The Star in the Sky

The launching of the first man-made satellite on October 12 is one of the great climacterics in the story of the human race. It seemed to represent the first, probing, tentative step by man into the infinitude of outer space.

What were the responses of the great mass of ordinary people confronted with this new miracle of science?

Certainly awe and wonder, the kind of feeling that must have possessed many people at their first sight of Stevenson’s Rocket or the aeroplane.

There was more than a tinge of fear, perhaps not so much of the implied military might of the Soviet Union as the primitive fear of the unknown, of the dark forest, the fear
that man might be meddling with elemental forces beyond his powers to comprehend or control.

There was anticipation, the anticipation of the explorer on the frontier of new, uncharted territories.

And there was also admiration for the sheer intellectual magnitude of an achievement gained only by surmounting problems of immense and baffling complexity.

Admittedly the admiration would have been much more pronounced had the Western World got there first. But, whatever sinister portents we might attribute to the Soviet satellite, it is impossible to deny that it provides additional evidence of the adventurous and unconquerable spirit of man, another astonishing scientific victory in the long line of victories. We are led to contemplate anew the almost illimitable potential of the human race if only its energies were channelled solely toward constructive purposes.

But, with the world as it is, there must be grave and fearful misgivings. Living as we are, poised always on the edge of destruction, we cannot but wonder where our much-vaunted progress in Science has brought us. It appears that man's command over the forces of Nature is far outstripping man's command over himself. Some of the greatest advances in our knowledge of inanimate forces seem, on looking backward, to have been not an advance after all, but a step closer to the abyss. What we first hailed as "progress" seems, on closer inspection, to look like retrogression.

It begins to dawn on us that progress means nothing apart from progress in man's nature, in his understanding and compassion and sense of values. We begin to perceive that the only secure foundations of material achievement are the immaterial but rock-like constituents of character—decency and simple goodness, truthfulness and wisdom. Unless these values prevail, then the great edifice of man's material progress will be like a house built on sands—it can have no permanence and in the end nothing but an empty shell of civilization will remain.
The news of the successful launching of the satellite was greeted in the democracies by an outcry for a great concentration on science and on the training of more and more scientists and technologists in an effort to overtake the pace-maker. This was an understandable reaction, even if in some cases it tended to assume exaggerated, panic proportions.

Man’s first instinct is that of survival, and it is natural to assume that survival depends upon the possession of strong muscles. It may also be true that the democracies have tended to take the scientist too much for granted, to under-rate his importance and to place too low a value on his services. The satellite provided the scientist with an opportunity for self-assertion too good to be missed, and he was right to seize it.

But if the demand for proper recognition of science and the scientist becomes exaggerated into a demand for the “supremacy of science”, for science to take virtual precedence over everything else—as it seems to with a few—then the dangers are incalculable. Does anyone seriously suppose that along that road lies the way to salvation? Does anyone really think that ultimate survival can be ensured by sacrificing everything to a madcap scientific race?

It could be argued that what we need, in the present state of the world, is not just more and more scientists and technologists, but more people whose understanding has been broadened, whose minds have been illumined and sympathies deepened through education in the humanities and the liberal arts. Perhaps what we really need is more philosophers, even more urgently than more technicians. Perhaps this is where we are really breaking down. Perhaps the quality most in short supply is not technical competence but human understanding, not intelligence but wisdom.

A great British scholar, Sir Richard Livingstone, said in 1941: “We cannot have too much science, technology, economics, but they lose their usefulness unless we see clearly the ends for which we intend to use them, and unless those ends are worthy of man. They deal with means and not with ends, and the more we have of them the more we need to strengthen, in both education and life, those studies whose subject is ‘the knowledge of good and evil’.”
This is the crux of the matter.

What prospect could be more terrifying than a nation of technologists, shining brilliantly in a narrow compass, but outside of which everything is dark. Is our ultimate goal to produce a race of “mechanics” or a race of “men”? What would be the good of having the Vessel of Progress beautifully engineered, and manned by first-class technicians, if there are no pilots to guide it through the reefs and the shallows? But that is what we could get if we turned our universities into vast schools of technology as some people seem perilously close to suggesting.

It is true that the scientist is entitled to a higher status in our democratic society than we are at present according him. It may be true also that from the pressing short-term standpoint of sheer survival there must be a far more intense concentration on science than ever before. It is certainly true that Australia, of all countries, stands to gain rich dividends in development and productivity from a greater expenditure on scientific research. But we should not let the satellite cause us to lose our perspective. We must be careful not to become dizzily unbalanced as we peer into the Heavens to catch a glimpse of the wonder as it passes majestically through its orbit. We should not let our preoccupation with the satellite destroy our vision of the ultimate goal, the vision of why we want to survive at all. If we do that we are beaten before we have barely begun.

The lesson we should take to heart might be stated cryptically thus: *If we worship the satellite we are lost; there are higher gods.*

This is Christmas-time and there is another Star in the sky.
SIR GEORGE COLES announced his retirement as Chairman of the I.P.A. Council at the Annual Meeting of the Institute on the 9th October.

Sir George was the first—and up to October 9th the only—chairman of the Institute. He had held this office since 1943, that is for a period of 14 years. During this time he became identified with the Institute in such a way that to contemplate a successor would have seemed unthinkable. In Sir George Coles, the I.P.A. had the Chairman it needed. This was recognised by everyone closely concerned with the Institute. All would have wished Sir George to continue indefinitely.

Sir George Coles' life is a story of remarkable success. He started without the substantial advantages conferred by inherited wealth and also at a time when the present opportunities for advanced education were available to relatively few. His achievement is entirely his own. He was one of a family associated with the building of one of the largest business enterprises in Australia. It bears his name, which has become a household word from one end of Australia to the other. The bare outlines of this story, which has all the elements of business romance and adventure, are widely known. One day it should be told in full.

In the process Sir George Coles prospered. But the riches he acquired were not merely those of money and property, but the greater riches of character and human understanding. He became a shrewd judge of people and this shrewdness, allied to his own essential integrity, enabled him to distinguish sham from true worth.

He realised early that success in business carried with it responsibilities in wider community affairs and he has demonstrated this awareness in practical ways: By giving generously; by being always ready to help others; by interesting himself,
especially, in hospital administration and in church affairs—
two fields where his contributions, pecuniary and personal, have been considerable.

As Chairman of the I.P.A., Sir George has been the head of an organisation whose prime purpose is to expound the virtues of the free enterprise philosophy and way of life. The choice has been singularly appropriate; for Sir George Coles in his own person is surely one of the best examples Australia has to offer of a successful “free enterpriser” and also one of the finest products of the system which the I.P.A. has upheld. The remarkable achievement of the Coles chain store must finally be traced to the simple fact that it has provided a service which the community values and for which it is prepared to pay.

Among his business associates Sir George Coles has achieved great esteem without consciously setting himself out to do so. His popularity and, more, the affection in which he is held, have been the reward of qualities inherent in the man himself, qualities that by no means always go with spectacular material success and achievement.

It has been said many times of many people that success never spoilt them. But of no one could this be said more justly than of Sir George Coles. He is proud of his success, certainly—he is, after all, intensely human—but in a personal sense he remains utterly unaffected by it. In personal associations Sir George is cheerful, friendly and understanding and those fortunate enough to have had his acquaintance invariably feel the better for a talk with him. He is so easy, natural and unaffected that he immediately puts others at their ease.

Sir George Coles likes action; he is essentially a “doer”. But his own particular predilections have never led him to under-rate the value of the “thinker”. He is interested, it is true, in the products of thought rather than in the mechanics of thought itself. But he is contemptuous of the half-baked product, the conclusion—too common—based on inadequate thought or a superficial view of all the factors concerned.

His personal qualities made him not only a successful businessman—there are many successful businessmen—but in his latter years a business statesman—these are not so numerous. His colleagues accepted him as a leader not just because they
liked him, but because they sensed in him the essential attributes of leadership.

His special contribution to public affairs arose out of a shrewd, earthy commonsense, a quality he possesses in more than abundant measure. But what particularly fitted him for leadership was that he was able to move with the times. His outlook has always been modern. He has recognised the inevitability of change and he has always been ready to adjust his thinking to new situations. He has never wasted valuable time hankering after a past that was gone. He has been prepared to look facts in the face and to frame his attitude accordingly. In this respect Sir George has been a "progressive" in the best sense of that term.

His attributes as a leader stem from his knowledge of human beings. He is a veritable wizard at preserving good humour, at surmounting awkward situations, at achieving agreement where at first none existed, at hammering out a compromise satisfactory to all. He can cut through to the core of a problem with razor-sharp intuition and will rightly not be bothered with unessentials. These powers of character and mind proved to be of untold benefit to the Institute in its early, formative years and have been to its advantage on many occasions since.

In his final address as Chairman at the Annual Meeting of the I.P.A. Sir George Coles said that there was no substitute in business for "good, old-fashioned honesty and integrity". So far as the I.P.A. is concerned, Sir George quickly discerned that the influence of such an organisation would ultimately depend on the sincerity of its intentions and the real quality of its work.

Sir George Coles is no longer young, at least not in years; but how is youth to be measured? He is still young in all the things that matter, in his personality, in outlook, in his unfailing good cheer and unflagging interest in all the affairs of the day.

The I.P.A. is indebted to him in ways too numerous to be recounted. In paying this small tribute to him, we deeply regret his retirement; but look forward to many more years of fruitful association with him in his new office as Immediate Past President.
Financing Public Works

IN 1956/57 government authorities in Australia spent £455 million on capital projects. In recent years government spending of this kind has exceeded £400 million a year, with a persistent tendency, partly because of rising costs, for the total to increase. Only a small proportion of these huge amounts has been financed out of loan moneys. The great part is financed from taxation, with some contribution from the working surpluses and depreciation provisions of various government and semi-government undertakings.

Of the £455 million spent on public works in 1956/57, it seems that only about £50 million was provided from net borrowings by governments (see Appendix, page 108). This would leave £405 million to come from other sources. The amount provided by taxes is hard to assess. It could be of the order of £300 million. For a start, practically all the public works expenditure by the Commonwealth since the war has been financed out of current revenue. In 1956/57 capital expenditure by the Commonwealth amounted to £107 million. In addition, the Commonwealth made available £112 million from Consolidated Revenue to support the loan programmes of the States. This is not the end of the matter since normal tax re-imbursements and special grants to the States, as well as taxes, rates and other moneys raised by State and Local Governments themselves, were partly devoted to capital expenditure.

It is clear that government loans have come to occupy a comparatively small part in the machinery by which public works are financed; on the other hand, taxation has come to occupy a major part.

This fact led the I.P.A. to state in the last “Review” that the key to large reductions in taxation was a reduction in government spending on capital projects; but, that if the present scale of the development and migration programme were accepted, then really big reductions in taxation could be ruled out.

This argument rests on two simple truths: First, that vast numbers of people cannot be brought into the country year after year without a correspondingly vast expansion of schools, hospitals, roads, transport facilities, power, fuel, water and other essential services provided in the main only by govern-
ments; and, second, that there is no prospect of paying for these services on the scale required except through the mechanism of forced drafts on the people's earnings through taxation.

It is true that alternatives have been offered. One view put forward is that we have only to reduce taxation to the extent of its use in financing capital works, and the gap will be filled by a dramatic increase in support for public loans. What this implies is that the Commonwealth Government can cut taxes by something of the order of £250 million a year, and that this mammoth sum will be immediately forthcoming in loan moneys additional to the paltry £50 million raised by all government authorities in 1956/57. In other words, if businesses, institutions and people find themselves, say, £250 million better off as a consequence of tax reductions, they will invest all or practically all this money in Commonwealth Bonds and other government securities. Not a penny will be used for additional spending on consumption and the small luxuries and enjoyments that for most people make the world go round; not a penny for investment in avenues that offer more lucrative returns than government securities and infinitely better prospects of protection against the ravages of long-term inflation; not a penny for long-postponed home renovations and additions; not a penny for buildings, plant and other improvements by private industrial concerns thirsting for additional funds in the present dry climate of restricted bank credit.

The truth, of course, is that in a period of perennial inflation, government bonds have little appeal for the worldly-wise investor—and in these days most investors have become worldly-wise. An altruistic public outlook toward investment has never existed in this country except in times of grave national emergency.

In 1956/57 practically the entire burden of subscribing to Commonwealth loans fell on the Commonwealth Government itself, and the banking institutions. Purchases of bonds by other companies and individuals were insignificant. Those who imagine that the public will rush to invest in government securities the extra moneys available to them because of tax reductions might ponder on the fact that the largest shareholder in the British steel industry today is the Church of England. They might also consider that funds,
such as those available to life insurance companies or private pensions schemes, which, before the war, were almost exclusively invested in "gilt-edged" fixed interest-bearing securities, are now being invested in ever-growing proportions in industrial equities, offering prospects of capital appreciation as well as higher returns on the investment, or in debentures bearing higher rates of interest. In the United States, life company investments in ordinary industrial securities now comprise 25% of their total investments compared with about 5% before the war. The change in Australia has not been so dramatic partly because of the traditional responsibility accepted by the life companies to support the bond market. Nevertheless the amount of life insurance moneys invested in industrial shares and debentures has been growing rapidly. All this is evidence of a world-wide tendency to hedge against the likelihood of continued inflation.

There is another point. In the last financial year (1956/57) net purchases of government securities comprised only 5% of total personal and business savings amounting to £995 million. Yet some people argue that if individuals and businesses found themselves with an additional £250 million or thereabouts, as a result of tax deductions, 100% of this money (not a mere 5% as was the case in 1956/57) would be invested in government securities. If we allow that, say, 10% of the additional moneys would be invested in government securities, they would benefit to the extent of £25 million, not £250 million. A not insignificant difference! And this assumes, too, that the entire £250 million would be an addition to savings and that a virtuous public would refrain from spending a penny on present comforts (an assumption unfortunately bearing no relation whatever to the facts of life).

It has been suggested that one way of obtaining more money for government works, and thus lightening the tax burden, would be to make government securities more attractive. The proposals range all the way from straight-out substantial increases in the rate of interest offered, to lottery bonds on the English model, to special provisions making bonds acceptable at face value for certain purposes such as payment of death duties.

These ideas might produce more money for government capital works, but the amount would certainly be small. There
would be no escape from reliance on taxes and other current revenues to provide the main source of finance.

All these proposals seem to overlook—or at least to under-rate—the fiercely competitive character of the capital market under conditions of abnormal economic expansion. The basic characteristic of a rapidly expanding economy is a chronic shortage of savings. If one avenue of investment is made more attractive, then other avenues will tend to follow suit. A rise in the return on bonds will produce a sympathetic response throughout the entire structure of competitive interest rates and in the returns on industrial equities.

So far as “lottery bonds” are concerned, British experience does not encourage the view that their introduction in Australia would contribute anything substantial to the solution of the government loan problem here.

As a general principle, the argument that governments should endeavour to finance their capital expenditure from loan moneys rather than from current revenue is undoubtedly valid. But we must face the fact that in a period of tremendous economic expansion and, also, of persistent inflation, the amount that can be obtained from loans is certain to fall a long way short of requirements. In these circumstances there is no realistic alternative but to resort to taxation to provide the necessary funds. Taxation at the same time serves the purpose of restricting spending on consumption and on private capital development and thus frees resources for the government works programme.

Australian savings, voluntary and compulsory, as a proportion of gross national product, bear favourable comparison with those of any other country. This suggests that the scope for any large increase in savings is limited. If taxation as a means of providing money for public investment were eliminated and reliance placed wholly on voluntary savings, the total funds available for investment would be greatly reduced. The economy would be tilted toward consumption to such an extent that the present scale of capital development would cease to be feasible.

As the Commonwealth Government stressed in its 1957 Economic Survey, the root of the problem is inflation. We are dealing with a generation which has come to expect inflation
Financing Public Works (continued)

almost as a law of life. So long as that expectation remains, so long will the difficulties of raising adequate moneys for fixed interest-bearing securities remain.

This is not to say that the level of taxation should not be lowered. Indeed the I.P.A. has consistently pressed for reductions in taxation and a more modest rate of capital expansion and population increase. High taxes are part of the price we pay for forced economic expansion. Too many people still suffer from the delusion that high-speed national development is all pleasure and no pain.

APPENDIX: Net Loan Raisings of Public Authorities
1952/53 to 1956/57.

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Commonwealth Bonds</td>
<td>174</td>
<td>180</td>
<td>128</td>
<td>137</td>
<td>96</td>
</tr>
<tr>
<td>2. Less Govt. Purchases</td>
<td>110</td>
<td>92</td>
<td>59</td>
<td>89</td>
<td>61</td>
</tr>
<tr>
<td>3. Net Bond Raisings in Aust.</td>
<td>64</td>
<td>88</td>
<td>69</td>
<td>48</td>
<td>35</td>
</tr>
<tr>
<td>4. Bonds—Overseas</td>
<td>-1</td>
<td>-10</td>
<td>-</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>5. Local &amp; Semi-Govt. Securities (Net)</td>
<td>71</td>
<td>65</td>
<td>63</td>
<td>55</td>
<td>66</td>
</tr>
<tr>
<td>6. International Bank Loans</td>
<td>17</td>
<td>22</td>
<td>24</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>7. Treasury Bills</td>
<td>72</td>
<td>-35</td>
<td>-30</td>
<td>5</td>
<td>-15</td>
</tr>
</tbody>
</table>

Less Offsets to Loan Raisings, etc.
8. Reduction in Stabilisation Funds—wheat, wool, etc. | 22 | 35 | 12 | — | — |
9. Redemption Savings Certs. | 8 | 5 | 4 | 3 | 3 |
10. Housing Loans (Net) | 26 | 23 | 19 | 29 | 31 |
11. All other—Purchase of Assets, Bank Deposits, etc. | 28 | 1 | -8 | -32 | 8 |

<table>
<thead>
<tr>
<th></th>
<th>84</th>
<th>64</th>
<th>27</th>
<th>—</th>
<th>42</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Loan Raisings</td>
<td>139</td>
<td>66</td>
<td>99</td>
<td>133</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Commonwealth Statistician.

Notes:
1. Subscriptions to Commonwealth Bonds from all sources including the Commonwealth Bank and Government Trust Funds. Debt redeemed and cancelled is deducted.
2. Purchases by the National Debt and other Government Sinking and Trust Funds, including special contributions by the Commonwealth from Consolidated Revenue.
3. Net raisings on account of Swiss and Canadian loans to the Commonwealth Govt. and conversion operations in New York and London, etc.
4. Net increase in securities after allowing for redemptions and increases in holdings by other Government bodies.
5. Counter part funds made available through International Bank loans and invested in Commonwealth bonds.
6. Advances for War Service Homes and sale of Housing Commission homes on terms.
Government Expenditure

"No revenue is sufficient without economy".
—Benjamin Franklin.

Government spending has recently come under heavy fire. This is by no means the first time. The cold winds of criticism usually blow up after the introduction of the Commonwealth Budget. Grave apprehension is expressed at the mammoth proportions of the Budget and its invariable tendency to grow; the size of government departments and the numbers of public servants are trenchantly criticised; and, finally, demands are frequently made for an enquiry into government spending by an outside body, including representatives of business. This year the Commonwealth Government has gone part of the way to appease the critics by appointing a Cabinet sub-committee to review the functions and costs of administrative departments.

The growth in the size of government administration in the modern world is undoubtedly something that needs very careful watching. "Empire building" in government departments is not entirely a figment of imagination. Moreover, in the present-day controlled economy, the threat of bureaucracy is never far away. If the criticisms achieve nothing else, they serve to put a brake on the natural propensity of government expenditure to keep on growing, and also on bureaucratic tendencies inevitably associated with modern public administration.

Sometimes, however, the critics overplay their hand. They fail to make proper allowance for the rapid growth of the economy itself, for the insistent demands made upon governments for cash handouts and other benefits, and for the wide range of government responsibilities in the modern economy. There is, too, often some confusion in their thought. It is by no means always perfectly clear whether they are attacking the cost of the public service proper or the cost of government activities in toto which is a very different thing. There is some tendency to lose sight of the fact that departmental administrative expenditure, while large in itself, comprises a comparatively small proportion of the total of all government spending.

Criticism of government spending is a very necessary and, in today's world, a healthy thing, but much more would be gained if greater clarity and definition were imparted to some of the criticisms levelled.
FACTS OF GOVERNMENT SPENDING

First of all a resume of the facts is necessary.

Expenditure in 1956/57 of all government authorities in Australia—Commonwealth, State, Local and Semi-Government—was £1,463 million. The previous year it was £1,407 million. This compares with £577 million in 1948/49—the last full year of the Federal Labor Government—and £204 million in 1938/39.

Mere recital of aggregate sums of money spent each year, is, however, almost meaningless because it fails to take account of changes in price levels or increases in population and the over-all growth of the economy. The most meaningful comparison is one which relates the figures to gross national production or national income. As a proportion of gross national product the total of government spending by all authorities in these years was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938/39</td>
<td>21.9%</td>
</tr>
<tr>
<td>1948/49</td>
<td>25.3%</td>
</tr>
<tr>
<td>1955/56</td>
<td>26.7%</td>
</tr>
<tr>
<td>1956/57</td>
<td>25.9%</td>
</tr>
</tbody>
</table>

It helps to clarify thinking on the problem if a distinction is drawn between that part of government spending which makes a direct demand on the resources of the community, and that part, commonly called “transfer expenditure”, which merely transfers income from one section of the community to another. Expenditure on social benefits such as aged and invalid pensions and child endowment, and interest on the national debt, clearly fall within the latter category. This expenditure takes away from one section and gives to another but it does not involve any additional demand on the resources of the community. On the other hand, when governments spend money on the construction of new power plants, roads and buildings or on the provision of services (financed from taxes), they make demands on available supplies of labour, materials and capital equipment; to that extent they limit the resources that can be applied to private business activities or to the satisfaction of personal consumption wants.

“Transfer expenditure” as a whole has declined from 9% of gross national product in 1938/39 to 8% in 1956/57. This is due to the fall in the interest burden on the national debt (including local and semi-government loans) from 5.7% of GNP in 1938/39 to 2.4% in 1956/57. There has been a substantial increase in the range of social services (and also
in the rates of benefit) since before the war; social service payments for such things as pensions and child endowment now comprise 5.1% of GNP compared with 3.2% in 1938/39.

Government expenditure on goods and services—i.e. expenditure which makes a direct demand on the resources of the community—is now absorbing 18% of gross national production as against 14% in 1948/49. In 1938/39 the proportion was 13%: in 1928/29—12%.

As a corollary of the expansion in government activities the numbers on all government payrolls have risen from 58 per 1,000 of the population in 1939 to around 78 per 1,000 today. One in every four wage and salary earners now work for governmental authorities.

The main directions of government expenditure on goods and services (as a percentage of gross national product) over the period 1938/39 to 1956/57 are set out in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>%G.N.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938/39</td>
<td>12.7</td>
</tr>
<tr>
<td>1948/49</td>
<td>14.4</td>
</tr>
<tr>
<td>1956/57</td>
<td>18.0</td>
</tr>
</tbody>
</table>

### A. Public Works—

<table>
<thead>
<tr>
<th></th>
<th>Commonwealth</th>
<th>States</th>
<th>Local</th>
<th>Total Public Works</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938/39</td>
<td>0.7</td>
<td>4.8</td>
<td>1.2</td>
<td>6.7</td>
</tr>
<tr>
<td>1948/49</td>
<td>1.1</td>
<td>4.0</td>
<td>1.1</td>
<td>6.2</td>
</tr>
<tr>
<td>1956/57</td>
<td>1.3</td>
<td>5.5</td>
<td>1.3</td>
<td>8.1</td>
</tr>
</tbody>
</table>

### B. Defence—Commonwealth

| 1938/39 | 1.4 |
| 1948/49 | 1.8 |
| 1956/57 | 3.2 |

### C. Social—Education, Health, etc.

| 1938/39 | 2.5 |
| 1948/49 | 3.0 |
| 1956/57 | 3.5 |

### D. Administrative (incl. other)—

<table>
<thead>
<tr>
<th></th>
<th>Commonwealth</th>
<th>States</th>
<th>Local</th>
<th>Total Administration</th>
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<tr>
<td>1938/39</td>
<td>0.6</td>
<td>1.1</td>
<td>0.4</td>
<td>2.1</td>
</tr>
<tr>
<td>1948/49</td>
<td>1.5</td>
<td>1.6</td>
<td>0.3</td>
<td>3.4</td>
</tr>
<tr>
<td>1956/57</td>
<td>1.3</td>
<td>1.6</td>
<td>0.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Total Expenditure on Goods and Services

| 1938/39 | 12.7 |
| 1948/49 | 14.4 |
| 1956/57 | 18.0 |

Source—National Income Estimates.

Perhaps the most striking fact revealed by this table is the increase in total Government spending on goods and services between 1948/49—the last full year of the Chifley administration—and 1956/57—from 14.4% of GNP to 18%.

All four major categories of expenditure—public works, defence, social and administrative—have risen. The increase
Government Expenditure (continued)

is mainly accounted for by the rise in outlays on defence and public works. The former needs little explanation. It is a natural consequence of the deterioration in international relations over that period. The latter largely reflects the accelerated development of basic services in the 1950's due to a variety of causes, including freer availability of men and materials, population growth and industrial expansion. The inescapable demands for housing, sewerage, electricity, gas, roads and other amenities have largely had to be met by State instrumentalities and local government bodies. Public works spending by non-Commonwealth bodies has risen from 5.1% of GNP in 1948/49 to 6.8% in 1956/57.

Since pre-war the proportion of goods and services absorbed by the Commonwealth Government has risen from 2½% to 6½% of GNP. Apart from the increase in defence expenditure, the administrative responsibilities of the Commonwealth have grown out of recognition to cope with the welfare state, the enlarged role of the central Government in the field of economic policy, and the demands imposed by rapid national development and large-scale immigration.

In the field of administration it is noteworthy that State and Local Authorities have been overshadowed by the Commonwealth. Expenditure on administration by State and Local Government Authorities as a proportion of G.N.P. has not greatly increased since the war. But social expenditure (i.e. education, health, cultural activities and so on) which is almost entirely in the sphere of the States, has grown quite substantially as compared with pre-war.

CHECKS ON EXTRAVAGANCE

The problem of public spending has to be considered from two aspects. The first relates to the size of the expenditure. Is it too large in relation to the national income? Is it growing? Is it encroaching unnecessarily on private business enterprise and personal spending? Is it imposing an onerous burden of taxation on the community? We will return to this aspect in a moment.

Given the general size and direction of government spending, the second aspect is whether money is being wastefully used. Is there mismanagement and financial laxity in the use of public funds? This is a separate issue from the first. It may be generally agreed, for instance, that a new
dam to conserve and increase water supplies is necessary; but the question still remains whether the dam is being constructed by the most efficient methods, or whether money is being wastefully squandered because of inadequate supervision and poor management.

It is probably baying for the moon to hope for 100% or near-100% efficiency in government spending—the most that one can hope for is that there will be reasonable efficiency and that gross waste and unnecessary extravagance will be avoided.

One great argument in favour of restricting government expenditure to the absolute minimum is that there is an inherent tendency to inefficiency in government projects. This derives from the fact that the checks which operate to ensure reasonable efficiency in private spending are unavoidably absent in government spending. Competition is often non-existent. Private enterprise is compelled to strive for economies and to keep down its costs. It must show a profit on its operations. Its management is answerable to shareholders zealous to protect their savings and to get a reasonable return on their capital investment. The personal prestige of the management of the private business is intimately bound up with the achievement of profit and the avoidance of loss.

By contrast the main checks on wastes and inefficiency in government expenditure are those provided by authorities such as the Commonwealth or State Auditor-Generals, and the excellent, although often thankless, efforts of the Commonwealth Joint Parliamentary Committee on Public Accounts. The weakness is that these checks take place after the event. They provide a warning to government authorities to be more careful in the future; but they do little else.

There is disturbing evidence of unnecessary waste and inefficiency in many government projects. This applies particularly where the work is carried out directly by governments themselves on a day labour basis. Wherever possible constructional work should be let to private contractors. For certain special jobs greater use could be made of the services provided by private consulting firms such as engineering consultants, instead of governments employing their own staff.

The best practices of private management should also be applied in such matters as in setting standards of performance for labour and in strict supervision to endeavour to ensure
that these standards are met. This consideration applies of course to the operation of government business undertakings, such as the Post Office, as well as to constructional projects.

**CAN GOVERNMENT EXPENDITURE BE REDUCED?**

Of the four main categories of expenditure—defence, social services, public works and administration—there is little or no prospect of achieving any substantial reduction in defence or social services.

Defence spending, while large in amount, is proportionately smaller than in other English-speaking countries—notably United Kingdom and United States. According to authoritative sources, during 1957/58 Australia is to spend 4.1% of national income on defence compared with 7.5% for Canada, 9.1% for United Kingdom and 12.7% for United States. Although it is true that there is waste in the present pattern of defence expenditure, it seems that any large general reduction would be difficult to substantiate in light of the fact that the proportion of national income being devoted to defence purposes in Australia is lower than the other Western countries. Australia may well regard herself as fortunate that the defence burden is not more onerous than it is.

So far as social services are concerned there is constant clamour for greater cash handouts by way of pensions and child endowment and also for improvements in education and hospital facilities and benefits. The best that can realistically be hoped for is that the national income will grow at least as fast as the increase in spending on social services. In that event an increasing burden of taxation on the community might be avoided.

**CAPITAL WORKS**

This leaves capital works expenditure and administration expenditure as the only avenues where major reductions in government spending might conceivably be achieved.

Most public utilities are already failing to keep pace with the demands arising from the rapid growth in population. The scale of spending on public works is intimately connected with increases in population arising partly from the Commonwealth Government’s migration policy. In introducing the
State Budget this year, the Victorian Premier pointedly observed that “the real pressures which are operating on the State Budget all stem from the same source, namely the demands imposed by an expanding population”. It is hard to see how there can be large cuts in capital works expenditure while these conditions prevail.

ADMINISTRATION

The administrative public service (i.e. the staff of government departments) comes in for most of the criticism levelled at government spending. This may be partly due to an exaggerated impression of its size obtained from figures of the total of all government employment—also the feeling that tens of thousands of people sitting in office chairs represent a heavy burden on the strictly productive activities of the community. It is not always appreciated that four out of every five government employees are actually engaged in productive pursuits such as transport, communications and power, or in services such as teaching and hospital work.

Accurate statistics are unobtainable but it would appear that the trend in numbers engaged in government administration proper has been as follows. (The total numbers employed by governments is also shown.)

<table>
<thead>
<tr>
<th>Administrative Public Servants</th>
<th>Total Government Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thousands</td>
<td></td>
</tr>
<tr>
<td>1939</td>
<td>68</td>
</tr>
<tr>
<td>1949</td>
<td>618</td>
</tr>
<tr>
<td>1957</td>
<td>131</td>
</tr>
</tbody>
</table>

The figures of administrative public servants are based on a government employment category described by the Commonwealth Statistician as “public authority not elsewhere indicated”. It excludes all government employees engaged in forestry, mining, manufacturing, building and construction, transport, communications, banking, law and order, health, education and social welfare.

No break-up of the figures is available as between the States and the Commonwealth, but the relative rate of increase seems to have been much greater for the latter.

It would appear that there are now three times as many administrative public servants in the employ of the Commonwealth Government as there were before the war. On the other hand the number of State administrative public servants has barely doubled. Admittedly, since 1949 the percentage
growth has been somewhat greater in the State sphere than in the Commonwealth.

When the public service comes under criticism, there is a danger that the criticism may be taken to apply to the calibre of the personnel of the service as well as to its size. A few words on the quality of the public service—particularly that of the Commonwealth—may not, therefore, be out of place. Australia is fortunate in having men of high intellectual attainments and integrity in the top strata of the major government departments. This applies especially to departments such as the Treasury, the Department of Trade and the Prime Minister's Department, all of which exercise a profound influence on major economic policy and on the Government and Parliament. It may be a legitimate criticism of some public servants to say that they are "tainted" with the "Canberra outlook"; but this, unfortunately, is almost inevitable where the seat of Government is so far removed from the everyday affairs of the people. It is only fair to acknowledge that the best public servants are not entirely unaware of the dangers inherent in their remoteness from the rest of Australia.

To draw attention, then, to the dangers to the rest of the community in a too-rapid growth of the public service should not be construed as being a criticism of the quality of top departmental officials. There is, however, an undeniable tendency for public service staff—like the rabbit population before myxomatosis—to multiply rapidly—a process wittily ridiculed in a now famous "Economist" article, "Parkinson's Law".*

The public service has now become so large that much stricter checks on its spending and staffing than have so far been devised would seem to be urgently necessary. There is probably scope for quite substantial economies.

At the same time, it is only fair to recognize that these economies in total cannot be great when considered against the background of total government expenditure. This is not to excuse extravagance or neglect to make possible savings. Moves to establish an independent review of departmental organization and staffing are to be praised, but realism compels us to recognize that conceivable economies in administration must be small relative to total government spending.

GIVEN existing policies with respect to defence, national development and social welfare, the scope for reductions in Government expenditure while not unsubstantial appears to be limited.

The vastness of government expenditure in itself constitutes a major problem today. The very size of the figures is conducive of a cavalier attitude towards economies. In a Budget running into hundreds of millions of pounds, savings of a million here or there may seem insignificant and hardly worth the trouble. This is not so; and there is an undoubted need for very strict tests and checks to be applied to detailed aspects of spending. The Australian people are entitled to look for a much more responsible and businesslike approach both by Ministers and departmental officials to government spending than has been in evidence in recent years.

Massive reductions in Government expenditure such as many people seem to hope for are, however, dependent upon changes in basic Government policies. Australia is confronted with the dilemma facing all countries intent on forced development. On the present scale of taxes, the nation must run the danger of weakening private ambition and enterprise—the major source of all economic progress in the past. The key to large tax cuts is a large reduction in government spending. But if spending is to be materially reduced, government policy must be changed.

It is no use criticising government spending while condoning, or even supporting, policies which make such spending inevitable.

The community for its part should also not overlook its own short-comings in demanding more and more from Governments in the way of services of various kinds as well as straight-out benefits. Frequently these demands can only be met by increases in government staffs and government spending.

What is required more than anything else is that the critics of excessive government spending should be fair to the Government and that the Government, in its turn, should be fair to the critics, and not airily brush them aside.
Economic Growth in the U.S.A.

By Mr. Harry Scherman

This article is based on a large research project carried out by the Committee for Economic Development over the past year. The author of the article, Mr. Harry Scherman, is the Chairman of the C.E.D. sub-committee which conducted the study. Mr. Scherman has been a Trustee of the Committee for Economic Development since 1942.

He is also Chairman of the Board of the Book-of-the-Month Club.

Mr. Scherman, who has been associated with advertising and publishing firms in New York, is the author of several books and a contributor of numerous articles on economic subjects to various journals. He wrote this article with the assistance of his sub-committee associates and the C.E.D. research staff.

* * *

The Committee for Development is an organization of businessmen devoted to economic research on major national problems. Formed in 1942, it has exerted a remarkable influence on public thinking and government policies in the United States. The C.E.D. has won high respect throughout America for the quality, sincerity and objectivity of its work.

The I.P.A. is greatly indebted to the C.E.D. for the arrangements which have led to the publication of this article. The article traces the facts and basic causes of American economic supremacy.

Within the next 20 years—barring war, and assuming that we manage our affairs with reasonable competence—we may expect to enter a period of general well-being never before considered attainable.

But concentration upon the material aspects of economic growth does not reflect any belief among us that they are the sole standards by which either the success or the status of a society can be appraised. Far from it. As all thoughtful persons must, we regard the non-material benefits as the real objectives of the Good Society. These benefits are many, but the most basic of them is growing freedom for every individual to pattern his life in the way he conceives best, with less and less constraint imposed upon him by economic need. Yet, as a practical matter, it is plain that this and other non-material benefits of the Good Society are more likely to follow if there is a high, rising and broadly diffused income. It is the
rise in production and family income, therefore, that we emphasize here.

After all, the ultimate objective of economic growth is to raise the living standards of human beings; as we put it, to free them, as much as possible, from the constraints and fears imposed by economic need. Growth must be appraised primarily and finally by that criterion. Everywhere men and women will be comparing our success in raising living standards in a free economy with actual experience or claims in the communist-led areas.

There are some broad and basic facts about this seeming race which must become widely known, if all the people of the world—including ourselves and the Russian public—are not to be deceived by the shrewd psychological propaganda of the Soviet power group. First, while it is undoubted that, since the end of the Second World War, there has been notable economic growth in Soviet Russia, this is part of a worldwide phenomenon in which—as to rate of growth—other peoples have a record equal, and in some cases superior, to the Russian achievement. The actual amounts of increase have been largest in the United States.

A second fact is that the comparative status seems roughly to be that the Russians in total production stand at about one-third our present level. Judged by one important measure, production per person, we had attained their present status fifty-five years ago. This does not mean, it should be understood, that it will take that long for them to catch up to our present level. It does, however, represent the gap that must be bridged in their announced ambition to catch up. Moreover, to it must be added a further immense difficulty the Russians cannot ignore; namely, that we shall grow, if we manage our affairs reasonably well, while they grow. In other words, if this is to be regarded as a race in over-all economic achievement, it is not a race between a tortoise and a hare, but between two hares; and one of them, ourselves, is already far in the lead.

Rise in Living Standards

ECONOMIC growth is best understood as progress on its material side. And the aspect of growth that affects us most as individuals is the continued rise in the standard of living of the average American family. Most of us have personal experience of this improvement. We can recall that little more than a generation ago, right after the first World War, the average factory worker put in 46 hours of work a week. In 1956 it was 40 hours. In spite of this greater leisure, his income today will buy about twice as much in goods and services as his 1919 income.

This shows up in every aspect of his life. He dresses better. He eats better—more meats, fruits, vegetables and dairy products. More often than not he owns his own home. Even when he does not, he lives in vastly more comfortable quarters. His home is equipped with work-saving appliances that allow his wife to spend far less time and effort in household chores. As a consequence of better food and better housing, as well as greatly improved medical care, Americans today can expect to live longer. A child born now has a life expectancy of 70 years, compared with 55 years for a child born as recently as 1919.

It is clear that within a single generation we have experienced what amounts almost to a revolution of living, and that this change has
brought most Americans to a way of life formerly enjoyed only by the well-to-do. As recently as 1929, up to that time the most prosperous era in American history, only one-fourth of American families enjoyed incomes as large as $4,000 after payment of all taxes. Today three families out of five—31 million families—receive at least that much or more. The figures for both years are based upon income after payment of taxes and are expressed in dollars of 1956 value.

The revelations already afforded by statistical knowledge disclose, unmistakably, a long trend of growth. Since the main causes identified with growth continue to operate, that trend can reasonably be expected to continue. A momentous conclusion follows: that if we conduct our economic affairs with intelligence, we can reach a general level of material well-being higher than was ever before conceived of as possible. This should happen well within the lifetime of most of us.

Population is more than three times as large as in 1880, so that the rise when measured per person is less. Real national product per person is about four times as large as in 1880. Since taxes have increased to a point where they equal one-quarter of the nation's total product, the rise in real disposable income per person is smaller. This measure has about tripled over the 75 years. It was $530 in 1880, and is now $1,710—both figures expressed in 1956 prices. When the family is considered, average disposable income rose from $2,200 to $5,300 in those years.

But in return for this higher income, three times as much work is now done as in 1880, measured—as this should be—solely by the number of hours worked.

Most important of all—more and more came to be produced, on the average, during each hour of work done.

Thus, our society now produces over five times as much in each hour worked as it did in 1880. The continuing increase in output-per-man-hour constitutes perhaps the most important material phenomenon of the past century.

Despite the far greater leisure everybody enjoys during his lifetime, the total amount of work done in producing and marketing goods and services, measured solely by hours, has risen enormously—from 55 billion man-hours in 1880 to 148 billion in 1956. That increase alone, of course, would account for much of the increase in total national product.

The total work done has gone up so much not only because the population has increased but also because a bigger percentage of the population has become gainfully employed.

In a more particular analysis of causes behind the increase in out-
put-per-man-hour one finds at once that they are many, complex and interdependent. Time and again one finds that growth in one direction begets growth in another.

Awareness of how the very nature of our society promotes continued growth is the first necessity for understanding the process. Obviously our political system of representative government, with its constitutional guarantees of individual rights, plays a large role. So also do our social attitudes and prevailing business practices, which encourage each person to progress as far as his abilities and determination will carry him. This political, social and economic background is the outcome of a long history of change; and it is still noticeably changing and developing.

Profit and Loss

I ts outstanding economic characteristic is that risk and enterprise by the individual is encouraged, with “profit” as the main incentive; and with “loss” as a quick destroyer of any enterprise that the society will not support. The most vital feature of such a society is that it promotes freedom of economic enterprise. We all take this state of affairs for granted as part of our mores and our history, and therefore it calls for some reflection to be aware both of its vast extent and of just how both the profit and the loss are cardinal elements in our long record of continuing growth.

One way of recognizing the pervasiveness of our freedom of enterprise is again provided by statistics. There are 4.3 million separate business enterprises operating in the United States; to these can properly be added 2.1 million commercial farms, and a very high proportion of the 550,000 professional persons—physicians, dentists, lawyers, architects, consultants of various kinds—who have “business offices” and who are also engaged in avoiding loss and making a profit from their services. The total, about 7 millions, can be conceived of as a vast collection of economic teams of individuals, grouped together to acquire income for themselves from their joint activity. Many are tiny, numbering two or three individuals, even single persons; then they range up to the immense armies of people who are associated in our mammoth corporations.

The universal drive to expansion in search of profit, animating each one of millions of economic teams, has undoubtedly been the great generating force for the cumulative economic growth that has taken place in the whole society. This modern system of “capitalism” is quite different from the picture of “unrestrained laissez-faire” often drawn by critics. There is today an immense body of law and custom within which American business and labour must operate. Practically all economic activity is obliged to accommodate itself to governmental controls of various sorts, and to other governing circumstances.

Government, however, does not for the most part tell people what to produce, how or where to produce it, or what price to charge. These decisions are made by individuals, within conditions determined by the market.

Why Output Per Man-hour Has Risen

Within this general background of ever-accumulating growth attributable to the profit-and-loss system itself, many identifiable causes of growth and of rising output-per-man-hour can be easily re-
Economic Growth in the U.S.A. (continued)

cognized. One of them, conspicuous even to the casual observer, is the increase in the amount of capital goods behind each worker. A man is clearly more efficient when he digs with a shovel than when he uses his hands. He becomes even more productive when he has a steam shovel to operate. The great role of this factor in the panorama of growth is suggested by the fact that manufacturing establishments now have available about 10 horse power per wage earner as compared with 1.25 horse power in 1879. Net investment in structures, equipment and inventories in manufacturing is now equal to about $9,000 for each manufacturing employee.

Behind all machines are men—men who invent and design them, men whose savings pay for them, men who make them, men who work them. The contributions of all are important in our interdependent pattern of growth.

One plainly outstanding element is the quality of business management. Necessarily so, since the totality of growth calls for continuing risk and enterprise in millions of cases. The unending decision-making must be provided by the responsible leaders of each big and little team.

We are an industrious people, living in a climate stimulating to physical and mental effort, with ancient traditions of work embedded in our mores, and accustomed to the idea that superior performance will be rewarded. General health and physical vigor are at high standards. There is also a high level of mechanical skill diffused throughout our population. Possibly a good deal of this is explained by our ways of life which impart skills by acquaintance and imitation. Consequently, changes in working conditions and methods are welcomed, rather than resisted, among American working people and their leaders more often than among those of many countries.

All these factors work together to promote technological change and advancement. As science has widened its frontiers, the knowledge gained has been applied progressively to industrial products and processes. It shows up in a never-ending succession of new and better products, new materials, new tools and machines, new techniques, new methods of organization.

While these inventions sometimes displace workers from particular jobs, almost inevitably they create added employment opportunities, and bring into existence entirely new skills or occupations. Very often, also, they involve wide changes in consumer habits, and thus put a spur to total consumption. Electricity, automobiles, airplanes, radio and television, are a few dramatic instances from the past. Entirely new materials emerging from our laboratories offer many examples. Some of our largest industries, employing and providing income for millions of workers, have been dependent for much of their growth upon such newly-created materials. One has only to reflect upon aluminium, magnesium, titanium, rayon, nylon and other synthetic fibers, or the gamut of new plastics, to be aware of the high importance of this aspect of growth.

But, of course, “mass production” is impossible without a “mass market”. Consumers have to be relied upon to take the goods as they stream away from the producing machinery. Before that happens, the ceaseless flow of goods must be made available—conveniently, attractively, and economically—so that potential buyers can obtain them in-
stantly. The American economy is outstanding in the degree to which it has developed these two basic economic processes—distribution and consumption.

A high rate of capital investment is also essential to economic growth. Firms must not only replace worn-out capital goods but must continually add to their number and to their complexity. Where do the funds come from to finance these investment expenditures?

One large source is the so-called "undistributed profits" of corporations. These are usually retained for the very purpose of new investment. But businesses themselves do not retain enough income to finance all new business investment. At their inception, indeed, enterprises require investment before they have any income at all.

Aside from previous accumulations by the owner, additional funds for investment by a business enterprise must come from the savings of others, just like the money that goes into consumer credit. In part these savings flow directly from individuals to firms (or from one firm to another) by the sale of new issues of stocks and bonds on the securities markets. Beyond this, in immense volume, savers entrust their funds to banks and a wide variety of other financial institutions. From these institutions the savings then flow, in the form of loans or direct investments, to enterprises that have proved sound or that offer promise of growth.

In setting forth this broad appraisal of the causes of past economic growth in the United States, an accompanying picture has resulted. The main features of modern capitalistic society are plainly comprised in this panorama. On reflection it will be seen that this was inevitable.

For this is the kind of society that produced the growth. Moreover, unless the society changes in some radical fashion, the trend of growth can reasonably be expected to go on. For the main forces responsible for the past growth are still operating.

That this is so is evident from a review of the forces underlying our progress in the past. The managerial ability sparking our millions of economic teams shows no evidence of deterioration. Enterprises now plan ahead with more care than ever before. The American business community, indeed our whole society, is, if anything, more "development-conscious" than ever in the past. Our labour force remains mobile and its skills are growing. The drive to betterment in every family remains evident. A broadening diffusion of education is disclosed in the extraordinary increase in high school and college attendance. The stock of capital goods per worker keeps mounting and pushing output-per-man-hour upward.

Research leading to the invention of new products, processes and techniques is better organized than ever in the past. More money is being purposefully devoted to enlarging the fund of scientific and technological knowledge. Expenditures for research from private funds alone have risen from 200 million dollars in 1939 to more than 3 billion dollars a year at the present time. The Federal Government is spending an equal amount for research and development, largely in the military and atomic energy fields, with more than half of the work being performed by private contractors.

The stream of technological inventions—of new machines, methods, products, and materials—flows faster than ever before. An exciting procession of them has appeared
over the past decade; and almost weekly we see others announced. Most of them are clearly only at the threshold of their economic usefulness. All will have their effect—and some can have revolutionary consequences—upon future productivity and future standards of living. They include such recent advances as atomic energy, continuing electronic advances, automation, radioactive isotopes, jet engines, new heat-resistant materials, transistors, soil conditioners—and a host of others that can both directly and indirectly affect the volume of our production, and with radical results.

The record of the past is impressive:

The average rate of growth in gross national product since 1900 has been 3% a year. The average growth in output-per-man-hour has been just over 2% a year.

Growth does not proceed at a uniform rate; it is sometimes above and sometimes below these long-run averages. But data covering a long period reveal no tendency for these long-term growth rates to diminish. This is extremely significant because of the element of "compounding" pointed out at the beginning of this article. It means that the percentages apply to ever-rising figures. Hence the actual increases, in dollars, tend to become larger every year. For example, 3% of the gross national product in 1900 was $2.4 billion; in 1920, $3.8 billion; in 1940, $6.4 billion; and in 1956, $12.4 billion; all measured by the same constant dollar of 1956 purchasing power.

Since 1948 our average growth in GNP has been 4%, not 3%; and in output-per-man-hour has been 3%, not 2%.

The high post-war growth rate does, however, reinforce the view expressed above that there is nothing in our recent experience to suggest any drop in our long-term rate of growth below the past experience of 3% a year in GNP and 2% a year in output-per-man-hour. If we do maintain this rate, by 1975 our gross national product will exceed $725 billion, compared with $415 billion in 1956.

This would mean that by 1975 the "disposable" income of the average family—after payment of all taxes—would be in the neighborhood of $7,100, expressed in dollars of 1956 purchasing power. The increase over the present family disposable income of $5,300 would exceed the amount the average family now spends on food and clothing combined.

The achievement of this high average income is not an imagined utopia; it is a practical goal for practical men. The prospect is inspiring, but it must be no less sobering for every thoughtful citizen. Only if we manage our economic affairs with intelligence can we expect such a "good life", on the material side, shared among the entire population. That is, together with the opportunity, there is a high responsibility to bring it about.

What must we watch, what must we do, to see that this trend, which means so much for the future, is not retarded?

The Future

The previous discussions make clear that growth will depend mainly, in the future as in the past, upon millions of daily private decisions. That is, the initiative and wisdom shown in the conduct of every business enterprise, large and small, and in the actions of every individual in pursuit of his welfare, will add up to the grand result and
be the principal determinant of the outcome. Consequently, in the private sector of the economy, everything reasonable must be attempted to raise the level of business management; to foster continuous investment in enterprise and sufficient saving on the part of individuals to support it; to widen the skills of the whole population; and to enhance mobility of labour and of capital.

Beyond the concern that every businessman must take in the improvement of his own firm, and every member of the working force in the betterment of his family position, growth is bound to be affected to a very large extent by the policies and activities of government. It is in this public sector of the economy that the qualifying condition of continued growth—that "we manage our economic affairs with intelligence"—has particular pertinence.

How much have governments—Federal, state and local—grown in the past quarter century? The number of persons employed by government has multiplied 21 times since 1929; 3 times if military personnel are included. Governmental purchases of goods and services, measured in constant dollars, are more than 4 times as large as in 1929. Governments now buy one-fifth of all the goods and services produced by the society; it was one-twelfth in 1929. One-sixth of all the personal income in the nation flows to recipients directly from governmental sources.

We have been spending about $40 billion a year for defense alone. Some ultimate contributions to growth may indirectly accrue from such spending—from applications of military research to civilian production. But on the whole, this represents a continuing drag upon our economic growth. This happens because such spending lessens the resources available for raising living standards and for business investment that would foster further growth. Though presently unavoidable, this kind of expenditure makes all the more necessary every reasonable economy in other governmental programs, and especially in those which can be identified as actually retarding growth.

It is well to remember, however, that the scope of governmental economic activity remained relatively limited until the fairly recent past.

This has changed notably within the past quarter-century. The relationship between government and economic growth has become far more pervasive. Two developments seem to be at the heart of this change. First, we have come to demand a higher standard of performance for the economy, with respect to economic stability and especially absence of unemployment, and to the avoidance of economic hardship in particular groups in the society. Second, we have learned that the powers of government can be used effectually to alter the ways in which the economy operates, and that, within limits, desirable objectives can be promoted. That is, if the powers of government are intelligently used—the "if" is important—government can contribute to economic growth in special ways, other than by good public investment.

The tendency of all groups to turn to government for solution of a vast range of troubles calls for great caution on the part of governmental leaders and the public. The legitimacy of governmental responsibility should be indisputably established, with the interest of the whole society as the main criterion; and—a point
that is often overlooked—existing programs should be regularly reviewed, to insure that those which may no longer be required are discontinued.

The money resources available to the Federal government swell with the growing income of the people. As a result special-interest demands upon the government, leading to extravagance and even profligacy, meet less political opposition. In other words, growth itself—unless there is a dedicated and searching scrutiny to eliminate uneconomic expenditures—tends to foster wasteful spending.

Hardening of the Arteries

Another danger is that something comparable to hardening of the arteries in an individual can occur in an advancing society such as ours. Some large groups, strategically placed from an economic or political standpoint, can put up strong and successful resistance to change that would be beneficial to the entire society.

A good example of this kind of resistance to change—as already indicated—is the call for government subsidy, price supports or other proposed methods designed to maintain or to enlarge income in industries which have been adversely affected by changes in demand or advances in technology. These measures reduce the incentive to move into more remunerative employment, in which people could contribute more to the total national product. Agriculture is an outstanding current example. Here it has become deliberate Federal policy to curtail production far below capacity, in order to raise prices. Most of the five billion dollars a year in the Federal budget for agriculture are actually allocated to reducing our agricultural production.

Fortunately, in spite of this uneconomic drag on growth, the pressures upon farmers and farm workers to move—to their own advantage—into other pursuits are so great that the needed adjustment in employment has continued at an impressive rate.

Another example of resistance to change is the not infrequent call by some labor unions, faced with a long-time decline in employment because of a drop in demand or because of some technological advance, for shorter hours of work with unchanged pay. When successful, this practice is an evident drain upon total economic growth. It means, purely and simply, that less work is done in the society, and also that a certain amount of capital resources cannot be freed to enlarge production in some other area where employment opportunities are expanding. Such shortening of hours to try to maintain employment in a particular trade is quite different from a decision to take some of the benefits of economic growth in the form of more leisure rather than more income.

As for price controls, it must be realized, they represent profit controls; in other words, interference—in a broad, blind, completely indiscriminating fashion—with the main generating force behind growth in a free society. Aside from this cardinal disadvantage, price controls would mean that profit differentials would cease to serve as a guide to indicate which industries should be expanded and which contracted, and any inducement to bring about such needed shifts would disappear. Wage and price controls may be necessary and salutary during a major war, when overriding priorities in production must be established; but in peacetime such controls would quickly destroy the basis for rational adjustment and change.
High on the list among the factors that could impede future growth is, unquestionably, increasing taxation both of the individual and of business. We work for ourselves and our families; benefit to the society (while it may be recognized on reflection) is decidedly secondary and certainly constitutes no incentive. When government costs run so high that taxation becomes confiscatory in the opinion of the taxpayer, growth is bound to be adversely affected. It is affected because the all-important incentive to work and save for oneself and one’s family is thwarted.

At present government in this country takes away in taxes of all kinds nearly thirty per cent. of all private earnings. This huge proportion undoubtedly already impairs incentive to some extent, even though there exists no method of measuring the effect. For the 30%, it must be recognized, is an average. It includes rates, in Federal personal income tax alone, which rise as high as 91%. In practice the very high rates strike most heavily at the incomes of managerial and professional personnel, in positions of high responsibility and demanding exceptional abilities. They have impact also upon the returns from risky investment which promises new or cheaper products and better techniques and more employment. In short, our tax system is most burdensome in the areas that are most critical for economic growth.

Avoidance of Inflation

In the future it must be a prime objective of economic policy—with the Administration, the Congress, our monetary authorities and business, all cooperating as they can—to avoid “deep” depressions on the one side and unhealthy “booms” on the other. This is especially necessary in the matter of price stability—the avoidance of inflation.

Continuing concern about price instability must be not only with inequities to savers, which are bad enough, but with the difficulties inflation creates for business in formulating plans for the future. The resulting indecision inevitably causes slowdown and inaction where the ideas and preparations for growing enterprise begin. Even more worrisome is a reasonable apprehension that gradual inflation, which we seem to have been suffering with all

Education

One of the most natural concerns about future growth has to do with improvement in our educational facilities, and in our present standards of education. In the eyes of many they are not what they should be, with the great needs of the future in mind.

For the individual, of course, education has its own rewards. The spread of knowledge, the incitement and satisfaction of curiosities, is part of general betterment in standards of living. This should be a main objective of our society, even if it were not important for growth. However, we must also look at education as it affects economic growth, and there is no doubt that it constitutes one of the bedrock supports of growth.

There is now wide recognition, particularly in high echelons of industry, that for general business management a liberal education is now as needful as it is valuable. That is, in the plain matter of just “getting ahead”, such education is not only personally satisfying to the individual but ends up in better status and better income.
the rest of the world, cannot continue indefinitely. If not stopped, at some time it may accelerate to a point where serious and difficult readjustments will become necessary. There is also danger that if inflation is not checked by acceptable means resort may be had to price controls and other sweeping measures of government intervention highly undesirable in a free society such as ours. And our free society must be preserved at all cost. We must not be decoyed by spectacular Sputniks into following our adversary’s way of achieving objectives which can be better achieved within the framework of freedom.

Even before the Sputniks, some Americans were apprehensive about a report by the staff of the Congressional Joint Economic Committee which seemed to make Soviet economic growth look pretty good. It said there had been an average increase of 7 per cent. a year from 1950 to 1955 in Soviet gross national product while we plodded along with a measly 4 per cent. But to single out these years of abnormally large Soviet growth gave a distorted picture which bore no relation to the long-term growth situation. In fact, most of the nations badly damaged in World War II were showing abnormal growth rates at this time. West Germany the biggest of all. On the long-term, which is the measure of real growth, the U.S. with its 4 per cent. led all other nations in quantitative increase. In the 17 years from 1938 to 1955, we had an increase of $73 billion in our gross national product, an average of almost $15 billion a year.

In conclusion, it cannot be said too strongly that all the considerations affecting growth covered in this article must be watched with unending vigilance, by the general public as well as by all governmental representatives. Every factor that promotes growth must be encouraged. Every policy and activity that can be identified as retarding growth must be opposed. For it is worth repeating: our generation is faced with both an unparalleled opportunity and a high responsibility. It lies within our power to lead the world, with other nations having a like philosophy standing beside us, into a material utopia which in the past has been a mere dream. No longer is it a distant goal, it is within near achievement as a practical matter. It can be done, too, without impairing in any way the freedoms we prize above all else. We who are now alive can bring all this about. No generation has ever been given a more inspiring opportunity, nor, it seems, has one ever had a more critical responsibility laid upon it.

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