Editorial—The Budget

THE 1960/61 Commonwealth Budget demonstrates the limitations of the budget as a weapon to cope with the powerful, underlying inflationary forces in the present-day Australian economy. Indeed, these days the budget can do little more than refrain from heaping additional coals on the fires of inflation, and this the new Budget seeks to do.

In a total national expenditure now touching £8,000 million a year, a budget surplus of £15 million is a barely perceptible trickle drained out of the spending torrent. The increased rates of tax on personal incomes and company incomes are estimated to realise additional revenues of £20 million and £17 million respectively in 1960/61. These magnitudes must be considered against total personal incomes now over £5,000 million a year and against company incomes approaching £700 million (after-tax profits about £400 million). The increase of 6d. in the £ on company tax is hardly likely to have much effect on the investment outlook and intentions of the business community, assured of a rapidly expanding domestic market. It may not, however, be without some tactical significance in the fight against inflation in view of the impending demands for a further basic wage adjustment.

On the present scale of national spending, a budget surplus of at least £100 million, and possibly £200 million, would be required to have any impact on the inflationary movement.
And, if a surplus of these proportions had to come out of a savage increase in taxes, then its anti-inflationary effects would be short-lived because the community would immediately seek round for ways to compensate themselves for the added taxes they were called upon to pay. This means that a budget surplus, which would be effective as a counter to inflation, could come only from a large-scale reduction in government spending. But there is only one area where a cutback in spending of the required proportions could be made — this is the field of capital works (this would not preclude attention to the “fringe” economies which might be made elsewhere).

In framing the Budget, the Treasurer has been tightly circumscribed by the policies of rapid national growth which his Government is pursuing and which are supported by practically every section of the community. If the Budget fails to grapple effectively with the basic economic issues confronting the economy, then the Treasurer can hardly be blamed. In his shoes, who among us could have done any better? Certainly not the many critics who have flailed the Treasurer and the Budget, but who have failed to produce between them one really worthwhile idea for halting the onstriding inflationary giant.

It is clear that this year a resolute effort has been made to curtail the expansion of government spending and for this the Treasurer is to be commended. In the face of exceptionally large increases in wage and salary costs and of the unavoidable increased outlay on social services, the rise in total expenditure of £89 million, compares favourably with increases of £122 million in the previous year and of £106 million in 1958/9.

In his Budget Speech the Treasurer did touch on the great dilemma facing the economy when he said: “The pace of expansion in Australia has become rather too fast and we have to ease it off a little.” We agree, but would go further. We would say that the pace of expansion had become too fast and has to be steadied substantially. No other course will really strike an effective blow at inflation, but the community is not yet prepared, and the Government is not yet prepared, to deliver a knock-out punch.
Within the limits that adherence to the existing rate of expansion imposes, the Government is doing its best through the budget, through monetary policy, and through import policy (extremely risky though this is) to contain the inflationary monster; but it is fighting with its hands tied behind its back.

Our present position could be likened to a balloon that is steadily and dangerously expanding. Here and there the Government has pricked the balloon to reduce the pressure and, as in its opposition to wage increases this year, has been successful in preventing some additional gas being blown in at the entrance. But in the meantime the total effect of national policies is to pump gas into the balloon at a faster rate than the gas escaping at the pin-holes. Thus, the basic issues confronting the economy remain unresolved. These issues are the disappearing profitability of the great export industries; the critical importance of achieving an expansion of export income if long-term growth is to continue; the need to free the economy from its present unhealthy year-by-year reliance on overseas capital for achieving a balance in the external accounts; the need to restrain wage adjustments to the real long-term gains in productivity.

All are intimately tied up with inflation.
The National Purpose

RECENTLY in the United States there have been signs of growing unease and concern. The feeling is spreading that all is not well; that, for the time being, America has lost its sense of direction, that it is not sure where it is going or what it stands for.

This disquiet has been especially evident among some of the nation’s foremost thinkers. Walter Lippman expressed what was in the minds of quite a number of people when he wrote: “We talk about ourselves these days as if we were a completed society, one which has achieved its purposes and has no further great business to transact.” Perhaps it is not without significance that a Commission on National Goals was recently appointed by the President.

The problem of the United States seems to be, at least in part, that of “the affluent society”. It is the perennial problem of the rich man who has made his fortune, achieved his more obvious ambitions, and is puzzled about what to do next. He can, of course, just sit back and enjoy the fruits of his labours; but to the man of spirit that is seldom satisfying. Once acquired, the fruit is not so good as he expected, and often indeed tastes somewhat sour. He can become a philanthropist on a large scale. The United States has certainly done this. The financial aid and many-faceted assistance it has provided the less fortunate countries since the war have no parallel in history. But this unprecedented generosity has not produced the results expected and suspicion and unpopularity of the U.S. have been often most marked in those countries which number among the chief beneficiaries. This has added to the prevailing bewilderment and disillusionment.
There seems no doubt that the present uneasiness of the American people is traceable partly to the fact, that, economically, the United States has "arrived". A recent editorial in the "Cleveland Press" said: "We have everything. We abound with all the things that make us comfortable. We are, on the average, rich beyond the dreams of kings of old. Yet . . . something is not there that should be—something we once had."

But is this "malaise" of the rich society peculiar to the United States? Or is it perhaps something with which all the advanced democracies are threatened in great or less degree? Could Australia claim immunity?

In many respects, Australia is similar to the United States. We, too, are a well-to-do society, not as rich as the United States, certainly, and not as rich as we would like to be, but, nevertheless, marvellously rich by comparison with the great part of the world; and certainly rich enough to provide a reasonable standard of comfort for all our people. Isolated pockets of discomfort exist, but we have no great national problem of want or distress with which to contend. It is difficult not to feel that many of the grievances which are aired in political controversy and in wage disputes are, these days, manufactured rather than real. And it is significant that in Federal elections of recent years, no outstanding economic issues of the kind calculated to stir the passions and fire the enthusiasms of the voters have emerged. Politics seems to have lost quite a bit of its bite, and the public, consequently, to have lost interest.

In the years after the war, Australia, along with other countries, seemed to have a great National Purpose. We aimed at building a new society in which the injustices and weaknesses of the pre-war order of things would be eradicated. Among our objectives were Full Employment, Security, and Equality of Opportunity.

In the last decade and a half, these things have been accomplished, not only in Australia but in most of the democracies, more swiftly and even better than they had perhaps hoped. But with success has come something of a vacuum in public affairs, and an absence of unifying purpose which in America anyway is clearly causing concern.
Our own inner disquiets are aggravated by the contrast presented by Soviet Russia. In Russia there is clearly no lack of purpose and this gives a drive and a unity to the national life, which it is difficult to parallel in the societies which have "arrived". The Russian people feel they are on the verge of great things. They feel they have a new society to build which will stand as an example to the world, and they have apparently dedicated themselves to the task with the intensity of a religious fervour.

The contrast is most marked between the two great world powers. Economically, the United States is away out in front, whereas the Soviet Union is in the position of a back-runner. Russia has the terrific incentive to overtake the leader. The fact that the task may quite probably be beyond her may not be so important. For the time being, the important thing is that the incentive is there and that Russia has a great objective which unites her people and which gives direction and dedication to the national life. On the other hand the American people are finding it difficult to discern any comparable, motivating aim.

The economic supremacy of the United States stands as an abiding challenge, or as an irritant if you like, to goad and inspire Communism to a continued maximum effort. There is no such simple, clearly-defined challenge for the democracies to take up. The challenge to the democracies presented by the Communist endeavours to win the affections of the uncommitted world, vital though it is, seems something rather remote from the ordinary man's interests.

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There is, however, despite many similarities, an obvious difference between the United States and Australia. Australia is, economically, far from fully developed. We have still to realise our considerable economic potentialities; we have yet to learn the full measure of our resources; we have still to people a vast continent. "Development" is the watchword of modern Australia. If you were to ask any Australian what he or she would regard as the major national purpose of Australia today, "development" is the answer you would doubtless get. "Development" is certainly the great ambition
of post-war Australia, and it is an ambition which lends some measure of drive and direction and unity to our national endeavour.

But having said that, it must also be admitted that the kind of development we are undertaking has so far involved us in no great sacrifices. We are fortunate in pursuing the development of Australia in the context of the 20th century, with a secure and high standard of living as a foundation and with all the aids and devices of modern science and technology. It is development within the cushioned comfort of the Welfare State. It is a process far removed from the "pioneering" of the last century which demanded incredible hardships and sacrifices and unending toil from the pioneers.

Development, to most of us, means "growing big". It means increased numbers of people, industrialisation, scientific advancement, the efficient utilisation of known resources, and the discovery of resources yet unknown but confidently believed to exist. But great as these objectives are, are they enough? Do they, in themselves, provide a sufficient goal? Or do they omit something vital and essential?

A national purpose defined exclusively in economic terms is somehow inadequate! It falls short of satisfying the deeper instincts and aspirations of a people. Life consists of more than economics, and a true national purpose must comprehend something greater and nobler than an ambitious set of economic objectives.

Our mistake may lie in defining "development" too narrowly. To think of development solely in terms of more people, bigger and better industries, city skyscrapers, may be to take a too restricted view. Perhaps even more important for Australia than "growing big" is "growing up". The most significant field for development in Australia may well lie in the progress we are making, or should be making, toward a full nationhood. In this concept, development on the economic front should be regarded as only one aspect of a general advance.

The difference between Australia and the United States, which we are accustomed to take as our model in these things, is not just a matter of size. It is a difference in self-conscious
national spirit and pride, a difference in national sophistication, in the length of the road travelled toward maturity.

The United States, almost from its beginnings, had a sense of mission and vocation in the world. It may have been temporarily mislaid in the luxuriance of its own abounding riches or in the confusion and bewilderment of a world changing so rapidly that it is difficult for the human mind to keep pace. The United States has had what has come to be known as the American Dream — the great ideal of self-government for all peoples everywhere. It has the Declaration of Independence, and the Constitution and the Gettysburg Address, those great historic documents of noble ideals and purposes to serve as a focal point of national unity and loyalty.

In Australia we have no great national charters of this kind. Nor can they be deliberately manufactured. Such documents emerge rarely in history and then only as a natural product of climactic occasions. The Australian feels more reverential loyalty for the native gum that he does for the Constitution, which to the majority is a dry-as-dust document which few have read and still fewer understand.

If development, as commonly interpreted, is not sufficient to provide a great unifying national purpose, it nevertheless has the virtue of being easy to comprehend. It is easy enough to understand what is meant by “growing big”. It is anything but easy to know precisely what is involved in “growing up”.

Of course, before a people can have a deep-rooted sense of national destiny there must be a nation, and some may doubt whether Australia is yet a “nation” in the real sense. It is true that, legally speaking, the Australian nation was born in 1901 with the Federation, and with Barton’s rousing slogan of “a nation for a continent, and a continent for a nation”. But perhaps it is only very recently that we have begun to acquire the real substance and spirit of nationhood, as distinct from the mere legal form. The distinguishing characteristics of a nation are that it has distinctive standards, ideals and objectives and, more important, independent views and a way of life and culture which though necessarily influenced by other nations, are, in essence, peculiarly its own.
It is not very long since Australia took its lead, its guiding ideals and much of its thought from Britain. And all this was perfectly natural. But a notable change is now occurring. There have been many signs in the post war years that we are beginning to think independently, not merely about the domestic issues of our own concern, but on international affairs. The destiny of Britain is inseparable from that of Western Europe. In Australia we have become increasingly aware that our own destiny is closely linked with Asia. In more recent times we have begun to pursue our own distinctively Australian purposes, to develop our own distinctively Australian way of life. Members of older generations still frequently speak of England as “home”; members of the new generation, never.

The present-day Australian is not particularly like the Englishman. Indeed, the two environments being so utterly diverse, how could anyone expect him to be? It is true that there will always be a great deal of Britain in Australia, just as there is something of the parent in the child. But it is true, too, that the child bit by bit grows away from the parent, achieves his independence, and with it, his individuality and adulthood, and becomes himself. This is a process Australia is still going through, but we may be now well along the road. It is an inevitable evolution, and one not to be deplored; rather, it is to be acclaimed.

It is clear that, if not this year or next, then certainly in this decade, a great test of our developing maturity and nationhood will arise. Will we be prepared to grant to the national Parliament, the powers it requires — but no more than the powers it requires — to govern adequately according to modern concepts and needs? A failure to do so might suggest a lack of faith in ourselves, a distrust in our own democratic capacity to control, in the last analysis, those we elect to govern us. It might suggest a timorous turning back from the road we are rapidly travelling toward a greater and maturer nationhood.

Such a development need not mean any detraction from the federal principle, to which Australia is firmly wedded. A great authority on the Australian Constitution, the late Sir Robert Garran has suggested that there is no reason why the widening of the legislative powers of the national Parliament
should not go along with some specific decentralization of administrative discretion and authority to the States. What must be avoided is the concentration of executive responsibility at Canberra — that would indeed be dangerous. The task is great and it is difficult. But a mature people on the threshold of real nationhood should not find the achievement of the delicate compromise involved beyond their capabilities.

The words of Alfred Deakin are perhaps even more appropriate today, more of a challenge today, than they were at the time of the Federation: "We should seek to erect a constitutional edifice which shall be a guarantee of liberty and union for all time to come, to the whole people of this continent and the adjacent islands, to which they shall learn to look up with reverence and regard, which shall stand strong as a fortress, and shall be held sacred as a shrine".
To Stop Inflation!

The new decade has made a bad start. Prices in 1960 seem likely to rise by not less than 6%. This represents a sharp acceleration compared with the closing years of the 1950's when prices increased, on average, by 2 to 3 per cent a year.

Moreover, the prospect for 1961 is not promising. Once the price lift has gained a rapid momentum, it is unlikely to be slowed down other than gradually. The swelling tide of imports which has followed the removal of import restrictions, and the expected large run-down in overseas reserves in the current financial year, may provide a retarding influence. But the new Budget is, at best, no more than neutral. It refrains from giving additional encouragement to inflation, but does little positively to check it. The immediate danger stems from the wage position. It hardly needs to be said that the large rise in the cost-of-living in the current year will greatly increase the pressure for an upward adjustment of the wage structure in 1961. The political dangers in the Commonwealth Government repeating its 1960 policy of opposing wage increases, in the face of fast-rising living costs in an election year, require no emphasis. In any case, wages in some States will continue to rise automatically with the further cost-of-living increases in prospect.

The short-term prospect is therefore anything but hopeful so far as an actual halt to inflation is concerned. What of the longer-term picture? The 1950's was a decade of great inflation; at the end of the decade the Australian £ was worth in purchasing power only about 10/- compared with its value at the beginning. Is the story to be repeated in the 1960's? Will inflation continue in the next ten years, even though at a slower rate than in the past ten?

Perhaps the questions are irrelevant. For at the opening of the 1960's there must be real doubts whether the Australian economy can stand very much more of the dangerously exciting drug of inflation. In some areas the economy has already an unhealthy fevered look which presages trouble. But there are more compelling reasons, reasons that go to the foundational sources of the nation's stability and prosperity, why inflation may no longer be feasible as a national policy — even though it may never have been a deliberately contrived policy, but a policy of drift in which most sections of the community connived at the same time as they lamented.

The situation at the opening of the 1960's is dramatically different from the situation at the start of the previous decade.

In the early years of the 1950's there was a comfortable gap—comfortable indeed — between the prices Australia's major exports were bringing on world markets and the cost of producing those exports. This meant large, and in some cases staggering, profits for the pro-
ducers. These profits enriched many farmers, especially wool-growers, beyond their wildest imaginings, and, in the process, provided the capital which made possible the unprecedented expansion in farm output, and thus in export production, that took place over the past decade. To take only one example, but the most notable: the wool clip grew from about 1,100 million lbs. at the beginning of the decade to nearly 1,700 million lbs. at the end. It was this expansion plus the persistence of generally good prices that provided the master support of the great prosperity and extraordinary development of the 1950's. With it, we achieved progress that bordered on the miraculous; without it, we could have done little.

But inflation, along with lower export prices and, especially the more sober long-term outlook for wool, has undermined, if it has not entirely destroyed, that happy situation. A few figures will emphasise the transformation more graphically than any words can do.

In 1950, wheat cost 7/- a bushel to produce and sold abroad for 17/-; today costs of production average 15/-, and on export markets wheat is bringing only 13/-.

In 1949/50, the wool clip averaged 63 pence a lb. and cost a little over 30 pence a lb. to produce; in 1959/60 average selling price was 58 pence a lb. and average costs of production were probably not much less. (The 1960/61 selling season has opened with prices under 50 pence.)

There is another point of difference between our present position and that of 10 years ago. At that time we did not realise how vital were exports to the ambitious plans for development and population growth which were being pursued. In fact, the emphasis was not on exports at all, but on the expansion of manufacturing for the home market.

Many people foresaw indeed a declining role for exports in the whole context of the economy, based on the delusion that the new manufacturing developments would render us less dependent on imports. Today those ideas have gone by the board. The emphasis is now all the other way. Exports, it is held, must expand, and expand rapidly, or development will grind to a halt. Moreover, mere expansion of the traditional exports will not be sufficient. We must look now to the manufacturing industries to make a steadily growing contribution to export income.

Perhaps few of us have yet fully grasped the significance of this transformation in our economic position and attitudes. It means that the Australian economy has passed out of adolescence into adulthood. It has become of age; and it must perforce observe the rules by which other and older nations have achieved the industrial stature and greatness to which we ourselves now aspire.

All this suggests that, whatever the situation was in the 1950 decade — and we did, on the record, manage to combine remarkable development and progress with rapid inflation — inflation is no longer a tenable policy; that today the prime purpose of policy must, on the contrary, be to beat down and conquer inflation. Whatever it was to development in the 1950's — and some claim that it acted as a strong stimulant — inflation has become the arch-enemy of development in the 1960's. Today it has become a case of "beat inflation or else."

How do we go about it?

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As a first step, we would be well advised to take a good look at some of our basic economic thinking.

The strongest and most irresistible force in the modern democratic economy
arises from the persistent urge for higher and higher living standards. Not so long ago, in the years before the war, this was not such a potent factor. The mass of people then were generally satisfied if they could maintain their existing standards. They did not look or hope for dramatic improvement. The virtues of a steady job at steady wages ranked high when there was an ever-present possibility of getting wet in a "pool of unemployment." But full and over-full employment and the post-war Welfare State have changed what was a relatively passive attitude to living standards to an aggressive, positive attitude. In these days people expect a high standard of living, and not only that, the multitude of attractive, relatively expensive goods in the shops (TV sets for example) serve to stimulate the desire for a higher and higher standard. This is probably the most powerful underlying force behind the latter-day inflations in most of the democracies. Perhaps it is even stronger in Australia than in other less fortunate countries where hard experience has conditioned people to expect somewhat less from life than the average Australian.

Superimposed on this urge for better living standards is the additional pressure, evident especially in Australia, arising from the demands of rapid national growth and development. The two combined make Australia a very fertile country for inflationary growth and make the task of preventing or curbing inflation peculiarly difficult.

A country may have one OR the other (i.e., a rapidly rising living standard OR galloping development) without inflation. If it tries to have both, excess demand (and inflation) is the certain consequence.

How can a free democratic economy curb or control the pressure for higher and higher standards of living? There is probably no means short of sacrificing some of its freedoms by resort to direct controls over consumption. The normal indirect controls of taxation and monetary restraints may provide a weak brake. They may not even do that. Higher taxes merely lead to compensatory action by all sections of the community to boost their incomes, while for the things they want badly enough, people will either cut their savings or find some means of borrowing money and are prepared to pay an exorbitant price so long as they feel their long-term financial prospects reasonably secure (as they do in the modern economy of full employment).

If it is difficult or impossible to measurably restrain spending on consumption, the main burden of anti-inflationary policy must necessarily fall on spending on investment. This affects the rate of development or growth. From that there is no escape if the policy is to be effective. The reluctance, understandable though it is, to face up to this dilemma is largely responsible for the inflation of the post-war period.

For many, this conflict between consumption and investment has assumed a kind of moral content. Consumption seems to imply some measure of self-indulgence and personal extravagance; therefore it is wrong (at least wrong for other people; seldom for one's-self). Investment, on the other hand, implies saving, austerity, sacrifice; therefore it is right.

But the rightness or wrongness of the matter is beside the point. Economics cannot pronounce on moral values; nor economic policy essay to deal with them without governments setting themselves up in the self-righteous role of economic censor.

What governments must do, and what economic policy must do if it is to be effective, is to deal with human beings as they are. You cannot compel—at
least not for long — people to act in the way you believe they should act; to attempt to do so is to court failure. Human behaviour is the most important single factor with which economics has to contend. This is often forgotten in these days of over-simplified, aggregate "addition-and-subtraction" economics.

For this reason, even the way of direct controls to prevent inflation — price control, income pegging, investment control, and, if necessary, rationing — turns out, in the end, to be no way at all. For if the controls conflict with what the people would normally do — and that, of course, is their intent — then the people will, one way or another, rebel against them, evade them, circumvent them, disregard them, until they become unworkable. Only in war-time, when their survival is at stake will people submit to controls of this kind, and even then the prevalence of evasion, black marketing, and corruption is evidence that some do not. In peace-time, the people who believe, or profess to believe, in direct controls as a weapon of economic policy usually have in mind that the burden of the controls will fall mainly on the other fellow and not on themselves. Much of our modern economic thinking is befogged by cant or hypocrisy of this kind and by an unrealistic assessment of human nature.

Economic policy cannot, if it is to succeed in its objective, be based on what we would like to do (we would all like a rapid increase in living standards and rapid development at one and the same time); or what we should do (perhaps we should sacrifice higher living standards for more rapid development); but, what in fact we are prepared to do when it comes down to brass tacks.

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We are accustomed to say, these days, that inflation is of two kinds—"demand-pull" or "cost-push" according to which is the initiating factor, an increase in demand or an increase in costs. We say, for instance, as we have done with the recent rises in prices in Australia, that higher prices result from a lift in wages. That is "cost-push" inflation. Or, we say that inflation is brought about from an expansion of money supplies to support an excess of demand which boosts prices by causing competitive bidding for goods and productive resources. That is "demand-pull" inflation.

These concepts have their uses, but they also have their danger. The danger is that the concepts themselves tend to be accepted as an adequate explanation of the causes of inflation, and enquiry goes no further. All that they really do is to describe, in a kind of economic shorthand, the mechanism of inflation. They do not tell us the underlying reasons for the excess of demand or of the rise in costs.

It does not help us very much to say that a particular increase in wages caused inflation by making inevitable a rise in prices. The important thing is what caused wages to increase; or, rather, and more important, what circumstances gave rise to a situation in which wages were likely to increase or, even more, could not be avoided.

Or, if demand is excessive, if money is expanding faster than goods, total expenditure faster than total supplies, why is that so? Could it have been prevented given the basic economic policies being pursued, or, within the context of those policies, was excess demand inevitable? Are there some influences at work on the economy which make an excess of demand unavoidable? If so, in order to track inflation to its source we have to examine the policies and seek out and expose the influences. To say that inflation is caused by excess demand is the same thing as saying that the water level
in the reservoir is rising or overflowing because too much water is pouring into it. It is merely a statement of the obvious—an economic truism. What we have to do is to determine why there is too much water.

Of the two initiating factors of an inflationary movement—a surplus of demand or an increase in costs—the former is much the more fundamental. It is in an environment of over-demand, that an increase in wages becomes highly likely and, indeed, eventually unavoidable. Excess demand leads to rising prices, higher living costs, an expansion of business turnovers, an increase in money profits, shortages of labour, particularly labour of the skilled types. In this kind of environment employers bid against one another for the labour they want, offering higher and higher wages in the confident expectation that they can recover their increased costs in expanding sales and higher prices. Wage-fixing bodies, confronted with rising living costs and booming business prosperity and profits, feel disposed or indeed compelled, on both counts, to grant wage increases.

This is not to say that increases in wages, in themselves, play no part in the process of inflation. That would be nonsense. In an economy which develops a loose attitude to money, everybody is infected, even austere wage tribunals. And there has undoubtedly been a disposition in recent years to grant wage increases beyond what might be called the inescapable limit and these increases themselves have at times been an originating cause, and not just an unavoidable consequence, of inflation. But if one were to guess—and it can be no more than a guess—at the relative shares of responsibility attributable to demand on the one hand and costs on the other for the post-war inflation, it could be 70% demand and 30% costs.

A policy to defeat or at least to contain inflation must be directed primarily at demand and primarily at that section of demand where it can be effective. Whether we like it or not, this means, in the main, demand arising from expenditure on investment. By various means a government may discourage and even achieve marginal reductions in spending on consumption. But consumption as we have seen, and as commonsense should tell us, is powerfully resistant, unamenable, to the inflationary “antibiotics” of a democratic economy.

There is one effective road to the goal of price and cost stability in the present-day Australian economy and that is to relate the pace of development to what the resources of the country can stand without inflation. Inflation is, in effect, the modus operandi by which additional resources are made available for investment, resources over and above those provided by voluntary and compulsory savings. A reduction of excessive capital investment—both public and private—that is capital investment based on a “boom” psychology, is really the only solution open to us.

Many will deplore such a remedy. The hard fact is that we have no choice. In any case in the long run—and perhaps not-so-long run—the continuance of inflation could destroy the foundations on which the whole of development rests, that is, the expansion of exports. The drug which stimulated in the 1950’s, could kill in the 1960’s.

But what we may succeed in doing with one hand, namely, the moderation of the development gallop, we must be careful not to undo with the other. If we rid the economy of inflation due to excess demand, we do not want to make the error of continuing inflation through the process of “cost-push.” There is some danger of this occurring unless our wage-fixing methods, which are largely a “hang-over” from the pre-war era of the
under-employed, subsistence-wage economy, are adjusted to the new conditions of the post-war economy.

In the modern welfare-state, full-employment, high-wage economy, we need a different approach. The basic wage concept, for instance, has no place in the Australia of today. For a start the basic wage-earner is non-existent. There is no such person. The basic wage was a wage designed to provide the lowest-paid worker and his family with no more than a frugal standard of comfort. But today we don't think in those austere terms and, in fact, the present basic wage is far above the level of subsistence as originally conceived. But even that is not the important thing. The basic wage was always regarded as a family wage. The important thing today is that the earning-power of the family, has in general, increased out of recognition because of the full-employment economy which provides jobs for wives and sons and daughters at lucrative wages.

While wage tribunals persist in using the abstraction of "the basic wage" as the primary standard for wage adjustments, the danger of inflationary wage decisions will continue. The Commonwealth industrial authority, should make it clear (and if this is not possible under present legislation, the Commonwealth Government should make it possible) that in future there will be no separate hearing for margins and the basic wage, that the whole wage will be considered as ONE wage and adjusted accordingly. If, on top of this, the Arbitration Commission reviewed its whole approach to long-term productivity improvements as a guide to wage revisions, the emergence of a non-inflationary wage policy would be in prospect.

But the all-important thing is to attack the disease at the points where the attack can be effective. A reduction in the rate of capital investment (development) would make a dual contribution to the removal of excess demand. Not only will expenditure on investment be reduced, but so too will total spending, although not necessarily individuals' spending, on consumption. Total spending on consumption is a function of total spending on investment. If we reduce one we will cut back the other.

Admittedly, we would prefer to do otherwise. What we would really like to do is to retain the present level of spending on both consumption and investment without inflation. As that is impossible, we may prefer continued inflation. But to choose that path would lead us to the brink of the abyss which always awaits those economies whose governments and people refuse to face the facts of life.
New I.P.A. Booklet — "Inflation"

In view of the seriousness of the inflation problem in Australia the I.P.A. published in June a 16-page illustrated booklet. This shows in a popular way why it is everybody's business to fight inflation.

Production is vital in keeping down the cost of living. More production means lower costs, cheaper goods and increased prosperity.

To beat inflation wages and other incomes must not rise more rapidly than production.

The Australian standard of living and future development depend on increased exports. Inflation is the arch-enemy of the exporter because high costs make it difficult for him to compete in world markets.

The battle against inflation is a job for everybody. Management and employees must strive unceasingly for higher productivity. It is the duty of governments to keep their spending down to what the community can afford.

If taxes are too high the incentive to produce is weakened, savings are discouraged and inflation is encouraged.

The reaction to the booklet has been extremely good and two reprints have been necessary. Over 40,000 copies have been ordered to date.

200 Companies have ordered copies for employee distribution. The average company request has been for 175 copies. 1,500 free copies have been sent to schools. As a result of the widespread newspaper publicity given to the booklet there have been over 750 requests for individual copies.

Copies of the booklet are still available. Companies and business houses may purchase copies at 1/6 each, for employee distribution. The booklet will be sent on request — free of charge — to schools and other educational institutions.
Have Living Standards Improved?

This article represents an attempt to measure the improvement that has taken place in living standards in Australia over the past decade. Available statistics have been exhaustively examined and some novel statistical procedures have been used. We do not claim that the article is the final word on the subject, but we believe that it gives an approximate idea of the changes that have occurred. Admittedly, even more refined statistical methods might yield more accurate results, but we confidently believe that the broad conclusions would not be greatly different from those to which our own investigations have led.

To what extent have Australian living standards improved since the war? This is one of the most baffling problems in post-war economics and no satisfactory answer has yet been given.

The evidence of one’s eyes—the street upon street of bright, modern homes, the lush crop of T.V. antennae sprouting from the roofs, the multiplication of household appliances, the motor cars jam-packing the roads—would suggest that a spectacular advance has been made. But the deductions one would make from the visual evidence, or from figures of durable goods per head of population, seem to conflict with the aggregate statistical measurements commonly applied to measure changes in living standards. For instance, national income per head, adjusted for price changes by the “C” Series Price Index, shows surprisingly little improvement.

This apparent contradiction has puzzled many students of the problem. Some claim that the aggregate statistical measurement is the only reliable indicator of the over-all change in living standards and this suggests that the improvement has been slight indeed.

Moreover, the Australian figures of real national income (calculated by customary methods) compare most unfavourably with those of other advanced industrial countries. One startling, and, on the face of it, distressing comparison of this kind was recently given in a publication of some authority—the 1959 Proceedings of the American Assembly. (The Assembly was founded by President Eisenhower when President of Columbia University). This volume consists of a number of papers presented to the Assembly by leading American economists and statisticians. A contribution by Dr. Lloyd Reynolds of Yale University gives a statistical comparison of changes in real wages and in per capita real gross national product (G.N.P.) in various countries between 1948 and 1957. (Read here table at top of next page.)

These figures are enough to make any loyal Australian gasp with horror. Fortunately the position is very much better than the table indicates.

For a start, Dr. Reynolds has used the index of nominal wage rates for adult males for Australia and not the index of actual earnings, i.e., wages including
PERCENTAGE CHANGE IN REAL WAGES AND IN PER CAPITA GROSS NATIONAL PRODUCT — 1948 to 1957

<table>
<thead>
<tr>
<th>Country</th>
<th>Real Wages</th>
<th>Real G.N.P. per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>39</td>
<td>31</td>
</tr>
<tr>
<td>France</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>West Germany</td>
<td>78</td>
<td>75</td>
</tr>
<tr>
<td>Italy</td>
<td>20</td>
<td>70</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15</td>
<td>26</td>
</tr>
<tr>
<td>Norway</td>
<td>20</td>
<td>35</td>
</tr>
<tr>
<td>Sweden</td>
<td>39</td>
<td>25</td>
</tr>
<tr>
<td>U.K.</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>31</td>
<td>25</td>
</tr>
</tbody>
</table>

And Dr. Reynolds shows Australia 4 1

<table>
<thead>
<tr>
<th>% increase 1948-1957</th>
<th>Real Wages</th>
<th>Real G.N.P. per capita</th>
</tr>
</thead>
</table>

Overtime, over-award, incentive and bonus payments and so on. The wage figures for other countries (compiled by the International Labour Office) generally relate to all workers and to actual earnings. Between 1948 and 1957 real earnings in Australia increased by 19%. (Between 1948 and 1959/60 real earnings rose by 23%). This is better than the United Kingdom, but not at good as the United States and Canada.

Dr. Reynolds suggests 1% increase in Australia's per capita G.N.P. between 1948/9 and 1956/7, is also not a fair comparison because of extraordinary circumstances surrounding the Australian figures. Dr. Reynolds, following normal practice, uses the “C” Series Index Number of Retail Prices to adjust the G.N.P. figures for price changes, for which he shows a rise of 102%. Price rises for other countries were—Germany 14%; U.K. 51%; U.S.A. 17%; Canada 26%; Sweden 47%. The Australian index, however, covers a limited range of goods and services and the prices of many of the items (for example, furniture and electrical goods and many services not in the “C” Series) which go to make up Australia's GNP probably rose by nothing like 102%. For that reason, blanket application of the cost-of-living index to the money G.N.P. tends to materially understate the rise in real G.N.P. The greater the rise in the price index the greater the distortion in the measurement of real production. While the price indices for the other countries are also necessarily imperfect, the margin of error is not as greatly magnified as is the case with Australia.

Another factor affects the validity of these comparisons. In Australia, exports comprise a much larger proportion of total national production than they do in many other countries. Moreover, the prices of Australian exports consisting mainly of primary products, and especially wool, fluctuate much more widely than do the prices of the exports of the other countries (listed by Dr. Reynolds) which may consist mainly of manufactured products. The movement in export prices in Australia's case bears little or no direct relationship to the trend in internal prices. For instance, export prices in 1956/7 were only about 30% higher than in 1948/9, whereas internal prices measured by the “C” Series Index Number, were 90% higher. (Again, while the Statistician's quantity index of farm production increased by 14% between 1956/7 and 1958/9, the value of production deflated by the “C” Series Index showed a rise of only 3%).
Obviously the increase in that part of the gross national product going to exports would be grossly understated by the application of the "C" Series Index Number for purposes of a comparison in real terms.

To measure real G.N.P., each value component, ideally, should be adjusted by its appropriate price index: For example, exports by the export price index, food consumption by an index of food prices, clothing by clothing prices and so on. As the range of price indices available is limited, most statisticians have tended to rely on the "C" Series aggregate index.

When the various components of the G.N.P. are adjusted to quantity terms, so far as is possible by the use of relevant volume and price indices, per capita G.N.P. can be shown to have risen not by 1% but by 15% between 1948/9 and 1956/7. From 1948/9 to 1959/60 G.N.P., adjusted in this way, increased by 24%. This is a much more respectable rate of increase than that suggested by Dr. Reynolds’ figures, and compares very favourably with that achieved by overseas countries.

For the purpose of assessing changes in living standards over reasonably short periods, a better concept than G.N.P. is the total of goods and services available on the Australian market, and, in particular, those applied to consumption as distinct from investment. This is affected not only by the volume of production but also by the terms of trade and the size of capital inflow. If export prices rise relative to import prices, or if capital inflow increases, the greater is the volume of goods and services potentially available to the community. But if the terms of trade decline then total market supplies tend to be reduced. In recent years a deterioration in the terms of trade has been offset to some extent by an increasing inflow of capital.

Market supplies in any one year can also be affected by movements in overseas financial reserves. Thus, over the two years 1954/5 to 1955/6, total market supplies in Australia were augmented by drawing down overseas currency holdings to the extent of £215 million; by contrast, in 1956/7, overseas reserves were built up by £211 million. If the reserves had not been increased, the volume of imports could have been greatly expanded, thus adding to supplies of goods on the Australian market. Table I on the next page endeavours to trace the movement in goods and services available to the Australian economy between 1947/8 and 1958/9 and their allocation between various components of expenditure.

The key indicator of changes in current living standards is provided by the item "personal consumption". This fluctuated considerably over the years, but shows quite a marked increase from £346 per head in 1947/8 to £437 per head in 1959/60—a rise of 26%. Contrary to the impression given by the aggregate statistics of national income (adjusted by the "C" Series Price Index) this suggests a notable rise in living standards over the post-war years. Probably a better estimate is to compare the three years ending June 1950—pre Korea—with the three years ending June, 1960. This shows a rise of 15%. This may be less than spectacular, but it is nevertheless quite substantial.

The rise in capital expenditure per head over the ten years between the late 1940's and the late 1950's is 10%.* Capital expenditure per head by governments rose by 33%, but private capital expenditure per head remained stationary. (This seems to be explained mainly by a fall in farm investment and

*Based on the average of the 3 years 1957/8 to 1959/60 compared with the average of the years 1947/8 to 1949/50.
### TABLE I

**DISTRIBUTION OF TOTAL AUSTRALIAN EXPENDITURE PER HEAD OF POPULATION—1947/8 TO 1959/60 (IN 1959/60 £’s)**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Personal Consumption (incl. cars)</td>
<td>Other (Govt. &amp; Financial)</td>
<td>Total</td>
<td>Govt.</td>
<td>Private (incl. dwellings and stocks)</td>
<td>Total</td>
<td>Total Expenditure</td>
</tr>
<tr>
<td>1947/8</td>
<td>346</td>
<td>42</td>
<td>388</td>
<td>34</td>
<td>108</td>
<td>142</td>
<td>530</td>
</tr>
<tr>
<td>1948/9</td>
<td>373</td>
<td>50</td>
<td>423</td>
<td>40</td>
<td>85</td>
<td>125</td>
<td>548</td>
</tr>
<tr>
<td>1949/50</td>
<td>389</td>
<td>58</td>
<td>447</td>
<td>49</td>
<td>109</td>
<td>158</td>
<td>605</td>
</tr>
<tr>
<td>1950/1</td>
<td>399</td>
<td>68</td>
<td>467</td>
<td>59</td>
<td>131</td>
<td>190</td>
<td>657</td>
</tr>
<tr>
<td>1951/2</td>
<td>385</td>
<td>77</td>
<td>462</td>
<td>61</td>
<td>147</td>
<td>208</td>
<td>670</td>
</tr>
<tr>
<td>1952/3</td>
<td>365</td>
<td>73</td>
<td>438</td>
<td>54</td>
<td>63</td>
<td>117</td>
<td>555</td>
</tr>
<tr>
<td>1953/4</td>
<td>391</td>
<td>66</td>
<td>457</td>
<td>55</td>
<td>94</td>
<td>149</td>
<td>606</td>
</tr>
<tr>
<td>1954/5</td>
<td>423</td>
<td>71</td>
<td>494</td>
<td>54</td>
<td>112</td>
<td>167</td>
<td>661</td>
</tr>
<tr>
<td>1955/6</td>
<td>421</td>
<td>75</td>
<td>496</td>
<td>54</td>
<td>112</td>
<td>166</td>
<td>662</td>
</tr>
<tr>
<td>1956/7</td>
<td>402</td>
<td>67</td>
<td>469</td>
<td>51</td>
<td>95</td>
<td>146</td>
<td>615</td>
</tr>
<tr>
<td>1957/8</td>
<td>415</td>
<td>67</td>
<td>482</td>
<td>52</td>
<td>97</td>
<td>149</td>
<td>631</td>
</tr>
<tr>
<td>1958/9</td>
<td>419</td>
<td>70</td>
<td>489</td>
<td>55</td>
<td>95</td>
<td>150</td>
<td>639</td>
</tr>
<tr>
<td>1959/60</td>
<td>437</td>
<td>74</td>
<td>511</td>
<td>57</td>
<td>111</td>
<td>168</td>
<td>679</td>
</tr>
</tbody>
</table>

**Source**—Data published by the Commonwealth Statistician, principally in the National Income Estimates, brought to 1959/60 £’s as follows:

Col. 1—by a series of measures as explained at the foot of Table II on page 86; Col. 2—by the Consumer Price Index—Miscellaneous Group; Col. 4 by a combined index constructed from the Commonwealth Statistician’s indices of actual weekly earnings and prices of building materials, and a machinery price index compiled by the Bureau of Agricultural Economics; Col. 5—various constituents of investment deflated by applicable indices—i.e., motor vehicles and machinery by price indices compiled by the Bureau of Agricultural Economics, stocks by the Commonwealth Statistician’s indices of wholesale prices and prices of farm products and dwellings, and construction by the Rural Bank’s index of building costs.

A lower level of investment in stocks; other forms of private investment have increased substantially.

It is interesting to analyse the changes in personal consumption expenditure in some detail. This is done in Table II on page 86.

Not all items have shared in the general rise of personal consumption expenditure. Expenditure per head on food and clothing appears to have declined. On the other hand, owners’ housing (the rental value attributed by the Statistician to owner-occupier dwellings) and spending on cars and electrical goods such as T.V. sets, refrigerators and washing machines, have increased quite sharply.

The fall in the per head expenditures on necessities may be due to a number of factors:

1. The changing age-group of the population—the very young and the old may consume less food.
and clothing. Both these groups are now of relatively greater significance in the total population.

(2) Some people may have curbed their outlays on clothing and other necessities in order to meet hire-purchase commitments on durable consumer goods.

Compared with the closing years of the 1940 decade, the average Australian family of four at the end of the 1950's was spending an extra £4/2/- a week in real terms. A break-down of this expenditure is set out in Table III at the top of the next page.

About half the increase in expenditure has been in the fields where people have been assisted by credit foncier, mortgage and hire-purchase finance to acquire homes, cars and other durable goods. But it is perhaps significant that expenditure on miscellaneous goods and services (the last item on the table) has increased by £1/17/- a week. This item may give a significant indication of a rising standard of living. As incomes rise, people tend to spend a lower proportion on basic necessities and a greater proportion on comforts and luxuries.

All in all, the statistics, properly interpreted, indicate that there has been a

### TABLE II

CONSUMER EXPENDITURE—1947/8 TO 1959/60 PER HEAD OF POPULATION
(IN 1959/60 £’s)

<table>
<thead>
<tr>
<th></th>
<th>Food</th>
<th>Clothing</th>
<th>Rent</th>
<th>Hous. Costs</th>
<th>Furniture Hardware</th>
<th>Elec. Goods</th>
<th>Tob. Beer</th>
<th>Other Retail</th>
<th>Motor Cars</th>
<th>All Other Goods &amp; Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947/8</td>
<td>107</td>
<td>55</td>
<td>11</td>
<td>19</td>
<td>21</td>
<td>6</td>
<td>31</td>
<td>29</td>
<td>6</td>
<td>61</td>
<td>346</td>
</tr>
<tr>
<td>1948/9</td>
<td>109</td>
<td>57</td>
<td>11</td>
<td>20</td>
<td>22</td>
<td>7</td>
<td>34</td>
<td>34</td>
<td>9</td>
<td>70</td>
<td>373</td>
</tr>
<tr>
<td>1949/50</td>
<td>109</td>
<td>54</td>
<td>11</td>
<td>20</td>
<td>24</td>
<td>8</td>
<td>36</td>
<td>37</td>
<td>14</td>
<td>76</td>
<td>389</td>
</tr>
<tr>
<td>1950/1</td>
<td>108</td>
<td>56</td>
<td>11</td>
<td>21</td>
<td>22</td>
<td>9</td>
<td>39</td>
<td>40</td>
<td>14</td>
<td>79</td>
<td>399</td>
</tr>
<tr>
<td>1951/2</td>
<td>99</td>
<td>48</td>
<td>11</td>
<td>22</td>
<td>26</td>
<td>11</td>
<td>40</td>
<td>39</td>
<td>15</td>
<td>74</td>
<td>385</td>
</tr>
<tr>
<td>1952/3</td>
<td>96</td>
<td>45</td>
<td>12</td>
<td>22</td>
<td>23</td>
<td>10</td>
<td>40</td>
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<td>10</td>
<td>70</td>
<td>365</td>
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<tr>
<td>1953/4</td>
<td>98</td>
<td>47</td>
<td>12</td>
<td>23</td>
<td>25</td>
<td>11</td>
<td>43</td>
<td>39</td>
<td>13</td>
<td>80</td>
<td>391</td>
</tr>
<tr>
<td>1954/5</td>
<td>102</td>
<td>50</td>
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<td>24</td>
<td>27</td>
<td>12</td>
<td>44</td>
<td>42</td>
<td>16</td>
<td>94</td>
<td>423</td>
</tr>
<tr>
<td>1955/6</td>
<td>102</td>
<td>50</td>
<td>12</td>
<td>25</td>
<td>28</td>
<td>12</td>
<td>44</td>
<td>42</td>
<td>16</td>
<td>90</td>
<td>421</td>
</tr>
<tr>
<td>1956/7</td>
<td>101</td>
<td>49</td>
<td>11</td>
<td>26</td>
<td>27</td>
<td>12</td>
<td>43</td>
<td>38</td>
<td>14</td>
<td>81</td>
<td>402</td>
</tr>
<tr>
<td>1957/8</td>
<td>104</td>
<td>48</td>
<td>11</td>
<td>26</td>
<td>26</td>
<td>14</td>
<td>43</td>
<td>38</td>
<td>15</td>
<td>90</td>
<td>415</td>
</tr>
<tr>
<td>1958/9</td>
<td>104</td>
<td>48</td>
<td>11</td>
<td>27</td>
<td>27</td>
<td>16</td>
<td>42</td>
<td>37</td>
<td>15</td>
<td>92</td>
<td>419</td>
</tr>
<tr>
<td>1959/60</td>
<td>104</td>
<td>50</td>
<td>11</td>
<td>28</td>
<td>27</td>
<td>19</td>
<td>44</td>
<td>37</td>
<td>19</td>
<td>98</td>
<td>437</td>
</tr>
</tbody>
</table>

Sources—Expenditure figures in the National Income Estimates and Retail Sales bulletins prepared by the Commonwealth Statistician—brought to 1959/60 values by means of:

Col. 1—Consumer Price Index—Food Group; Col. 2—Clothing and Drapery Group; Col. 3—“C” Series Price Index—Rent Group; Col. 4—actual number of owner-occupied dwellings; Cols. 5-6—Consumer Price Index—Household Supplies and Equipment Group; Col. 7—Combined index of per capita consumption of beer and tobacco; Cols. 8 and 10—Consumer Price Index—Miscellaneous Group; Col. 9—index of motor vehicle prices compiled by the Bureau of Agricultural Economics. 30% of total expenditure on cars has been regarded as commercial. Price indices for 1947/8 and 1948/9 have been estimated on the basis of data available from the “C” Series Index.
TABLE III
AVERAGE WEEKLY EXPENDITURE PER FAMILY OF 4
in 1959/60 £'s

<table>
<thead>
<tr>
<th>Weekly Expenditure on</th>
<th>1947/8 to 1949/50 Av.</th>
<th>1957/8 to 1959/60 Av.</th>
<th>Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£8 6 0</td>
<td>£8 0 0</td>
<td>— 6 0</td>
</tr>
<tr>
<td>Clothing</td>
<td>4 5 0</td>
<td>3 15 0</td>
<td>— 10 0</td>
</tr>
<tr>
<td>Rented Housing</td>
<td>17 0</td>
<td>17 0</td>
<td>—</td>
</tr>
<tr>
<td>Other Housing</td>
<td>1 11 0</td>
<td>2 1 0</td>
<td>+ 10 0</td>
</tr>
<tr>
<td>Electrical Goods</td>
<td>11 0</td>
<td>1 5 0</td>
<td>+ 14 0</td>
</tr>
<tr>
<td>Furniture, Hardware</td>
<td>1 14 0</td>
<td>2 1 0</td>
<td>+ 7 0</td>
</tr>
<tr>
<td>Tobacco and Beer</td>
<td>2 12 0</td>
<td>3 6 0</td>
<td>+ 14 0</td>
</tr>
<tr>
<td>Medicines, Stationery, Jewellery, etc.</td>
<td>2 11 0</td>
<td>2 17 0</td>
<td>+ 6 0</td>
</tr>
<tr>
<td>Car Purchases</td>
<td>15 0</td>
<td>1 5 0</td>
<td>+ 10 0</td>
</tr>
<tr>
<td>All other—Petrol, Car Repairs, Recreation, Education, Fares, etc.</td>
<td>5 6 0</td>
<td>7 3 0</td>
<td>+ 1 17 0</td>
</tr>
<tr>
<td></td>
<td>28 8 0</td>
<td>32 10 0</td>
<td>+ 4 2 0</td>
</tr>
</tbody>
</table>

noticeable improvement in average living standards over the last decade. This is to be expected in an era characterised by brim-full employment giving over-time and over-award payments and other fringe benefits as well as opportunities to wives and junior members of families to earn substantial incomes.

But while there can be no question that average living standards have risen over the last decade, this is not to say that the living standards of all sections of the community have shared in this rise. The standards of the wage-earner and wage-earning family have definitely improved—indeed very considerably. Many businessmen and also investors as a class are no doubt much better-off. On the other hand, those dependent on fixed incomes, many professional and some salaried people, and quite a large number of farmers, may be no better off and many may have even lost ground. But this article is concerned with the average family, and the conclusion must be that, in general, the standards of personal consumption of the Australian people are today much higher than 10 years ago.

(For Summary See p. 88)
SUMMARY

The main conclusions of the I.P.A. survey of Australian living standards over the last decade are summarised below:

- The weekly expenditure of an average family of four (measured in 1959/60 £’s) increased from £28-8-0 in the late 1940’s to £32-10-0 in the late 1950’s — This represents a rise of about 15%.

- The 15% represents the average rise. The standards of some sections of the community have risen by more than 15%, and the standards of other sections by less.

- About half the increase in expenditure has been on homes, cars, and durable goods financed on terms.

- People today are spending a lower proportion of their incomes on basic necessities and a greater proportion on comforts and luxuries — clear evidence of rising living standards.

- Expenditure on food and clothing has declined. This may be partly due to the changing age-structure of the population and changing customs, e.g. more entertainment at home with T.V. may mean less spending on clothes.

- Over the 1950 decade, real expenditure per head on capital investment rose by 10%. Although private capital expenditure per head remained stationary, per head capital expenditure by governments rose by 33%.

- Real wages (including over-time and over-award payments) increased by 23% between 1948 and 1959/60.

- The high level of spending in the late 1950’s is due not only to increased productivity, but also to larger supplies made available from overseas — financed by favourable terms of trade in earlier years and heavy capital inflow.
The Challenge of To-morrow

By

L. URWICK

The author of this article, Lt. Col. Lyndall F. Urwick, is a world authority on management. He is Chairman of Urwick, Orr and Partners Ltd., management consultants of London.

In the course of a distinguished career, Lt. Col. Urwick has been Director of the International Management Institute; General Secretary, International Committee of Scientific Management; consultant to the British Treasury; Chairman of the Anglo-American Productivity Team on "Education for Management in U.S.A."; and author of numerous books and papers on management subjects.

Many Australians will remember the outstanding paper he gave on "Elton Mayo—his Life and Work" at the CIOS Conference in Melbourne in February, 1960.

In February and March this year Australia staged for the first time in her history an International Management Congress—CIOS XII. For many of us from other countries this occasion provided a welcome opportunity to visit Australia and to see for ourselves the spectacular developments that have taken place in her agriculture, industry, education and indeed in every other sphere of activity.
However, these impressive achievements must be regarded as already belonging to the past. This statement implies no disparagement of their value or significance. It merely recognizes the inescapable fact that to-day's heights tend to become tomorrow's base camps: mankind has always new peaks to conquer with new problems and new demands.

The fundamental challenge which we face in the years immediately ahead arises from the increasingly rapid rate of change and innovation in our political, social and economic environment. Although this is not a new phenomenon, our capacity for adaptation to change remains inadequate to meet the demands of the situation. Indeed, if I may venture on a prophecy, it is that when the history of the twentieth century comes to be written the thing that will seem most extraordinary to our great-grandchildren will be our apparent slowness in recognizing and acting on the logic of the situation in which we find ourselves to-day.

For that logic is, as are all important issues, relatively simple. Some two hundred years ago man embarked on a revolution in the culture by which he lives. That revolution can be traced to the scientific curiosity released by the Renaissance. The exact knowledge about his material environment which man thus acquired enabled him to develop, in the two brief centuries which have intervened, a control over that environment such as he had never before dreamed of. Above all it removed, potentially, the curse of Cain from the masses of mankind. For it led to the evolution of power-driven machinery. No longer is it true of men that "in the sweat of his brow shall he eat bread". Yesterday steam, today electricity, tomorrow, just over the horizon, the constructive uses of atomic energy, have, but again only potentially, removed the necessity for unending toil to maintain a precarious physical existence.

But if man is to realize these possibilities another kind of toil is required of him, a form of effort to which, despite the sapiens, he appears to be peculiarly allergic, the effort of thinking. Revolutions in culture have to be paid for. We cannot
alter profoundly our methods of earning a living without being prepared to alter equally profoundly our political and social ideas and the customs and institutions founded on them. For our institutions are in very large degree the reflection of our ideas about the universe around us. And if, as we have in fact done, we revolutionize our ideas about that universe, we must equally be prepared to revolutionize our ideas about how to live together in it.

But for this second task we are very ill-equipped. Discoveries in the physical sciences had a positive commercial value, even under our older system of ideas. They were self-generating and self-perpetuating. So that once the possibilities were realized, the resources which men were prepared to pour into research and experiment in these fields were literally unlimited. For a century and a half the process has been going on and is still going on, so that none of us can see any end to this constantly accelerating process of discovery in the material field.

By contrast, research in the social sciences had little immediate attraction. Its conclusions yielded few ideas which could be reflected in next year’s trading account. It was obvious that these sciences were far less exact than the physical sciences. It may well be a couple of centuries before our knowledge of the bio-chemistry of the nervous system is sufficient to provide an adequate physical foundation for the science of individual psychology. And psychology itself, the study of human behaviour, has only contemplated the possibility that it may become an inductive science, rather than a branch of philosophy, within little more than half-a-century.

And man, the individual, is incurably short-sighted. Only in rare instances can he escape from the blind egotism summarized in “apres moi le deluge”. And even where he can, his range of vision is too often limited to a nepotic interest in the offspring of his own loins.

The consequence is that our knowledge is disastrously out of balance, and is continually becoming more out of balance. We need look no further for an explanation of the evils which beset “our proud and angry dust” in this twentieth century.
Consider any business establishment; analyze what it spends on physical research into materials and machines and processes; compare that figure with what it spends on social research, on how to keep the human element giving of energy and effort, enthusiasm and initiative, with all its heart. Yet businesses are made or marred by men, not by machines or materials. The first syllable of management is man. Is any further evidence required of the obvious reason for our increasing inability to co-operate with each other? Faced with this tremendous revolution which has changed out of all knowledge the conditions under which we work and live, which demands of man a far more intricate co-operation and a far more refined social discipline than he has ever dreamed of, we are doing literally almost nothing to discover what steps we should take to enable ourselves to meet these wholly new conditions. As one of the most profound minds of this century, my old friend Elton Mayo, observed "had our social skills advanced pari passu with our technical skills there would not have been another European war." (1)

Indeed, the dilemma of our century is as simple as that. David Lilienthal, formerly Chairman of the Tennessee Valley Authority, has put it almost in words of one syllable:—

"Faith that individual personality can flourish side by side with the machine and with science is vital in this: that men have only to have a faith that is deep enough, a belief sufficiently firm in their daily work and living, that these things can be done—and then they will be done. For no insoluble physical problems stand in the way. There is no insuperable material barrier. The only serious obstacles are in the minds of men. These are not inconsiderable, it is true, but thinking put them there; a new kind of thinking put them there; a new kind of thinking can remove them". (2).

It is in the field of Business Management that that new kind of thinking has taken its first and foremost steps. Within the last three quarters of a century and principally within the last forty years, a new branch of human knowledge has claimed and partially won the foremost place in the social heritage. At different times and in different countries it has been called by various names — Management, Scientific Management, Rationalization, The Scientific Organization of Labour,

Stakhanovism and so on. Initially it was applied almost exclusively to the government of business undertakings. But from quite an early stage it was recognized by real authorities in the field that its principles, if well-founded, must be applicable to all forms of organized human co-operation—to the business of government in any form as well as to the government of business. A former President of the United States wrote officially to Congress—"a government without good management is a house builded on sand." (3)

Briefly, this new kind of thinking is based on the proposition that the methods of thought developed by the physical sciences which have given to man his unprecedented control over material things, can and must be applied to man himself, to the organization of his societies, small and large, and to the political and social problems and conditions to which those societies give rise. Again, in essence, it is profoundly simple. If you accept the diagnosis that our major troubles derive from an ill-balanced development of our knowledge, so that we have swallowed the industrial revolution like greedy children and don’t know how to digest the consequences, then it is as simple as the immemorial remedy for a thick night, "the hair of the dog". We have used science too much to win control over our material environment. We have used science too little to keep control over ourselves. The answer is not to decry science, but to make our scientific diet a little better balanced.

But though simple, that thought has profound consequences. It demands of us, as Frederick Winslow Taylor, its greatest pioneer, expressly recognized, "a mental revolution". It means the substitution of inductive thinking, thinking based on facts, for the old deductive thinking, thinking based on theories or opinions or custom, in all matters concerning the organization of our societies. More concretely in relation to business it demands recognition of the truth, again very simple, that the machines have made it essential that men should cooperate together much more exactly and in much larger

3. F. D. Roosevelt, Letter submitting to Congress the Report of the President’s Committee on Administrative Management.
groupings than were necessary or appropriate to the older culture of handicraft production. And men cannot co-operate effectively together in large groups save on two conditions, that they have a common purpose and that they are encouraged to forget their individual selfishness and egotisms which distract them from that common purpose, by competent and self-forgetful leadership — leadership, that is, which demonstrates daily by its personal example that it is devoted singly and wholeheartedly to the common purpose.

That means that we must learn to abandon completely the current picture of our industrial world, in which men are divided into workers and management, groups which are assumed to have divergent interests. We must see that an uneasy balance of vested and opposing interests, which is really all that the much-vaunted British system of "collective bargaining" amounts to, cannot form a permanent basis for the organization of our societies. The balance must tip in one direction or the other. And in an industrial society organized politically as a democracy there can be little real question as to the side on which the balance will eventually come down. In other words, if the workers as a body prefer the leadership of the trades unions in all matters relating to the leadership of those who are nominally in authority over them, that means just one thing, the trades union officials have become receivers in the bankruptcy of business leadership.

Leadership in any free society is not something which can be imposed by force. When a receiver is in your business you cannot throw him out. You have only two alternatives — to quit or to co-operate with him in reconstructing the business and paying off its creditors. I can only state my personal belief that the latter alternative is open to us. I believe that those in formal positions of authority in business can recapture a large measure of the leadership which, owing to a refusal to abandon economic theories which no longer corresponded with facts, we have partially and temporarily lost. But we shan't do it by trying to fight the men. We shall only do it by recognizing that there is a common purpose which is more important than our individual greeds, and by persuading those on whose co-operating we are dependent to go with us in recognizing and working for that purpose.
It is a long and a tough job. We have drifted so far in the other direction. Both among managers and men the easy, the hopeless alternative of a fighting attitude has made so much headway. And in this field, as I have already pointed out, complete and exact knowledge is not yet available to us. The underlying sciences bearing on human behaviour—psychology, anthropology and sociology—have a long way to go before they can begin to claim to be reliable guides to practical action in all its phases.

In these dynamic aspects of the task it is in the attitude or approach which it suggests that scientific management differs from the older concepts. That attitude is based on the conviction that a greater degree of exact knowledge is both possible and desirable, that it is our business to spare no pains to get it, and that already today there are truths uncovered by these young sciences which can be applied with advantage to practical affairs. Beyond the point where exact knowledge is available it is possible very much to refine our fallible human judgment and particularly its acceptability to others, by use of the appropriate techniques. Problems can be handled in the temper and spirit of science as they are in the comparable field of medicine, and with constant reference to organized clinical experience rather than in the half-light of custom and with the limited data which are all that any individual can encounter directly in a short life time.

Already, brief though its history has been, scientific management has profoundly altered men’s ideas of how to conduct industrial operations in almost every industrialized country. Planning, time study, motion study, routing, scheduling and many other devices are the resultant of experiments in this field. In less than forty years it has been extended from engineering workshops to every function of business enterprise. Where it has been applied consciously and completely to undertakings as a whole it has greatly increased productivity and made possible dramatic economies in human effort.

The provision of the necessary educational facilities to ensure that men who conduct business undertakings have the
skill and knowledge commensurate with the problems of the twentieth century is, in my opinion, one of the most vital and urgent tasks of today. In the United States this challenge has already been met. Both the United Kingdom and Australia may have to pay a heavy price if they fail to match performance to opportunity in this respect.

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