The Economic Prospect

The Economic Survey issued by the Government in May represents a significant advance in methods of economic administration in Australia. The Survey is to be an annual event. It will not only contribute to a better understanding of the economy by business and the public than has hitherto been possible, but, in the labours of preparation, Canberra cannot fail to clarify its own mind as to the problems to be faced and the courses of action necessary.

The first Survey is, on the whole, a good document. It does not—because it cannot—lay down the lines of future policy, but it brings out the dilemma confronting the policymakers and the nature of the vital decisions which the Government—short of some unexpected good fortune—will be compelled to take within the next two or three months.

In two respects at least the Survey reveals an important shift of emphasis in Canberra thinking.

First, it abandons the conception—which gave rise to vast confusion in the public mind—that the present difficulties are no more than the unruly children of prosperity which
The Economic Prospect (continued)

can be brought to heel by a few stern admonitions and one or two minor restraints. *The Survey adopts the view that while some features of the present situation may be transient, the problem is essentially deep-seated and continuing.* It rightly insists that the problem confronting us has not arisen, as was the case with past economic difficulties, from depressed conditions abroad—world prosperity and world trade remain at high levels. Our troubles may have been precipitated by the fall in export prices from “Himalayan” heights, but fundamentally they are of our own making and within our own control. This is an important admission.

Second, the Survey does not fail to emphasise the factor of growth and expansion as a contributing cause of the balance-of-payments difficulty. Previous statements from Government sources had been inclined to place the sole blame on “extravagant”, inconsiderate spending by the public on consumption goods. “Clearly, however, the more rapidly expansion is pushed forward and the more strongly people at the same time demand satisfaction of their current needs, the greater will be the strain on available supplies and resources and the stronger the tendency to seek supplies from abroad.”

In straight, simple terms, what is the economic position revealed by the document?

OUR overseas reserves have reached bedrock levels, below which they cannot, with safety, be allowed to fall. We must, therefore, now live within our current overseas income and any net inflow of capital from abroad which may come our way. The projected import target of £650 m. is presumably based on a continuation of the present level of exports (about £770 m.), but with some falling off in the rate of net capital inflow (£116 m. in 1954/5)*. The movement of capital is completely unpredictable, but, all things considered, we may count ourselves fortunate if a high rate of capital inflow is maintained. A serious fall in the flow of capital into Australia would necessitate a tightening of import restrictions, if overseas reserves were to be prevented from running down further.

* Net payments for “invisible” items—freight, insurance, etc.—may be in the vicinity of £180 million this year.
What, then, of export income? Can it be increased? In the short-term the prospects of any substantial increase seem negligible. Optimists might think otherwise. But the pessimists, with equal justification, could anticipate a decrease.

If the optimists are right, and there is also no falling away in the flow of capital, we might expect to struggle through, not without difficulties but perhaps without the need for severe crisis measures additional to the adjustments on which the Government has already embarked. If the pessimists are right and, say, wool sales should open in the new season with prices 10% to 15% below current levels, then we would be facing an economic crisis of some magnitude. Rationing and allocation of short supplies of imports, on the war-time pattern, could hardly be avoided; some unemployment would certainly appear; development would be slowed to walking-pace and migration would come to a dead stop. The only excuse for drawing a picture of such grim possibilities is that it serves to drive home the extremely fine margins on which the Australian economy is at present operating, and the precariously thin line between reasonable prosperity and grave economic difficulty.

But let us take the middle course between optimism and pessimism. Let us assume that exports and capital inflow in the coming year will continue around present levels, in other words that income from these sources will be sufficient to finance imports at about £650 m. Even on this assumption it is certain that the permissible volume of imports will not be sufficient, at one and the same time, to satisfy the requirements of Australian industry on its present scale, to maintain living standards and to support the present rate of expansion and population increase. At this point it is worth quoting from the Survey: “At least it is certain that the volume of supplies coming from abroad will be very considerably less than that to which the economy has been accustomed for a long time past and that fact will force upon us the need for some difficult adjustments. Some have foreseen the possibility of sectional, if temporary, unemployment. On the other hand, if efforts are made to produce local substitutes, for articles which cannot be obtained in sufficient quantities from abroad, additional calls will be made on local resources of
labour, materials and equipment, so increasing competition for such resources and tending to force costs upward". (The italics are ours.) The Survey makes clear by implication that the latter course, even if feasible in a physical sense, would be self-defeating: "... the greater the internal demand for goods and resources the more difficult it must be to increase exports with which to pay for imports ... if we are to enlarge exports and especially exports of manufactures which must compete in markets abroad on a price basis, the level of our costs and prices is all-important".

What, then, are the "difficult adjustments" which will be forced upon us, and of which the Survey speaks?

The Survey, of course, does not attempt an answer to that question. But the Government will hardly be able to avoid providing one within the next two or three months.

In a rather unsatisfactory concluding section the Survey poses a series of broad alternatives, but it is meticulously careful to refrain from revealing a leaning one way or the other. This section may be a triumph of non-committal drafting, but is hardly helpful to the reader seeking the right short-term answer to our problems or a clue to the probable course of government policy within the very near future.

ONE thing is clear (and on this the Survey is fairly definite): economic circumstances dictate that the level of demand within the economy, from whatever sources it derives—that is, whether from expenditure on current consumption, or on government or private capital expansion—will need to be accommodated to the reduced supplies of imports entering the economy. Otherwise there must be further inflation which would be disastrous both to export prospects and to internal stability.

Where should the blow fall?

If current consumption is to be reduced and government spending on public works is to be kept up, the Government would be forced to impose further increases in taxation. The alternative is to reduce the level of developmental spending and the rate of intake of migrants.
The first course would have two grave drawbacks. It would probably spell the political doom of the present Government. It would dismays not only the Government’s strongest supporters, but the great bulk of the taxpaying public. But there is a second drawback based on purely economic considerations. Unless it gave rise to some unemployment, an increase in taxes to support government spending and reduce current consumption would probably have an inflationary influence on costs and prices, something which—as the Survey itself strongly implies—should be rigorously avoided. If, on the other hand, it led to the appearance of unemployment, it would bring the migration programme to a full stop. One does not need to be expert in Australian political history to know that the first mild breath of unemployment would precipitate an outcry—which would be irresistible—for the termination of migration. The advocates of maintaining the migrant intake at the present rate might pause to reflect that the course they recommend is the surest and quickest way of stopping it altogether.

Both on economic and political grounds there is only one right, and indeed practicable, course, for a Government—confronted with the difficult situation in which the present Government unhappily finds itself—to pursue: That is, to brake back the pace of economic expansion and population increase—if possible by progressive and experimental stages—to the rate which the nation’s economic capacity will stand. To maintain the present break-neck speed would be to take risks with the economy which many would regard as unpardonable.
In an address delivered in Adelaide last April, the Governor-General, Sir William Slim, said that the next 25 years would be the most critical in Australian history. To survive as a great democracy we would need leadership in every branch of our national life — politics, business, labour, the press, the church, education.

All thinking people would certainly agree. Australia is passing out of the dependent, adolescent stage of its development as a nation. As we grow and mature our responsibilities will grow too. We must be prepared to stand on our own feet more than ever before. The Communist threat and the surge of nationalism and political independence in South-East Asia bring the world political spotlight right to our doorstep. Geographically, Australia is immovable; we cannot move the Australian continent, but at least we can change our national attitudes. In internal affairs, the spectacular transition from a predominantly rural to a predominantly industrialised economy has brought with it an economic problem perhaps more deep-seated and intractable than any we have yet had to confront. Altogether Australia has reached what can be described, unexaggeratedly, as a climacteric in its historical evolution. The need for leadership is a pressing one. Will it be forthcoming?

Australians are said to be a people who do not make it easy for their leaders. There may be truth in this. The levelling instinct is by no means absent from the Australian temperament, and when someone emerges from the ruck, a few voices will always be raised to tell him to get back into line. But perhaps this attitude is not entirely without its advantages. At least it has the virtue of keeping the leaders on their toes, and if it discourages some, the big man will rise above it, as our history shows. And it may even be due to some idealistic trait in the national make-up, some quality which makes Australians demand perfection in their leaders, and turn on them savagely when they disappoint. Or it may arise from the fact that, for some reason or other, which is hard to nail down, Australia at the present crisis of her affairs may not be producing sufficient leaders of the requisite stature. This seems to be at least part of the explanation.

Leadership somehow imposes itself. When we recognise it, we accept it and in accepting it we follow it. This does not mean that we can define it. We feel that Brown is a leader and Smith is not, and yet to all outward appearances Smith is not inferior to Brown in intellectual ability or in moral quality. In the last analysis, the capacity for leadership probably has its roots in character or in some attribute of personal magnetism. Above all a leader must be able to inspire. Among other things he must be able to inspire trust, because we will not trust ourselves to those whom, no matter what their other qualities, we fear may sooner or later let us down. But those we trust we would willingly follow over the edge of the world.

This means that leaders can’t just be manufactured. The carefully cultivated product of the most promising raw material often falls short of specifications. The highest type of leadership seems to demand
some inborn or innate quality which the best education and the widest experience cannot impart. It is equally true, however, that many people with the capacity for leadership are "born to blush unseen" because of lack of opportunity for self-development. The best seed may fail to sprout unless the ground is cultivated and fertilised. It is here that action is possible.

What Sir William Slim seemed to have chiefly in mind was a particular type of leadership. He had in mind the need for people who could become national leaders, people who could inspire their fellow countrymen and guide them along the right paths.

A man can reach the top of his chosen profession or business without being a leader in this sense. This kind of leadership demands something more than the ability to succeed in a narrow sphere, however brilliantly. It is tremendously exacting. It demands not just the willingness to work long hours at the daily task. It demands, for one thing, a high degree of selflessness, a readiness to give time and effort to causes which may not in themselves lead to personal prominence or financial gain. It requires a deeply-felt sense of social responsibility, a real desire to contribute to the welfare and advancement of one's fellow citizens. To do one's daily work to the best of one's powers, to provide for and bring up one's family in the way they should go, to assist one's friends—all this is good and necessary, but much more is demanded of a national leader.

He must become absorbed in national problems. Indeed he will feel a lack of self-fulfilment unless he is contributing in some way to their solution. He must be inspired by the urge to help his country to achieve the highest stature of which it is capable. For this reason a true national leader will be possessed of almost an overwhelming sense of national pride. There has probably never been a great national leader who did not feel something approaching a fanatical love for his country—a love based on real understanding. A great Australian leader must be first, last and always, Australian. "What land shall a man love if not the land where his friends are, where he fell in love, where his children are growing up, where he has made his home? To what other land shall he dedicate his hopes and fears, his faith and his endeavour? Where the treasure is shall not the heart be also?"

But in today's Australia a man may have all this, ability in his vocation far above the average, and a four-square character too, and still fail to measure up as a national leader. In the modern world leadership of this kind requires knowledge, not just, indeed not mainly, a narrow specialist competence, but a broad-ranging comprehension of manifold things far beyond the technicalities of the everyday task. All the good intentions in the world may be rendered abortive without the knowledge, the understanding and the insight which come partly from a broad experience and partly from the best education. We recall the specifications which the late Lord Keynes demanded of his Master Economist. To be brilliantly equipped in the technical sense was only the small part of it. He had to be so much more—historian, philosopher, statesman, mathematician, incorruptible idealist, down-to-earth realist. These too, are, in the main, the
National Leadership (continued)

specifications for national leadership. How is this knowledge, and, more than knowledge, this broad-ranging philosophy, to be provided? In Australia, as Sir William Slim indicated, we must look principally, although not exclusively, to our senior schools and universities. There are, admittedly, many examples of great national figures who achieved eminence without the advantages of a higher education. They were generally people of rare personal gifts who often subjected themselves to a gruelling process of self-discipline and self-education. But they are the exceptions and, other things being equal, we would expect our national leaders to come in the main from those who have been fortunate enough to have had an advanced education.

The record of the senior schools and universities in this respect is perhaps not quite as good as we should expect. At a speech-night a year or two ago the headmaster of one of the leading Victorian schools said that over its history his school had virtually failed in the provision of national leaders. Whether this is the fault of our educational institutions or whether it is the fault of our Australian psychology and way of life, it is hard to say. It is certainly true that education is only commenced at school and that if the schools can awaken the desire for knowledge, in the broadest sense, they have fulfilled their function. Can they be blamed if the community, because of some fatal flaw in its attitude to life, scorns the products which they produce? It has to be admitted that Australians, by and large a severely pragmatical people, do not place a high valuation on the things of the mind. So far we have not perhaps felt the need of them. From now on we may feel the need more and more.

Of course it is true that the schools and universities do a most praiseworthy job in providing a large supply of men for leadership in the various professions and, to a less extent, in business. But this is a rather different thing from national leadership. A man can become a judge or an eminent scientist or a prominent industrialist and do outstanding work in those fields without becoming a national leader in the strict sense of that term. From a national leader something more is required even than the ability to excel in the judicial or scientific or business sphere. There are, of course, judges who are more than judges and businessmen who are more than industrialists or money-making tycoons and editors who are more than circulation experts. These are the men who display a sense of national responsibility above the average and consequently a willingness to participate in, and a desire to leave their mark on, national affairs. They use their exceptional abilities not only to reach the top in their special sphere but to lead, guide, and educate their fellow-countrymen in many ways. They establish goals. They set the tone of the national life. By their example they elevate its standards, moral and intellectual. Above all they bring a breadth of viewpoint, an imaginative vision, and a social responsibility to their everyday work, which makes them far better as judges, doctors, newspaper editors, scientists, or businessmen or whatever their vocation in life may be.

A nation that fails to produce a sufficient supply of this kind of men is heading for trouble. It’s probably true that, in the long run, a nation gets the leaders it deserves.
Company Profits—
A Comparison

For some years it has been apparent that a comparison, on a comprehensive basis, between the levels of company profits in Australia and some of the other main free enterprise countries, would have considerable economic and political value. Such a comparison should afford a criterion for judging whether the level of profits in Australia is excessive, or whether it is inadequate, when considered in relation to the position in other countries.

If, for instance, company profits in Australia are generally higher than in countries such as the United States and Canada, it might be inferred that these profits are above the level necessary to ensure industrial efficiency and rapid economic development. If, on the other hand, profits in Australia are on average below those in other free enterprise countries, it might be argued that they are insufficient for the purposes of securing maximum efficiency and development.

In making such a comparison there are four main points to be considered:

(1) The rate of profit, both before and after tax.
(2) The level of company tax.
(3) Manner of taxation of dividends.
(4) Depreciation rates and special write-offs permitted before income is calculated for the assessment of tax.

None of these factors should be ignored when comparisons are made between the level of profits in different countries. Unfortunately, one or more are frequently overlooked. For example, the increase of 1/- in the £ in the rate of company tax in the March supplementary budget was justified by the
Government partly on the grounds that “the weight of company tax is undoubtedly much lower in Australia than in overseas countries like the United Kingdom, Canada and the United States of America”. This conclusion was based wholly on a simple comparison of the rates of tax on company income. It took no account of:

(a) The levels of profit before and after tax. Clearly a heavier rate of tax levied on a higher profit level might still leave a greater net profit than a lower rate of company tax on a smaller profit. In other words, “the weight of company tax” would be heavier in the former case than in the latter where the actual rate of tax was lower.

(b) The charges against earnings, particularly depreciation rates, permitted in the different countries before the assessment of income for tax purposes.

(c) Rebates of taxation on dividends in the hands of shareholders.

**PROFITS—AUSTRALIA AND OVERSEAS**

It is standard practice in accounting and financial circles to relate company profits to the amount of shareholders’ funds used to earn those profits. Any other basis of comparison is meaningless. To compare profits in different countries it is therefore necessary to obtain uniform figures of shareholders’ funds and profits before and after tax. The resultant ratios should give a broad picture of the prevailing levels of profit in each country. Authorities in the major English-speaking countries extract information from published company accounts from which it is possible to tabulate figures of shareholders’ funds and profits.

The table on page 43 and the material in the Appendix set out on page 50 have been derived from data published in the Monthly Letter of the National City Bank of New York (mainly in April of each year); the Statistical Summaries prepared by the Research Department of the Bank of Canada; the Commonwealth Bank’s monthly “Statistical Bulletin” and the tabulations compiled by “The Australian Financial Review”; and the periodical analysis of British company results published by “The Economist”.

Page 42
% PROFITS ON SHAREHOLDERS’ FUNDS
MANUFACTURING COMPANIES

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>U.K.</th>
<th>U.S.A.</th>
<th>Canada</th>
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<tbody>
<tr>
<td><strong>Before Provision for Income Tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1951</td>
<td>18</td>
<td>22</td>
<td>34</td>
<td>29</td>
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<tr>
<td>1952</td>
<td>16</td>
<td>21</td>
<td>26</td>
<td>25</td>
</tr>
<tr>
<td>1953</td>
<td>16</td>
<td>18</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>1954</td>
<td>17</td>
<td>19</td>
<td>24</td>
<td>n.a.</td>
</tr>
<tr>
<td>1955</td>
<td>18</td>
<td>20</td>
<td>30</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>After Provision for Income Tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>9</td>
<td>8</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>1952</td>
<td>8</td>
<td>7</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>1953</td>
<td>9</td>
<td>7</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>1954</td>
<td>10</td>
<td>8</td>
<td>12</td>
<td>n.a.</td>
</tr>
<tr>
<td>1955</td>
<td>11</td>
<td>9</td>
<td>15</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Note: For the reasons explained below, the U.K. figures (after tax) are not closely comparable with those of other countries.

This table shows that company profits (before tax) as a percentage of shareholders’ funds are lower in Australia than in Canada, United States and United Kingdom. The profit levels in North America are particularly striking. Both before and after paying tax, the rate of earnings of American and Canadian companies is notably higher than that of Australian companies. The earnings of British companies, after payment of tax, are not comparable with those of Australian companies since, in the United Kingdom, dividends are taxed in the companies’ hands. All income-earners with incomes below £2,000 a year do not pay tax on any dividends received by them. Persons in receipt of incomes above £2,000 a year must pay a sur-tax on their dividends—that is a tax additional to the standard rate (which has already been paid by the company).
In Australia all persons in receipt of taxable incomes must pay the full rate of tax on dividends received by them. Were data available to make the appropriate adjustments for tax payments on dividends, it is conceivable that profits after tax available to shareholders would be found to be higher in United Kingdom than in Australia.

TAXES ON COMPANY PROFITS

For the income year 1955/56 public companies in Australia will be paying income tax at the rate of 7/- in the £ on the first £5,000 of taxable income and 8/- in the £ on the remainder. This is 1/- in the £ above the rates which ruled in 1953/4 and 1954/5.

In the United Kingdom companies pay tax at the standard rate of 8/6 in the £, or 42\(\frac{1}{2}\)% over the whole of their income. In addition to the standard rate, British companies must pay a profits tax amounting to 30% of the gross amount distributed as dividends (that is the amount before the standard rate of tax of 42\(\frac{1}{2}\)% is deducted). On profits that are undistributed they are required to pay a 3% tax. For a company that retained around half of its profits, the combined effect of these various taxes would give a total tax of around 60% of taxable income. But if the tax paid by the company on behalf of its shareholders is excluded, then the rate of tax strictly attributable to the company works out at around 40%, which is about equal to the Australian rate.

American companies pay tax at the rate of 30% on their total income and an additional 22% on all incomes in excess of $25,000. This means a combined rate of 52% on income over $25,000.

In Canada, companies pay tax at the rate of 18% on the first $20,000 of taxable income and 45% on the balance. In addition, the Old Age Security Act imposes a tax of 2% on taxable income.

It is clear that it is difficult, if not impossible, to make precise comparisons of the weight of taxes on company profits in different countries. But, for all practical purposes, Australian public companies are paying tax at the rate of 40% on taxable income. This compares with about 47% in
Canada, approximately 52% in U.S.A. and around 40% in the United Kingdom, when the tax attributable to shareholders' dividends is excluded.

For convenience the comparison is set out in the table below:

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>40%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>40%*</td>
</tr>
<tr>
<td>United States</td>
<td>52%</td>
</tr>
<tr>
<td>Canada</td>
<td>47%</td>
</tr>
</tbody>
</table>

* Excluding tax on that part of profits paid out as dividends.

But, for reasons suggested, the relative real "burden" of these taxes cannot be assessed without taking into account, first, the rate of profit before tax; second, the extent to which dividends are taxable in the shareholders' hands; and, third, depreciation and other permissible charges against income.

**TAXATION OF DIVIDENDS**

Before the war most taxation authorities endeavoured to avoid the double taxing of company profits by granting rebates of tax on dividends distributed to shareholders. Thus, in the United Kingdom, all shareholders paying less than 5/6 in the £—the standard rate of income tax applicable to the incomes of companies and individuals in 1938/39—could claim a full rebate of tax on their dividends.

Pre-war tax practices varied between the various Australian States. In Victoria, in 1938/9, companies paid income tax at the rate of 2/- in the £ but all dividends, irrespective of the income of the recipient, were exempt from *ordinary* income tax. However, dividends were liable for Unemployment Relief Tax (up to a maximum of 8½d. in the £ on incomes from all sources over £3,000 a year) and for Special Income Tax (up to 1½d. in the £ on all incomes from all sources over £2,500 a year).

For Federal tax purposes, all shareholders personally liable for tax at rates less than 2/- in the £—Federal Company Tax rate—received a full rebate of tax on their dividends. With the introduction of uniform taxation in Australia, all con-
cessional rebates of tax on dividends were withdrawn and since then no attempt has been made by any Government to revert to the pre-war practice of single taxation of company profits.

The United Kingdom has never departed from the principle of single taxation, and dividends which have borne tax in the company’s hands are not charged over again with income tax in the shareholders’ hands.

Canadian taxpayers are now permitted to deduct from their federal tax liabilities an amount equal to 20% of dividends received—in Australian equivalents, a rebate of 4/- in the £.

In the United States the first $50 of dividend income received by a shareholder is exempt from personal income tax. Thereafter, he receives a tax credit equal to 4% of his dividends. This credit, however, is limited to not more than 4% of his taxable income.

DEPRECIATION ALLOWANCES

It is wholly misleading to compare the incidence of taxes on the income of companies in different countries without taking into account the different definitions of taxable income which apply in these countries. The most important factors here are the statutory deductions for depreciation which are permitted before income is assessed. A careful examination suggests that the permissible deductions in Australia are substantially less than in the other three countries. A comparison between Australia and Canada is set out below:

<table>
<thead>
<tr>
<th>Ordinary Rates of Depreciation in Canada and Australia.</th>
<th>Australia</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings—General</td>
<td>nil*</td>
<td>5</td>
</tr>
<tr>
<td>Frame</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Travellers’ Cars</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Other Motor Vehicles</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Mining Machinery &amp; Plant</td>
<td>7½</td>
<td>30</td>
</tr>
<tr>
<td>General Machinery</td>
<td>10†</td>
<td>20</td>
</tr>
</tbody>
</table>

* Except where building is an integral part of plant.
† Average.
There are no set rates for ordinary depreciation in the United States. Subject to the approval of the Internal Revenue authorities, taxpayers establish their own rates of depreciation on assets (including buildings and improvements to land). Plant and equipment may be depreciated up to two-thirds over half its useful life. In United Kingdom the original depreciation provision of 2% on buildings has been replaced by a 10% initial depreciation allowance. Permissible rates of depreciation on plant and machinery are, on the whole, slightly higher than in Australia.

In addition to ordinary depreciation provisions, it is necessary to consider special depreciation provisions and other types of special allowances which apply to a much greater extent in Canada, the United States and the United Kingdom than in Australia. For instance, in Canada and the United States rapid write-offs are permitted on capital expenditure certified as necessary for defence production purposes. It is clear from an examination of the figures that this is given a liberal interpretation. In the United States, for example, about one quarter of all business expenditures on new plant and equipment have received the benefit of special depreciation provisions.

In Canada buildings certified for "defence production purposes" may be depreciated up to 30% in one year, to a maximum of 70% over four years. All machinery so certified may be depreciated up to 20% in any one year or 50% over four years.

Until its withdrawal early this year because of the need for dampening down private capital expenditure, British companies were permitted special investment allowances. Under these provisions British firms were permitted to write-off 20% of expenditure on new plant and machinery (excluding ordinary motor cars) and new mining works in the first year, and 10% for new industrial and agricultural buildings. These allowances were in addition to, and not in substitution of, ordinary write-offs for depreciation. British companies, however, will still continue to enjoy the benefits of special initial
depreciation allowances—10% on new buildings and 20% on all plant and machinery (including cars). Even when investment allowances were operative, companies could, if they wished, adopt for tax purposes special initial depreciation allowances instead.

In comparing the true burden of company taxes in different countries it is, of course, imperative to take into account the basis on which income is calculated for tax purposes. Otherwise the story is incomplete. It is quite possible, indeed probable, that when the much higher depreciation rates and the special allowances permitted in other countries are taken account of, the burden of company tax in Australia, far from being much lighter than in overseas countries, could be heavier. A simple example will help to clarify this point.

Suppose two companies, A and B, both have £1,000,000 invested in machinery. Suppose company A is taxed at the rate of 50% on its earnings and is allowed to charge depreciation at the rate of 20% before tax is assessed, and that company B is taxed at the rate of 40%, but its permissible depreciation is only 10%. Suppose further that the income of both companies, before depreciation is charged is £400,000. The amount of tax paid by the two companies is then as follows:

<table>
<thead>
<tr>
<th>Earnings (before depreciation)</th>
<th>Depreciation</th>
<th>Income (for tax purposes)</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>A £400,000</td>
<td>£200,000(20%)</td>
<td>£200,000</td>
<td>£100,000(50%)</td>
</tr>
<tr>
<td>B £400,000</td>
<td>£100,000(10%)</td>
<td>£300,000</td>
<td>£120,000(40%)</td>
</tr>
</tbody>
</table>

The tax on company B is heavier than on company A despite the fact that company tax is at a lower rate—40% as against 50% for company A. This shows that straight comparisons of the burden of company tax can be misleading,
and that for the full story the comparative rates of depreciation and other permissible charges against earnings must be brought into account.

CONCLUSION

THE popular impression in Australia appears to be that companies in this country by and large receive a more-than-adequate rate of profit. This impression persists even among people favourably disposed towards them.

While this climate of opinion prevails, governments may feel justified in increasing the level of company taxes; industrial tribunals can hardly fail to be sub-consciously influenced in arriving at their judgments; and authorities such as the Tariff Board may be persuaded to take the view that the profits of industries receiving the advantages of tariff protection should be strictly limited. To those who believe that in the driving power of free enterprise lies the best assurance of economic progress, these attitudes will be disquieting. If free enterprise is to work in the best interests of the community, it must work vigorously, and it will not and cannot work vigorously unless profits are adequate.

Frank expressions of opinion by some overseas businessmen, and, indeed, comparative statistics of investment by American and British interests in Australia and other countries, seem to suggest that Australia could be losing valuable risk capital to countries offering better prospects. Like a company, no nation can afford to get a bad name for profit-making.

The remedy, in the main, still rests with companies themselves. So long as companies fail to provide full information about profits for their employees, customers and the general public, their activities may continue to be misunderstood and even harmed. It should be widely realised that a poor environment for profit-making must discourage investment in productive facilities and hence impede economic progress and the improvement of living standards.
Appendix:

PROFITS BEFORE TAX IN VARIOUS INDUSTRIES


% on Shareholders' Funds

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.A.</th>
<th>U.K.</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Confectionery</td>
<td>22</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>Brewing</td>
<td>13</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Tobacco</td>
<td>23</td>
<td>22</td>
<td>*</td>
</tr>
<tr>
<td>Clothing, Shoes</td>
<td>19</td>
<td>19</td>
<td>14</td>
</tr>
<tr>
<td>Textiles</td>
<td>14</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Chemicals and Paint</td>
<td>35</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>30</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>Engineering, Electrical, etc.</td>
<td>27</td>
<td>21</td>
<td>18</td>
</tr>
</tbody>
</table>

*Data not available to calculate profits before tax but level of profits after tax well below that in other industries.

Development Depends on Exports

It is of the greatest conceivable importance for Australians to realise that the rate at which the development programme can be continued will be largely determined by the rate at which export earnings can be expanded. We could with advantage adopt the slogan: "Development depends on exports". Theoretically it might be possible to maintain a rapid pace of development by progressive cut-backs in living standards. But it should hardly be necessary to emphasise that this process could not in practice be taken very far. From any practical point of view, development means development without any noticeable reduction in customary standards of life.

An alternative route to development by the expansion of exports is being strenuously advocated in certain quarters. This is development by the replacement of imports. In other words, since there are obvious difficulties in the way of rapidly expanding exports, we should concentrate on reducing imports by producing in Australia things we are at present importing.

Naturally enough, this conception has a powerful appeal. Technically it is perfectly possible to manufacture (or even, possibly, to grow) in Australia a large number of things at present imported. The accelerated industrialisation necessary to achieve this would provide the means of employment for the growing population. Moreover, so the argument runs, by reducing our dependence on imports, it would make the economy less exposed to the sudden, and often severe, fluctuations in internal economic conditions brought about by changes in export price levels. Finally, the prospect of the rapid expansion of existing industries, and of great new industries springing up on every hand, presents an undeniably attractive physical picture and one that appeals to the patriotic instincts of every good Australian.

But, so far as the balance of payments in concerned, the picture can be treacherous. It does not follow that because certain imports are replaced there will be a net saving of overseas exchange. In the first place, in the process of replacing the import of a given commodity, additional demands
Development Depends on Exports (continued)

are likely to arise for other imports—for materials or components or capital equipment for the new import-replacement industry. In the second place, the additional population employed in the new industry, because of their expenditure on consumer goods, will give rise to added demands for imports; both directly for such things as tea and coffee, and, indirectly, by their purchases of home-produced consumer goods they will add to the import needs of the industries producing those goods. Thirdly, the additional people employed in the import-replacement industries will tend to cut into the surplus of primary products otherwise available for export—for example, wheat, flour, meat, wool—and thus reduce export proceeds. Fourth, no manufacturing industry is self-supporting. It needs the financial services provided by banks and insurance offices; it needs transport for its raw materials and finished products; wholesalers and retailers to distribute its products to the final consumer; power to drive its machines; and even the expansion of other manufacturing industries to make the machines and provide the needed materials or components. Moreover, various other activities will tend to expand to meet the needs of the added population employed in the new industry—community services such as hospitals, roads, schools, and privately provided services such as hotels, restaurants, entertainment and the services afforded by professional men.

The expansion of all these activities in sympathy with the growth of the new industry will, in one way or another, lead to additional demands for imports. The establishment of a new “import-replacement” industry, thus, has what economists might describe as a “multiplier” effect. It leads automatically to increased expenditure in many other directions and part of this expenditure will find its way into the import field.

Thus, every additional person employed in factory production might be said to entail additions to other activities as follows:

—power
—transport, including roads
—building and construction (i.e., houses, office buildings, public works, etc.)
—social services such as hospitals and schools
—professional services—medical and other
—retail and wholesale trade
—restaurants and hotels
—banking and other financial services
—food and raw material production for home consumption and others.

What is a reasonable ratio to take? For every person employed in an “import-replacement” industry how many people will be needed in these other activities?

At present about 1,100,000 people are engaged in manufacturing out of a total number of employed persons of 3,800,000. At first sight this suggests a ratio approaching 1:3. However, the establishment of the new manufacturing industry will lead to the expansion of other manufacturing activities to provide machinery and equipment, materials or components for the new industry and processed foodstuffs to meet the needs of the increased population which the new industry supports. A ratio of 1 to 4 might be reasonably assumed. In other words every person employed in a new manufacturing industry will require the addition of four people to other activities in the community.

It should be noted that these activities, because of their nature, cannot in the main, contribute either
(a) to exports; or
(b) to the replacement of imports.

With this ratio it is possible to construct a hypothetical model showing the net effect on imports of the establishment of a new industry to produce goods previously imported.

Let us suppose that the output of the new industry is £1,500,000 and that this replaces imports to the value of £1,000,000—the difference being attributable to the higher costs of production in Australia. Let us suppose further that the capital employed in the industry is £1,000,000 and that the work force numbers 500 (i.e., output per person would be £3,000 which corresponds roughly with the general average for manufacturing industry). The materials used in the industry could be put down at £900,000 (i.e., 60% of output which also corresponds roughly with the average for manufacturing industry). A proportion of these materials will have to be imported. We have assumed £300,000 or 1/3. The proportion of materials imported to total materials used over the whole of manufacturing is about 1/5 but this
includes the production of power and also the food-processing industries where output is high and where a large proportion of materials are locally produced. Of the £1,000,000 capital we have assumed that 50% or £500,000 will be imported. The proportion of imported capital to total capital formation is running at about 27%, but for manufacturing industry the proportion would be substantially higher. The annual charge for capital imported (spread, say, over 10 years) would then be £50,000.

The direct annual saving in imports as a consequence of the industry’s operations would then be:

\[ £1,000,000 - (£300,000 + £50,000) = £650,000. \]

For reasons stated above, this figure would not, however, represent the annual saving in overseas exchange to the whole economy. An additional demand on imports will arise because of the expenditure of the people employed in the industry and of the additions to other activities caused by the establishment of the industry.

On the basis of a manufacturing—“other industries” ratio of 1 to 4, this can be calculated at follows:

Total Addition to Employed Population = 2,500

In 1954-5 imports amounted to nearly £100 per head of population of which about 60% were consumer goods and 40% capital goods. If we assume that the ratio of employed persons to others is about 1 to 1½ then 2,500 employed will add to annual imports of consumer goods:

\[ 6,250 \times £60 = £375,000 \]

Assuming capital per head of population = £2,000

Total additional capital required = £2,000 \times 6,250 = £13,500,000

From this must be deducted capital directly allowed for in new industry = £1,000,000

Net additional capital = £12,500,000

In 1954/5 imported capital goods comprised 27% of total capital expenditure.

Therefore, additional imports of capital goods = 27% of £12,500,000 = £3,375,000

Annual Charge on 10% basis = £338,000
Therefore, Net Loss in Overseas Exchange as result of establishment of new industry

\[
= £650,000 - (£375,000 + £338,000)
\]

\[
= £650,000 - £713,000
\]

\[
= -£63,000.
\]

This method of estimating the saving (if any) in foreign exchange of an “import-replacement” industry also serves to illustrate the importance of comparative costs and of concentrating development on those avenues where efficiency is greatest, that is, where the highest returns can be obtained for a given application or “input” of materials, labour and capital.

If, for example, in the illustration given, it required 750, not 500 workers to produce the given output, then the total addition to the country’s work force (i.e., on the 1 to 4 ratio) would have been 3,750 instead of 2,500. This would clearly greatly lessen the likelihood of achieving a net saving in overseas exchange from the establishment of the industry.

There is an alternative method of estimating the net effect on imports of a new “import replacement” industry which is more acceptable from a scientific standpoint. This gives a very different result from the first method which, however, has its uses in serving to show, in concrete terms, the nature of the expansion which occurs as a consequence of the establishment of the new industry.

The new industry will lead directly to an additional expenditure in Australia each year of £1,150,000—i.e. £1,500,000 (the value of output of the new industry) less £350,000 spent abroad on imported materials and equipment.

Indirectly, this expenditure, as a consequence of the new incomes it creates, will lead to further expenditure. This is the “multiplier” effect of the injection of new additional income into the economy.

What proportion of this additional expenditure will be imported? This will depend on the marginal propensity to import (i.e. the demand for imports arising from each additional £ of expenditure). This will be considerably more than the average propensity to import (about 20% of total expenditure)—possibly 33-1/3% or even 50%.

The “multiplier” will also depend on the marginal propensity to import. With a marginal propensity to import of 1/3, the “multiplier” in a fully extended economy works out at about 3. If the marginal propensity to import is ½, the “multiplier” is 2.
**Development Depends on Exports (continued)**

In addition to the direct imports of materials and equipment for the new industry, there will thus be a secondary addition to imports. No matter what the marginal propensity to import, this will be equal to the domestic expenditure of the new industry—£1,150,000.

\[ £1,150,000 \times \text{"the multiplier"} \]

i.e. \( \frac{\text{marginal propensity to import}}{\text{marginal propensity to import}} \)

The net addition to imports will then equal £1,150,000 less direct import saving of the new industry:

\[ £650,000 (\£1,000,000 - £350,000) \]

i.e. £500,000

Suppose, now that two-thirds, not one-third, of the materials used by the new industry are imported.

Then, direct saving in imports = £350,000 (i.e. £1,000,000 − £650,000).

But in this case domestic expenditure of the new industry equals £1,500,000 − £650,000 = £850,000.

### Secondary Addition to Imports

\[ £850,000 \times \text{"the multiplier"} \]

\[ \frac{\text{marginal propensity to import}}{\text{marginal propensity to import}} \]

and Net Addition to Imports = £850,000 − £350,000 = £500,000.

This analysis suggests that the only case where there can be a net saving in overseas exchange or, in other words, a real reduction in imports, is where the import replacement industry can produce at lower costs than the imported product. If costs of local production are roughly equal with overseas costs, then imported requirements will remain the same and no saving in overseas exchange will be effected. If the local cost is higher than the imported cost then there will be a net loss of overseas exchange roughly equal to the difference between the two costs. *The balance of payments will, therefore, be adversely affected in all cases where the cost of producing the product locally is higher than the cost of the comparable imported product.* It should be noted that this is true, regardless of the import content of the local industry, which, paradoxically, does not affect the position. In other words, the establishment of an industry with a low import content may be equally disadvantageous, so far as the balance of payments is concerned, as an industry with a high import content.

If this analysis is valid, it follows that neither the marginal propensity to import nor—and this is opposed to all prevailing ideas—the import content of the new industry has any effect on the position. The sole consideration is the level of costs in the new industry. This emphasises the great importance of concentrating development in those industries.
where we are most efficient and where relative costs are favourable.

* * *

The figures used in this analysis are not meant to be taken in any literal sense. While based on broad assumptions which appear to be reasonable, they are meant to illustrate methods, rather than to give any precise or even approximate mathematical estimate. By varying the assumptions it is, of course, possible to obtain different results. What they do show, however, is, first, that the saving in overseas exchange achieved through an “import-replacement” industry (where it does occur) is very substantially less than is commonly thought; and, second, that because of the high level of domestic costs there is probably, in most cases, a substantial net loss of overseas exchange.

This, of course, should not be taken to imply that the manufacturing industries are responsible for our present plight—far from it. It is simply meant to show that the process of growth and development itself, wherever it occurs—and obviously it must occur to a large extent in manufacturing—will tend to increase the overall demands of the economy for imports. It follows that if development is to be maintained, exports must be expanded.

* * *

Of all types of development, except those which directly increase export production, efficient manufacturing industries probably impose the least strain on the balance of payments. In spite of the heavy demands which they make for imported equipment during the phase of establishment and expansion, and for imports of materials and components thereafter, unlike other forms of development, manufacturing industries often contribute to some direct replacement of imports.

It is perfectly true that many manufacturing developments tend to cut down imports below the level which they would be for a corresponding development in other forms of activity. Where they limit their claims to this proposition, the advocates of import replacement are on fairly sound ground. What is not true is that the new manufacturing development necessarily brings about an absolute reduction in the overall import requirements of the economy. Indeed, with the present high levels of Australian costs, this is most unlikely.
MANAGEMENT faces new demands on its skill and competence in every one of the major areas in which it works: in the management of a business; in the management of the people who together make up the business; and in management's role and position in our free society.

I.

We are on the threshold of a major technological revolution, indeed we are already in the midst of it. Yet “automation” is not primarily a matter of technology but primarily a matter of managing the business. It is indeed true that “automation” can be defined as “the use of
machines to operate and control machines.” And in this sense automation is a matter of technology. But we already know that this new technology simply cannot be used in a business that is organized and managed the way businesses have traditionally been organized. There can, in other words, be no “automatic factory”; there can only be an “automated business”. And an “automated business” makes very much greater demands on management, requires very much higher competence and skill from the people in the management. It also requires more managers.

I shall not go into any of the technical questions regarding “automation”. They are very important and very difficult questions. But they are not the most important things for managers to know, not even for managers in businesses which are actually applying “automation” in massive doses. The most important thing to know is that “automation” creates new risks and requires new methods of management.

Whatever “automation” may be it requires that production be fairly constant—or at least move within a fairly narrow range—over fairly long periods of time. Automatic equipment cannot be used—it cannot be used even uneconomically—except for long periods of time and at a pre-established rate of production.

But this means that the business can no longer adjust to economic fluctuations—at least not to short-run ones—the way business has always adjusted to them—the way which according to all the textbooks is the only way business can adjust to them: namely, by adjusting its rate of production. Since industrial activity first began we have always adjusted to changes in demand by changes in output. Production has always taken the main risk of economic activity. That will no longer be possible—at least it will only be possible to a very limited degree.

This means however that the burden of adjustment and with it the burden of risk-taking will fall increasingly on marketing. In order to be able to have an “automatic factory”—and I am not even thinking of anything so completely “automatic” as a “push-button factory”—a business will have to be able to create a stable, predictable and expanding market. The ability to market rather than the ability to produce is the critical factor under “automation”. And the requirements on marketing competence and marketing knowledge will increase tremendously. In fact I am very dubious whether we today are capable to carry this marketing job—even though the United States has undergone a “distributive revolution” in the last twenty-five years and is indeed the one country in which marketing is known and understood. The companies I know, all of which have been very marketing-conscious, do not have enough marketing managers for today’s needs; all they really have are sales managers. Men who can analyze a market and analyze the needs of the customer, his concepts of what he buys and his concepts of what he considers value in his purchases; men who can analyze a product, plan for new products or for the systematic and planned improvement of old products; men who can organize and manage customer service; men who can analyze and organize a distributive system—marketing managers in other words are scarcer than hen’s teeth. Yet on our ability
to market will very largely depend not only our ability to automate but our success in automation. Unless we learn how to market "automation" will mainly bring risks rather than gains.

Yet another basic result of this technological revolution lies in the area of capital investment decisions. Here again automation means new risks—risks which will require of managers greater competence. The time span for which capital investment decisions have to be made, the time that elapses before they begin to bear fruit, let alone before the investment has been repaid, has been steadily lengthening during our lifetime. Automation will again lengthen the time span. But it will at the same time introduce a new element. Automation requires—as all those industries that have come close to it, such as the petroleum industry, have found out—that a capital investment decision, once taken, be carried through regardless of business conditions. It must be carried through according to the original plan. Under "automation" the entire plant becomes in essence one integrated machine tool. You cannot tinker with one part of the plant without also making the necessary changes in all the other parts. You cannot begin building a plant without finishing it. You cannot improve one part of the process; you have to improve the entire process. If you stop in mid-way, if you try to adjust your capital investment program to your reading of the business cycle or to the fluctuations in your cash income, you run the severe danger of damaging the investment you have already made—to the point where you may lose it altogether.

Here is a new and a very serious risk. Most managers know that the calendar year in which we present our accounts, is pure fiction—and a fiction of very doubtful utility. The actual time span of economic performance, the actual time span against which results have to be measured, is the life span of capital investment—and that, practically without exception, is a much longer period than the calendar year. But now we will have to learn that our decisions on capital investment too will have to be made as decisions that commit us to a course of action for fairly long time spans, decisions that commit us almost regardless of economic fluctuations.

Finally automation has very definite consequences with regard to labour. In fact "labour" as the term has been commonly known, disappears.

In the first place there is no room—or very little room—in a truly "automated" business for "unskilled labour". Almost everybody in such a business is a highly skilled or a highly trained man. Automation very definitely will not employ fewer people than there are employed today. The main essence of automation is not labour-saving. Its benefits lie elsewhere. In fact it is very doubtful whether even in the individual enterprise there will be fewer people employed. In the economy there will undoubtedly be many more employed.

The essence of automation is a tremendous shift from "labour" to people who work with their minds, people who apply learning and knowledge rather than brawn or experience to their work. The "automated" business will employ a tremendous number of such people. There may not be one man on the production
floor doing the semi-skilled work
that the machine can do better—
handling materials, bringing it to
the machine, moving it into the
machine or moving it away from the
machine; exercising routine judg-
ment: does the tool get too hot;
does the machine work properly and
so on; changing tools and machine
set-ups and finally collecting routine
information about the work. All
this will be done by machines. But
to make it possible for machines to
operate and control machines an
enormous number of people will be
needed off the production floor to de-
sign, build and service these
machines, to maintain them, to con-
trol them, to program them and
so forth. And all this is highly
trained and highly learned work.
Automation in other words means
that we increasingly substitute learn-
ing, knowledge and methods for the
brawn and the skill which have his-
torically identified "labour".

The first important result is that
this kind of work force is an ex-
tremely expensive one and one that
represents a tremendous investment.
It simply cannot be dispersed—the
business has much too much of an
investment in it. The second thing
is that under "automation" the work
force will have to be kept employed
fairly steadily. For production, as
I said before, will have to be stable.

I am no friend of the “guaranteed
annual wage”—precisely because I
believe that it will actually create
instability of employment and re-
strict employment. But I am deeply
convinced that ‘labour” from having
been a “current cost” throughout
history, a cost that fluctuated with
the volume of production, is about to
become a “fixed asset” and a “cap-
tal charge”. In other words I am
deeply convinced that a business
that accepts any kind of “automa-
tion” will have to keep employment
stable and will no longer be able to
adjust its labour force to fluctua-
tions in business.

This may be a much less radical
change in practice than in theory.
Very few businesses have actually
looked at the work force and have
asked themselves: how many people
would we still have to keep on if
business slackened—short of actually
closing down the plant or the shop?
But those few who have done it have
found to their amazement that a
very large part of their work force
is actually more or less permanent
and would have to be kept on as long
as the plant operates. In fact the
increase in this “break-even point of
labour” may very well be the most
significant development in our
economy in the last twenty years.
"Automation” only pushes this
“break-even point of labour” up a
little further. It will make it in-
creasingly necessary—in the interest
of the business—to consider the
work force as a more or less fixed
expense the maintenance of which
is a major concern of the business.

Let me say that here lies a great
economic opportunity—as does also
lie in the need to maintain capital
investment decisions once they have
been made. These two areas have
traditionally been both major cause
and major effect of economic in-
stability. As soon as business slips
off we have cut back capital Invest-
ment and have cut back labour force.
And these cut backs in turn accen-
tuate the decline and tend to make
depression out of it. In both these
areas automation will force us into
a great deal of stability. And this
is all to the good.

But at the same time this will
force managers to learn entirely new
things. It will force them to change not only their traditional ways of running a business but their traditional attitudes and viewpoints about a business. And it will undoubtedly impose new and very heavy risks on economic activity.

Let us sum up what I have said so far. I have been talking about managing a business, about managing as an economic activity. And what I have really said is that managing a business must become and will become a systematic activity, one that has to have principles, that has to be based on methods and knowledge—if not on sound theory. To manage a business in the age of "automation" is simply not possible on the basis of "intuition", "hunch" or even of experience. It requires systematic knowledge. Above all it requires of managers a real ability for decision-making as a logical and strict process following strict laws and requiring a great deal of systematic study and analysis.

Under "automation" the "intuitive" manager will simply not be able to manage. He will not be able to do the marketing job. He will not be able to make long-range capital-investment decisions which have to be based on an analysis of underlying long-run economic facts and objectives rather than on a "reading" of the economic pulse. And he will not be able to correct his mistakes by laying off people or by hiring people as the day-to-day fluctuations of the business demand. The first conclusion—and it is a very big one—is that managers will increasingly have to know what they are doing and why, and have to understand basic principles, basic concepts and systematic methods.

II.

So far I have been talking exclusively about managing a business. But as every business man knows a business is people. Economics is indeed a very important dimension of business management; for the business enterprise is an economic institution. But in order to get the work done people are needed. And the next question I have is therefore what new demands in respect to the management of people can be seen.

As a consultant I sit in every day on management meetings in which decisions are being made that will not begin to be effective for three or five years and will not really have paid off until five or ten years after that. Indeed the lengthening of the time span of economic decisions is one of the major causes of our economic advance. But it is also an increasing problem. For no human being can really make decisions ten or fifteen or twenty years in the future. The only thing we know about the future is that we cannot know anything about it. And not even the greatest genius could be expected to foresee what will happen tomorrow. To make decisions ten or fifteen or twenty years ahead as every business man is forced to do almost every day, is therefore by definition an impossible if not an insane undertaking. Yet business men have to do it.

This means however that these decisions cannot be responsible or rational decisions, no matter how carefully they are made unless there is provision at the same time for the only means by which these decisions can ever be made rational and responsible; the managers of tomorrow who can bail out the decisions made today.
In a good many companies manager development is still considered a luxury today. Actually it is a bitter need—and a need that will grow by leaps and bounds.

But managers will only be a part, though a very important part, of our concern in the managing of people. We are about to witness a tremendous upgrading of our entire work force. Automation as I said before does not mean fewer people at work. But it means that people will do different work that they will apply knowledge and method rather than brawn or experience.

The mass-production revolution of yesterday converted the unskilled labourer who had nothing to contribute but his muscle into the semi-skilled machine operator of today—with a tremendous jump in income, in employment security and social status. It converted the skilled worker of yesterday into the foreman, technician or professional employee of today.

The automation revolution will again bring a similar—and an even bigger upgrading. But this also means that it will create a tremendous problem of the supply of trained and educated people. There is only one place where these workers of tomorrow can come from: that is the workers of today. We cannot hope to hire these new skills and new knowledge. We will have to create them. And this means that the people now at work will have to learn new skills, new knowledge, new methods. We thus face a long period during which management in many businesses will have to find people within their employment who are capable of learning new things—and, what may be more difficult, of unlearning the old ones. We face a period during which, in a great many businesses, managements will have to go in for employee training and employee education to fit people for the new job.

Experienced business men all know that the success and ultimately the survival of every business, large or small, depends in the last analysis on its ability to develop people. In that respect a business is no different from any other human institution. This ability to develop people is not measured by any of our conventional yardsticks of economic success; yet it is the final measurement. Increasingly from here on this ability to develop people will have to be organized in business. We can of course—and will—use our educational institutions to help us in the task of developing people, managers and workers. But both the ultimate responsibility and the major chore in the development of people will increasingly fall on management itself. In the period ahead the educational job of business—especially of big business—will become increasingly more prominent and increasingly more difficult. Ability to recognize its importance and willingness to shoulder the responsibility will increasingly be demanded of management.

III.

And finally management faces new challenges and new demands in its capacity as a leader in our society. It faces new demands on its responsibility and integrity.

Perhaps I should not have said "new demands". The demands are old. Indeed I cannot recall a single management meeting in twenty years or so at which these demands have not been presented. What is new however is that managers will be increasingly asked to practice
what they themselves have been preaching.

Automation means a new increase in the importance of management—and a new growth in the number of management people. It will make management even more important a leading group in our society than it is today. It will also mean that managerial decisions will have even more impact on our society and economy than they already have today. For these reasons, if for no other, the integrity and responsibility of management will become more important—and more will be demanded of them.

There are two areas in which these demands will have to be met. It will first have to be met in the area in which management discharges its primary responsibility and has its most immediate impact, that is within the business enterprise. For it is within the business that management really has to prove itself, really has the power, the authority, the responsibility.

This means above all that management will have to show the validity of its basic beliefs and profession in the way it manages people and above all in the way it promotes people. For nothing tests the sincerity and validity of management’s beliefs as much as whom it promotes and whom it does not promote. It is therefore important that managers realize that it is their responsibility never to promote a man who falls short of the basic integrity which a managerial position requires. And the development of basic, clear principles and practices that express this conviction and make reality out of it is one of the real challenges managers face.

And finally there is the demand, the increasing demand that managers, as every leading group has always done, live up to the basic social responsibility, the responsibility that they succeed in running their business enterprise in such a way as to make whatever is good and constructive for our society, profitable and constructive for their businesses. There is the demand that managers learn how to live up to the basic promise we in America believe today, that what is good for the American economy and society must also be good for the American business enterprise. This is a tremendous demand. But the fact that it can be made and is being made shows how such American management has achieved, how far it has come in building a free, responsible and dynamic industrial society.

The last twenty or twenty-five years have seen the emergence of American management as a leading group, as a central institution of our society. Indeed American management is clearly the leading and central institution of the free world today—to the point where most of the countries in the free world see in the imitation of American management their one best chance for survival, growth and prosperity. This is a tremendous achievement and one we have every reason to be proud of. But the next twenty years will be the crucial years in which this new institution, this new leading group, American management, will be challenged and will be tested.

“The management horizon” is almost unlimited—as wide a horizon as any that ever greeted our pioneer forefathers. But the tasks, the hardships, the achievements that this prospect will demand from us, is also as great as any we have ever faced.