretary. Under compulsory unionism, union officials, it is claimed, would be in a better position to ensure industrial discipline and the observance of awards.

However, a study of recent pronouncements by union leaders seems to indicate that what they really want from compulsory unionism is the extra revenue from thousands of conscripted members. Introduction of compulsory unionism in Victoria and New South Wales would probably swell all union funds by over half a million pounds, much of which might be available for political purposes.

HISTORY IN AUSTRALIA

A measure of compulsory unionism was introduced in Australia in 1932, when a Labour Government amended the Queensland Industrial Arbitration and Conciliation Act to grant preference in employment to unionists over non-unionists. This virtually compelled all employees working under Queensland State awards to join a trade union or face dismissal. Since Commonwealth law took precedence over State law the principle of preference could not be extended to employees working under Federal awards. This also applied to professional people and executives and also female domestics bound solely by contracts with individual employers and not subject to the awards of the State industrial authority.

Figures taken out in October, 1947, broadly summarise the incidence of compulsory unionism in Queensland as follows:—

<table>
<thead>
<tr>
<th>1. Bound by State awards granting preference to unionists</th>
<th>Males</th>
<th>Females</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>194,000</td>
<td>57,000</td>
<td>251,000</td>
</tr>
<tr>
<td>2. Under Commonwealth awards</td>
<td>55,000</td>
<td>15,000</td>
<td>70,000</td>
</tr>
<tr>
<td>3. No award</td>
<td>16,000</td>
<td>17,000</td>
<td>33,000</td>
</tr>
<tr>
<td>4. Total</td>
<td>265,000</td>
<td>89,000</td>
<td>354,000</td>
</tr>
<tr>
<td>5. Trade Union Membership, Dec., '47</td>
<td>173,000</td>
<td>45,000</td>
<td>218,000</td>
</tr>
<tr>
<td>6. % Wage and Salary Earners at Work</td>
<td>68</td>
<td>51</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: 1-4 Queensland Year Book; 5-6 Labour Report.
Thus, even in Queensland, complete unionisation of all employees has not been achieved. New Zealand introduced compulsory unionism in 1936 and since then the proportion of wage and salary earners in trade unions has risen from 16% to just under 50%.

In New South Wales, the State Industrial Commissioner has the power, seldom exercised, to award preference to unionists. Conscientious objectors can be exempted from joining a union provided the equivalent of the union fee is paid into Consolidated Revenue through the Court. In Western Australia, the Court of Arbitration is also empowered to grant preference to unionists. The Commonwealth has "preference to unionists" clauses in awards relating to its own employees. However, the High Court has held that preference to unionists cannot be used to provide a union monopoly or to exclude non-unionists when unionists are not available and willing to undertake employment offering. Victoria, South Australia and Tasmania have no legislation enabling any authority to provide for preference to union members.

POSSIBLE SCOPE OF COMPULSORY UNIONISM

The highest proportion of wage and salary earners coming under State awards, and therefore subject to the consequences of legally enforced unionism in any State, is in Queensland. In this State, where legislation to provide preference to unionists has operated for some years, the number of union members comprise today just over 70% of all employees.* It would seem reasonable therefore to assume that if compulsory unionism were introduced by all State Governments it would, at the most, only increase the percentage of unionists from 60% to something less than 70% of all wage and salary earners. Possibly another 300,000 members might be added to the existing trade union membership for the whole of Australia of 1,637,000. About 100,000 employees would be affected in Victoria and between 100,000 and 150,000 in New South Wales. It would appear that the bulk of this new membership would accrue to three large unions—the Clerks, Shop Assistants, and Australian Workers' Union (covering many rural employees). Relatively unorganised

* Labour Report estimate. Increased industrialisation and other factors have apparently brought about an increase in this figure as compared with 1947.
bodies of employees such as commercial travellers, nurses, photogravure employees, actors and announcers and similar white-collar workers might also be compulsorily inducted into the respective organisations at present existing in these fields.

Apart from the three unions already quoted, the 39 great industrial unions, whose present membership constitutes 74% of all unionists, would not greatly benefit from compulsory unionism. They are either already highly organised or bound largely by Federal awards. Recalcitrant and unfinancial members under State awards could of course be more easily brought to heel and from that point of view compulsory unionism would be a help to all established unions.

COMPULSORY UNIONISM STRIKES AT THE ROOTS OF DEMOCRACY

The main objection to compulsory unionism is not to be found in the realm of industrial policy at all. The element of compulsion strikes at the heart of traditional democratic rights guaranteeing freedom of thought and action to the individual. The allied war aims, as enunciated in the Atlantic Charter, were founded on this principle. That great champion of the underdog in the U.S.A., the late Franklin Roosevelt, resolutely refused to have anything to do with the "nation-wide closed shop" when American trade unions raised the issue early in the war. Australia, along with other democratic nations, is a party to the Declaration of Human Rights signed at Paris in December, 1948. This document states that everybody shall have the right to freedom of peaceable assembly and that no one may be compelled to join an organisation. Compulsory unionism would, therefore, amount to a repudiation of our word pledged in this document by a Labour Government.

The International Labour Office, with which Australia is affiliated, while endorsing in a resolution freedom to form an association also was most careful to affirm that the individual must remain free to join or not to join.

These matters are worth pondering by the Governments of Victoria and New South Wales before precipitate action is taken to introduce compulsory unionism. The unions themselves, who claim to have been in the vanguard in the
advance toward a fuller democracy, should be the last to talk of compulsion. Union officials, assured of their membership and finances, are likely to become increasingly indifferent to the needs and wishes of the rank-and-file by whose contributions they are supported. At present any member dissatisfied with the policy or the service provided by his union may resign. He could not do so under compulsory unionism. The interests of ordinary trade unionists would certainly be harmed.

Union officials also appear to have overlooked that compulsory unionism could be used to their own serious personal disadvantage should their union be deregistered. Under compulsory unionism members of a deregistered union would cease to be legally eligible for employment and would therefore be obliged to join an alternative body before they could return to work. Ironically enough, compulsory unionism which was introduced by a New Zealand Labour Government in the interests of trade union strength and solidarity was eventually used in the great water-front dispute of 1951 as a weapon against the striking unions.*

The claim that non-contributors participate in the gains secured by union activity overlooks the fact that the attraction of all voluntary associations, friendly societies and the like, lies in their benefits to members. That is why people join. The whole community benefits from the endeavours of Progress Associations, but no one for a moment has ever suggested that citizens should therefore be made to join such associations.

In the political field, compulsory unionism would have wide repercussions. Individual freedom and independence would be swallowed up in a system of mass direction. Through his new coercive powers the trade union leader will be in a position to speak on behalf of many individuals who may be lukewarm, if not openly hostile, to his brand of politics. Portion of their subscriptions would go to finance the Labor Party when in all probability large numbers of them vote for other parties.

* After the deregistration of the Waterside Workers’ Union in February, 1951, new unions, at first with minimum memberships of 15 in each port were registered by the Minister of Labour. Watersiders on the rolls of the old union (its books being in the possession of receivers) were circularised that they were debarred from waterfront employment unless they joined the new unions. Relevant forms of application for membership were enclosed.
The well-established and recognised authority of the trade unions in industrial matters does not need the protection of compulsory unionism. The powerful unions will derive little direct benefit from it. The interests of union members themselves will not be served. Many Australians will be coerced into providing financial support for a political organization with whose policies and programmes they may not agree. Compulsory unionism amounts, in effect, to an assault on the freedom of the individual to make his own choices. It is contrary to well-established democratic principle and has no place in a true democracy.

* * * * *

**TABLE I.**

**UNIONISTS AND NON-UNIONISTS BY STATES.**

<table>
<thead>
<tr>
<th>State</th>
<th>Unionists (Thousands)</th>
<th>Non-Unionists (Thousands)</th>
<th>% Unionised</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
</tr>
<tr>
<td>N.S.W.*</td>
<td>548</td>
<td>106</td>
<td>654</td>
</tr>
<tr>
<td>Vic.</td>
<td>338</td>
<td>78</td>
<td>416</td>
</tr>
<tr>
<td>Q'land</td>
<td>220</td>
<td>55</td>
<td>275</td>
</tr>
<tr>
<td>S.A.</td>
<td>118</td>
<td>20</td>
<td>138</td>
</tr>
<tr>
<td>W.A.</td>
<td>89</td>
<td>16</td>
<td>106</td>
</tr>
<tr>
<td>Tas.</td>
<td>40</td>
<td>7</td>
<td>47</td>
</tr>
<tr>
<td>All Aust. (incl. N.T.)</td>
<td>1,355</td>
<td>282</td>
<td>1,637</td>
</tr>
</tbody>
</table>

* Includes A.C.T.

Source: Commonwealth Statistician.
TABLE II.

RELATIVE SIZE OF AUSTRALIAN TRADE UNIONS AND
EMPLOYEES' ORGANIZATIONS.

<table>
<thead>
<tr>
<th>Size of Union</th>
<th>No. of Members</th>
<th>Union</th>
<th>Unionists</th>
<th>% Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 39 Trade Unions with 10,000 members and over.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 100,000 Australian Workers</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>11</td>
</tr>
<tr>
<td>100,000-50,000 Amalg. Engineering, Aust. Railways, Transport Workers, Clerks</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>13</td>
</tr>
<tr>
<td>50,000-30,000 Electrical Trades, Building Workers, Ironworkers, Clothing Trades, Shop Assistants, Coal Miners, Postal Workers, Aust. Teachers</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>19</td>
</tr>
<tr>
<td>20,000-10,000 Liquor Trades, Transport Officers, Engine Drivers, Loco. Enginemen, Hospital Employees, Tramways, Boilermakers, Commonwealth Pub. Service Clerical, Painters, Builders' Labourers, Leather Trades, Furnishing Trades, Postal Technicians, United Bank Officers</td>
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<td>13</td>
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<td>2. 23 Trade Unions with 5,000 to 10,000 members.</td>
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<td>3. 298 Other Trade Unions with under 5,000 members.</td>
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<td>5,000-2,000 43 Unions</td>
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<td>2,000-1,000 46 Unions</td>
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<tr>
<td>1,000 and Under 209 Unions</td>
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<td>TOTAL 360 UNIONS</td>
<td>.</td>
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<td>.</td>
<td>100</td>
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Sources: Aggregate figures from Commonwealth Statistician. Relative size of individual unions may be deduced from details published in the Report on Trade Unions by N.S.W. Industrial Registrar, the Queensland Year Book and the files of the Commonwealth Arbitration Court.
"Higher productivity is the brightest hope for every man, woman and child that the standard of living can be maintained and improved. Its importance ... cannot be exaggerated."

(The British Productivity Council—consisting of employer and union representatives.)

**FAITH and BULLDOZERS**

The British peoples—and this includes Australia—are dangerously complacent about the matter of productivity.

Since the war they have paid lip-service to its importance but, on the plane of national policy, they continue to show a strange reluctance to do anything positive about improving it. Words and exhortation have not been wanting. Productivity, it is conceded, is all-important; that better living standards can come only from more production is a truth so obvious, surely, as to be scarcely worth emphasising. But as soon as any step to improve productivity conflicts with some well-entrenched vested interest—as most steps to improve productivity inevitably do—then it is not the vested interest but productivity that must be sacrificed. If some measure which would increase output per man conflicts with the everyday convenience of the Australian public, or with the colossus of government cash hand-outs and other social benefits, or the exorbitant number of statutory holidays, or the archaic body of industrial practices to which the trade union movement so obdurately clings, or the immunity of a particular industry from competition—if the measure to improve production threatens to trespass on any one of these close preserves it will receive the coldest of possible receptions.

Yet, if the British peoples are not to sink to the rank of second-rate industrial power within the next decade or two, there will have to be a startling transformation in public attitude toward this question. And all human experience shows that no matter how rich a nation may be in spiritual capital, without the backing of economic strength, it can, when the cards are down, have little influence on the trend of things in this cold, hard world.

The harsh truth is that with every year that goes by the gap between American productivity and productivity in the British countries grows wider and the prospect of these countries retaining their position as a front-rank economic power grows dimmer. Apart from all the other things in her favour the United States possesses a tremendous advantage by the very fact that she is already well out in front. That wealth makes wealth is as valid for nations as for individuals. The person who accumulates wealth finds it much easier to amass more wealth than the person with modest means, even though the two may be equal in acquired skills and native ability. The same applies to nations. Wealthy nations can afford to save more, and, saving more, are able to invest more in research and equipment than the poorer nations. As capital accumulation per head grows
more rapidly in the wealthy country, so does production per head. As production per head expands, so do the equipment and technical "know how" which make possible still higher production. In economics there is a happy spiral of rising productivity as well as a vicious spiral of rising prices. The productivity gap between the wealthy country and those not so wealthy thus widens by a sort of natural process. This is exactly what is happening today in the United States vis-a-vis Britain and Australia. Every year the additional aids to production supplied to the American worker greatly exceed the additional aids made available to the English or Australian worker.*

Economists, of course, have noticed and measured this tendency. But in doing so, they have helped to give rise to one of the greatest superficialities in popular economic thought over the last decade. This is that differences in production per head among different countries can be attributed simply to differences in the quantity and quality of machines and equipment available to the workers of those countries. According to this view American production per head is much greater than other countries basically because the American worker has at his elbow more and better equipment and more horse-power to drive the equipment. Therefore, all that the lagging countries have to do is improve their tools, increase H.P. per worker, and production will rise accordingly.

This is, of course, no more than a truism. It doesn't provide even the germ of an answer to the ultimate question of how the workers are to be provided with more equipment and more H.P. It is easy to say that American productivity is high because the American worker has better equipment and double the H.P. at his disposal. But that doesn't tell us why the Americans have better equipment and more H.P., or how Australian and British workers can be supplied with mechanical aids to production on the scale customary in America.

* * * *

Economists have contributed little to the understanding of productivity and its underlying causes. The whole bias of modern economics has been to take the flow of wealth produced as a given amount and to analyse how this amount can be best stabilised in the interests of high employment and best distributed so as to satisfy the claims of reasonable equity. It is true, of course, that economics has recognised the relationship between productivity and real incomes and thus standards of living. The economist has also laboured, with some degree of success, at the complex task of devising satisfactory statistical measures of productivity. But economics has given only superficial attention to analysing the factors which determine the level of productivity and which account for differences as between countries.

Much of modern economics is concerned with the mechanical rather than the human aspects of economic life and it has achieved commendable success in devising measures and institutions for its regulation in war and peace, both within nations and between nations. But it has tended to neglect the study of the human element with which economics is, in the final analysis, mainly concerned. Economists can point with assurance to the factors which determine the rate at which the currency of country A exchanges for that of country B, but they have been unable to answer convincingly why output per head in, say, country

*See graph, page 89.
A is much greater than in country B. The psychology of people and nations in their economic behaviour, particularly in so far as it influences the quantity of wealth produced, is relatively untilled soil, a virgin territory awaiting investigation.

Now that there are some hopes of reasonable economic stability, and now that the mechanisms of social security have been established, economists may find that the most profitable field for exploration lies in productivity and the reasons why the peoples of one nation produce more than those of another. Economics has been of incalculable value to governments in establishing intelligent and workable financial, fiscal and social policies. Is it too much to hope that it can be of corresponding value in assisting governments to influence the amount of wealth produced, a problem which they are encountering great difficulties in solving?

* * * *

It is not an easy problem. It is, for instance, no final explanation of the fact that Americans produce double the amount of wealth per head of any other nation to say that they do this simply because they work harder. If this is so, the question of *why* they work harder still remains to be answered. It cannot be because they have a greater store of cerebral and muscular energy. Nor is it sufficient to say that the Americans produce more because they plan their work more intelligently. If American production is better planned, surely this cannot be attributed to the reason that Americans have a monopoly of the higher intelligence.

One thing that does seem to emerge to anyone familiar with the American scene is the singular “material-mindedness” of the American people. The American attitude of mind places great store on the material things of life and the human being is such that he will strive very hard to acquire that which he values highly. We can criticise this as “materialism” if we like, and, in fact, British people are inclined to assume, rather smugly, that they possess a clear-cut superiority over the Americans when it comes to matters spiritual. But whether or not we are “spiritually” superior to the Americans—which is by no means certain—we will have to accept the consequences of our attitude. We will have to be prepared to see the Americans draw further and further ahead in industrial progress, in the application of science to industrial ends, and in standards of living. But this is not an altogether pleasant prospect and certainly not one that those of the British heritage could accept without great affront to their pride and self-esteem. To the Americans, efficiency in production and the good standards of life which it makes possible open up spiritual horizons of their own. Those who would deny this would do well to call to mind the spiritual degradation to be seen among those peoples unable to supply themselves with a bare minimum of the basic necessities of life.

The technique of American production is no secret. American industrialists have, in fact, always been generously open-handed in divulging details of their methods and organisation and in making their “know how” available to anyone who has been sufficiently interested to learn. In the past few years vast numbers of industrialists and technicians from British countries have gone to the United States, both privately and under government sponsorship, to find out what they can of American methods and technology. But to learn the technique of American
production is one thing. To absorb the spirit and to comprehend the mental environment and the national attitude of mind which alone gives life and verve to the technique is quite another.

America excels in production because its people place great store on the material things of life. But this attitude is, in turn, the resultant of many contributory streams, just a few of which we are only beginning to detect. A remarkable intensity of national pride is one—something we cannot yet parallel in Australia. A complete absence of the kind of class distinctions and the social rigidity and inertia to which they give rise, such as one encounters in Britain, is another—possibly the most important of all. The history of America represents, in essence, a revolt against the feudal tradition of Europe—strong traces of which still remain—and the fetters which this places on the full development of the individual personality. In America "the ordinary man has the conviction that no gates may be barred to his entry. He feels that he has the right to experiment with himself. He feels the elbow room that comes from membership of a community that is dynamic in quality. Not only can he lift up his eyes to the hills, the community expects him to lift them up. That he has made his way forward gives him a title to pride; there is no assumption that he is moving outside the boundaries to which by his origins he ought to be confined."

It is not an American who said this, but an Englishman and a socialist, the late Harold Laski.

That the desire of the ordinary person to make the most of himself, the urge to rise in the world, comprises a vital part of the American industrial scene there can be no question.

The superior American capacity "to get things done" can't be accounted for solely by techniques and machinery. Americans pull down one city building and replace it with a 20-storey skyscraper, all within the brief space of 12 months. Australia! Well we know what has happened in Australia with the two or three large city buildings that have been commenced since the war. It would be wrong, of course, to concentrate the blame on the contractors or the workers directly concerned. Buildings in Australia are taking years instead of months to complete because of out-dated by-laws, because of interruption of supplies, lack of proper co-ordination in planning, because of jealousies between different authorities concerned—because, in other words, too few people are really imbued with the urgency of getting the job done as rapidly and efficiently as it can be done. The fault can be really attributed to the whole Australian community, to something false in the Australian attitude of mind.

We had the same experience with the preliminary planning of the Olympic Games site—a farcical, childish episode which brought us into disrepute abroad and which we would be glad to forget. The story was repeated with the Swan Street Bridge—the time taken up in construction became a standing joke. It is not suggested that these instances are entirely typical. If they were the Australian economy would simply not function at all. But they are far too frequent to be lightly dismissed.

If the British countries are to remain in the race with the Americans, and if Australia itself is to realise the glorious potentialities that it undoubtedly possesses, there will have to be a great change. There will have to be a national dedication to the goal of productive efficiency. There will have to be a revolution in the national attitude of mind. It is high time Australians ceased blaming the other fellow
for our failures in production and began to indulge in a little ruthless self-analysis. When they do, they will realise that those nations which excel in “getting things done” are aware of the supreme advantages of co-operation and the evil, destructive effects of unrestricted, sectional strife and disputation.

We have to learn the truth that, when all is said and done about machines and methods and “know how,” production depends on people. It will not flourish in an unsympathetic mental environment. There is no guarantee that the most efficient machinery manned by the best technicians will produce the best results unless behind them all are the drive, the urge and the will which can be supplied only by the human spirit. “It is, in literal truth, faith that moves mountains even when it employs bulldozers.”

The graph below compares the annual expenditures by manufacturing industry on NEW plant and equipment per worker in the U.S.A., U.K. and Australia for the three years, 1948, 1950, 1952.

![Graph comparing annual expenditures](image)


The basic data of this graph was converted from actual money expenditure in the countries concerned into real quantities of machinery and plant by the use of appropriate indexes.
The Australian public is badly informed about company profits. Misconceptions about their size, distribution, their effect on prices, and the important role which they play in industrial progress and the betterment of living standards are widespread. Business should leave no stone unturned to correct these dangerous misconceptions, which arise almost wholly from lack of knowledge of the facts.

As a contribution to this end, the Institute recently issued a brief and simple statement to the daily and country press and periodicals throughout Australia. The full text of this statement is republished here.

The TRUTH ABOUT PROFITS

THE Institute feels that a simple explanation of company profits to the public is long overdue. There is nothing about which more nonsense is spoken and written even by highly educated people holding important positions in the community.

1. ARE PROFITS IMMORAL?

The profit motive is present in everyone. All men strive to increase the rewards for their work—the unskilled labourer as much as the shopkeeper or the top business executive. There is nothing immoral in this. On the contrary the desire of individual men and women to better their material position is entirely praiseworthy and is the mainspring of all progress.

2. HOW LARGE ARE COMPANY PROFITS?

They are far smaller than most people imagine. Profits in Australia are much lower than in any other English-speaking country.

Here are the latest available figures:

<table>
<thead>
<tr>
<th>Country</th>
<th>Profits on Shareholders' Funds</th>
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<tbody>
<tr>
<td></td>
<td>Before Tax</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>28</td>
</tr>
<tr>
<td>Canada</td>
<td>24</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>22</td>
</tr>
<tr>
<td>Australia</td>
<td>15</td>
</tr>
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Aggregate profits are, of course, meaningless. A total profit of £1 million earned by a company with a capital of £10 million is no greater proportionately than a profit of £10,000 made by a business with a capital of £100,000.

3. WHO BENEFITS FROM COMPANY PROFITS?

Many people believe that company profits are parcelled out among a few rich people. This is quite wrong. Actually a very high proportion of all people earning incomes benefit from company dividends.

There are, for a start, over 500,000 shareholders in Australian industry. In addition, hundreds of thousands benefit from investments in shares by life insurance companies and superannuation, charitable and even religious funds. The small minority with large holdings of company shares are taxed at over 15/- in the £ on their dividends. Over 30% of all dividends (after allowing for taxation on shareholders' incomes) in 1948/9 went to people with incomes under £1,000 a year and to charitable bodies. If all dividends received by the top incomes were shared out among the low incomes, the latter would not benefit by more than a few pence a week.

In 1951/2, the Commonwealth Government took the lion's share of company profits—£150 million in company tax. Shareholders got £85 million.

4. WHAT IS THEIR INFLUENCE ON PRICES?

Very small! In 1951, the average rate of company dividends on shareholders' funds was 6%. If this rate were reduced to the Commonwealth Bond rate of 4½%, the prices of goods would fall by less than 2d. in every £ of goods sold.

5. WHAT USEFUL FUNCTIONS DO THEY PERFORM?

(a) They provide an incentive to companies to raise efficiency, reduce costs and supply more and better goods for the public.
(b) All profits are not paid out in dividends. A large part (in Australia an average of 25%, in the United States an average of 60%) are retained every year in the business. These profits are used to improve and expand productive equipment, to promote research, and to safeguard the financial future of employees. All this is the basis of industrial progress and better living standards. Every year the American worker is being provided with two to three times as much new equipment to aid him in his task as the Australian worker. How is this vast amount of equipment paid for? A great proportion is financed out of company profits retained in the business and not paid away to shareholders.

6. WHERE DOES THE PUBLIC INTEREST LIE?

All history shows that living standards rise, and only rise, as the productive equipment of the community is expanded. Company profits are the main means by which this can be accomplished. The continual sniping at profits slows up this process and acts against the best interests of the community itself.

Australia is a magnificent country with prospects that are unrivalled. But, if they are to be realised, there will have to be a very different attitude by the public and governments towards company profits. We believe that this new attitude will arise when the public know the truth about profits and it is as a contribution to that end that this statement has been made.

How can there be a conflict between profits and living standards when in North America, which has the highest real wages in the world, company profit rates are far greater than in any other country.
Economic Prospects in the U.S.A.

by

Seymour E. Harris
Professor of Economics
Harvard University

This article has been kindly contributed to "Review" at our request by one of the foremost of American authorities. It deals with a subject of the utmost importance to America and the rest of the free world, namely: Will there be a serious recession, or worse, a depression in the United States within the next few years? The author, Seymour E. Harris, who holds the high scholastic post of Professor of Economics at Harvard University, attempts to answer this critical question.

It is a long time since the United States has had a genuine depression. Indeed, in 1937-38, there was a substantial recession; but it was short-lived, and in 1938 output was down less than 10 per cent.; and in 1948-49, a moderate recession occurred. But in 1949, the Gross National Product was almost exactly equal to that for 1948; and even before the Korean War, a recovery was evident.

This country has become so accustomed to prosperity that there is a school that seems to believe depressions are a phenomenon of the past. For example, Dr. Woytinsky, a
noted statistician with an unusually good forecasting record, writing in the New Leader, reassured the American public that following a programme of demilitarization, tax reduction and pent-up demand would solve our problems. I am afraid that his analogy with 1946-50 does not hold. There is very little pent-up demand. Thus, the American public has been building homes for years in excess of the rise of new families. In the post-war period through 1952, the number of cars purchased reached 29 millions, and the number of cars in use rose to 44 millions at the end of 1952, a rise of 50 per cent. over the best pre-war years, and there were almost twice the number of cars on the road as at the end of the war. It cannot be expected that either housing or automobiles will continue to play the crucial part in offsetting declines in other segments of the economy, e.g., military or soft goods, as in the past. That the average life of a car is now 14 years, as compared to 10 years just prior to the war and 7 years in the late twenties, strengthens the force of this contention.

HOUSING DEMAND

Housing demand, as has been noted, is also likely to play a reduced part. One reason is that the number of families doubled up has declined by about one half since 1947. This process of establishing homes by those previously doubled up contributed substantially to the annual post-war demand of 1.5 million units—now reduced to 900,000 units in 1952. The Census estimate for 1953-55 is 750,000 units per year; but this is on the assumption of continued high employment and income. A substantial drop of income not only will not be offset by a rise in housing and automobile outlays; but actually a decline in expenditures for these items would tend to accelerate the decline. That housing outlays are primarily for adding to the supply and not for replacement makes housing outlays very sensitive to business conditions. In fact, the greater part played by durable goods of all kinds is a factor tending to strengthen the cyclical vulnerability of the economy.

While we are on the subject of major determinants of total purchases and particularly those subject to large fluctuations, we should consider briefly private domestic investment
and the net export balance. An excess of investment over savings available to business tends to stimulate the economy; and similarly with an excess of exports (inclusive of services) over imports.

PRIVATE INVESTMENT

It is important to assess the future of investment; for the health of our economy depends in no small degree upon the level of investment and its relation to savings. Personal savings have tended to be high in 1951 and 1952—an average $18 billion as compared with an average of less than $9 billion in 1946-50—8 per cent. of disposable income (after personal taxes) in 1951 and 1952 and 4½ per cent. in 1946-50.

These large savings point to possible difficulties. Consider also our investment history of the last 7 years, with business plant increasing by around 50 per cent. in real terms and a dollar of investment becoming increasingly effective despite the general loss of purchasing power of the dollar. The United States has experienced the biggest investment boom of its history, not excluding that of the twenties. (Lord Keynes never agreed that the speculation of the twenties was in fact a substantial investment boom).

Is it likely that investment will continue at the rate of the last 7 years? I have serious doubts. I say that, despite the results of the famous McGraw-Hill forecasts of investments. Their latest (just out) shows planned capacity in manufacturing at 238 in 1956 (204 in 1952, 218 in 1953), with 1939 at 100. The McGraw-Hill forecast of 203 for 1952 had actually been proved remarkably accurate (204). Even this forecast shows an annual rise much smaller than in the last few years. Again, basing itself on a questionnaire addressed to large corporations, the U.S. Department of Commerce for the first time has dared to estimate several years ahead expenditures for plant and equipment for all business firms. The results are interesting.

"These large companies project capital outlays in 1954 and 1955 at 85 per cent. and 80 per cent., respectively, of 1952 volume, when the returns are weighted by industry. This is a relatively small drop for periods far ahead, but again
there must be a caution that this rather favourable pattern is based upon an assumption of continuing high general business activity."

I am not inclined to put too much confidence in these forecasts, for the simple reason that plans would be adjusted as business conditions change. This seems to be a tenable position even though business tends to plan for longer periods than in the past, and hence repudiation of plans encounters greater opposition. It would be interesting to speculate what the 1929 plans for 1930-32 would have been as compared with actual results.

With consumption outlays relatively stable, the brunt of the responsibility for maintaining stable conditions rests upon investment. (Though note that, in the years 1947 to 1952, the ratio of consumption expenditures to expenditure income after taxes was in successive years: 97.7, 94.4, 96.4, 94.5, 92.4, 92.5). Investment played a crucial part in the post-war period. In the years 1946-52, gross private domestic investment totalled $295 billion; but business savings amounted only to $194 billion. In other words, business spent about $100 billion more than its savings, and hence contributed greatly both to the high level of employment and the inflation. (In the Korean War, there has been a rise of output of 1½ percentage for every percentage increase in prices; in World War II, the ratio was 3 to 1).

The conclusion drawn from the analysis so far is that the economy is not likely to be stimulated by a high level of building activity, purchases of other durable consumer goods, or by a high level of investment greatly exceeding savings of business as in the years 1946-52, or even 1946-53.

GOVERNMENT AND EXPENDITURE

But what of government? Since 1939, government has played a vital part in keeping the economy active—approximately $500 billion spent for national security up to the present. This includes foreign aid. I am not suggesting that the prosperity of the last 13 years is explained only by military outlays. The fact is that the nation’s income over 20 years, 1933-52, was about $2,200 billion in excess of what
the income would have been had it not risen above the depres-
pression low. This large excess cannot be explained merely by security outlays. But it has not yet been shown that the economy can be maintained at a high level without substan-
tial government outlays and even deficits.

My distinguished colleague, Professor Sumner Slichter, is more optimistic on this score than the writer. He envisages little difficulty even if military outlays are cut by $30 billion; he bases his optimism on the theory that Americans are good spenders and always adjust spending to income after taxes (hence reduce taxes and spending will rise correspondingly); and on the theory that investment, even if below current high levels, would absorb savings made available, the explanation apparently being the high place given to research in American industry. This analysis does not explain away, however, the difficulties of the thirties, nor the relationship of a decline of income and the ensuing larger cuts in expenditures on durable goods. Should the initial drop be averted, or should it be accompanied quickly enough by corrective measures, then the economy may be saved a cumulative decline.

In some of his writings, it should be noted, Professor Slichter justified a growing government deficit as the practical means of providing the economy with the money required as it grows.

In view of the importance of preventing a decline with its accompanying effect on confidence, or of acting quickly in response to a decline, it is well to consider the current state of public policy.

In the years 1946-52, the effect of the operations of the Federal government were deflationary, for receipts exceeded expenditures. (State and local government, however, had a net inflationary effect). Included in the government balance sheet is its contribution to the excess of exports; but should this excess, insofar as financed by government aid, be credited to the government, then the government's deflationary effect on the domestic economy would be so much larger.

In the 3½ years ending June, 1949, the United States imported $30.5 billion of goods and services and exported $62.9
billion. Government aid accounted for $19.6 billion, or more than 30 per cent. of the exports, and roughly 60 per cent. of the excess. In the next 3½ years, government aid financed less than 25 per cent. of the exports and roughly the entire excess of exports.

* * * * *

FINANCIAL AND FISCAL POLICY

Perhaps the crucial issue in the next few years relates to public policy. The government is still inflation conscious; but despite the inflationary pressures of large public outlays and high investment levels, prices have been moving downwards slightly for 2 years. The result is that the government may be administering a sedative when what is required is adrenalin or benzedrine.

Recent interest rate policy reflects in part this concern for inflation as well as a strong penchant for a free market. In recent years, the government, in collaboration with the reserve banks, has tended to support the government bond market. At times, the government's concern over the price of its securities in influencing monetary policy may have been excessive; and in the years 1946-51 a case could have been made for a somewhat more severe monetary policy, with rates rising more than they actually did.

But the Administration, fearful of inflation, may well have been using a sledge-hammer when a scalpel might serve. The bond market is rather demoralized, with experienced investors awaiting minimum prices for bonds (maximum rates) before they buy—the average rate on government securities is now 20 per cent. above the war-time level and long-term rates have risen from 2½ per cent. to 3½ per cent. The rise in interest rates at this time may well discourage investments in housing, durables and in other channels.

Furthermore, the government is greatly concerned over the tax burden and the national debt. These are, indeed, large and at record levels. As a result of the alarm over solvency and the integrity of the dollar, the government would hesitate to intervene promptly should a decline appear. But fear of bankruptcy is overdone. Taxes at $95 billion are very high compared to the $7-8 billion of 1933; but income has increased 3 times as much. The debt of $265 billion is
also very large; but the cost of financing is less than 1/50 of the rise of income since 1933, and the amount compared to the national product is down, around one half compared to the relationship at the end of the war.

The great danger is that the government will sit back and do nothing; and even prompt action, given existing mechanisms and institutions, means serious delays. On this score I am pessimistic. The ray of hope lies in the general distaste of taxation. A depression may be countered by large cuts in taxes; but we cannot even be sure of this. The economics of Keynes, Hansen and Copeland has not really penetrated Congressional circles. Budget balancing, on a yearly basis irrespective of the harm done to this country and the free world so dependent on our investments, grants, purchases, and military support, is still accepted by the vast majority of the population and the Congress. There is little attention given to the relation of the tax bill or the debt bill to the national income or the effects of disbursals on income.

But I do not want to be unduly pessimistic. Of course, an extension of the war will at least give us a sham prosperity; but the costs would be tremendous.

ECONOMY LESS VULNERABLE

What is encouraging is that our economy is much less vulnerable to a continued decline of demand than in the thirties. Whereas social public welfare expenditures were but $7 billion in 1935-36, they are around $24 billion today. The two important social security trust funds alone have $25 billion available, a substantial part of which could be used as unemployment gains. These would help maintain spending. Again, our tax system is primarily one of direct taxes as compared with 1933, and, therefore, substantial tax relief becomes available even before tax rates are cut. The farmers are protected by price supports; the worker's income by strong trade unions and an awareness of the damage done by general wage cutting. Consumers are much better protected by large holdings of liquid assets (though debts are high); and business by much smaller relative debts. At least the experts know much more about how to stimulate the economy through monetary policy, fiscal policy, and in other ways.
A depression of the magnitude of the thirties would cost this country $1,200 billion, or 2-3 times the cost of World War II to this country. The effects upon other countries, considering our contributions to military aid, international financing, to the world market for goods, and to the fight against communism, would be serious indeed.

* * * * *

But I must italicize the fact that a depression of this order is out of the question. The greater part played by government and the reduced relation of spending and current income generally emphasize the reduced vulnerability of our economy to downward pressures. But it has been my contention that we cannot rule out the possibility of a moderate depression. A decline of defence orders; the relatively saturated condition of the markets for all durables; the slowness with which government reacts, partly because of lack of knowledge and partly because of the cumbersomeness of the machinery—these all strengthen the possibilities of trouble.

1955—A DANGER YEAR

After a careful survey, the Department of Commerce concludes:

"The projected decline in defence spending in 1955 would provide a serious test of the strength of the economy. Particularly is this so since the reduction would be almost entirely in government purchases from the durable goods and construction industries, which may also be experiencing slackening demand in the private investment field unless that adjustment is completed earlier. Thus, 1955 appears to be a year in which it will be of major importance sizably to expand private markets to maintain a high level of business activity."

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Contributed articles by noted authorities in Australia and overseas dealing with matters of public interest are published from time to time in the I.P.A. Review. This Institute is not necessarily in full agreement with the views expressed in these articles. They are published in order to stimulate free discussion and inquiry.