Editorial—The State of the Economy

The extent of the present recession should not be exaggerated. But, it is clear that business is uneasy and there is much uncertainty about the Government's future economic intentions. Production and employment have fallen in a wide range of industries, and some, such as building, motor vehicles, textiles and paper, have suffered severely. There is evidence that the dampening down of the boom has gone further than originally intended. The Government's dilemma is to stimulate internal demand without this giving rise to higher imports and accentuating the balance-of-payments deficit.

The national stock-taking which appears in the annual Survey of the Australian Economy issued by the Commonwealth Government is always awaited with some eagerness, and this year it assumes much importance as a blue print of future Government intentions. The Economic Survey emphasises the importance of ridding the economy of excessive demand, (which threatened both internal stability and our balance of payments), and of aiming at economic growth within the framework of a stable cost and price structure. Generally speaking, the latest Survey maintains the high standard of analysis which has marked the earlier editions. However, many will disagree with statements such as: "while the aim of policy has been to subdue the boom and keep it subdued, it has not gone beyond that"; and again, "few industries could show that increasing imports were doing serious harm to their business". These statements appear to confirm the widely held belief that Canberra is not fully aware of the practical effects of last year's economic measures.

The most controversial section of the Survey relates to the balance of payments. The Survey forecasts that imports, estimated at £1,100 million in 1960/61, will fall in 1961/2 because large import orders placed during the 1960 boom will not recur. The Survey also gives
the impression that the steps taken to strengthen reserves through the I.M.F. loan and stand-by credit should dampen down speculative ordering against the possibility of an early restoration of import licensing.

The Survey states: "During the first 10 months of 1960/61 recorded imports totalled £932 million. This was greater than the total of £924 million for 1959/60 as a whole". But this is not a good comparison because import restrictions were removed on all but a few items in February, 1960. In order to obtain a clear picture of the result of that action it is essential to review imports over the past three years. These show:—

<table>
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<tr>
<th>Year</th>
<th>Increase above £m.</th>
<th>£m.</th>
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<tr>
<td>1958/9</td>
<td>796</td>
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<tr>
<td>1959/60</td>
<td>946*</td>
<td>150</td>
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<td>1960/61 estd.</td>
<td>1100</td>
<td>304</td>
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* The figure of £924 million mentioned in the Survey relates only to recorded imports.

Australia is an expanding economy and there is a demand for additional imports each year to sustain this rate of growth. On the Survey's findings, about 80% of imports are raw materials and capital equipment for industrial use.

Since the pre-war years, our real G.N.P. has increased by almost 120%*. In the same period, however, there has been an increase in real imports of 140%. But, meanwhile, real exports have increased by only 60%. This discrepancy was masked until the early 50's by favourable terms of trade—we were getting much more in imports for the same quantity of exports. The sharp fall in the terms of trade since 1952 has now forced home to everyone that steps must be taken to bring exports and imports more into balance. (See Graphs on page 39.)

THE Government is placing great reliance on credit restrictions to reduce imports. But as Sir John Crawford has pointed out, "the credit squeeze is not an instrument which can continue to be used solely for this purpose once the boom element in the internal economy has disappeared. Continued deflation beyond this point and possible loss of investment confidence would be a high price to pay merely to reduce imports". The Survey itself affirms that economic growth, not stagnation, is a primary object of policy, which rules out further deflationary measures to curb imports. Indeed, the Survey is emphatic that the Government has no intention of using "rigorous deflation" as a method of correcting the trade balance.

* The value of gross national product reduced to real terms by use of price indexes.
In May, imports fell below £80m. for the first time in 12 months and exports showed a good rise to £93m. These were encouraging developments. Imports may continue at a lower level over the next few months but, as the Survey admits, import payments may not necessarily fall because of the greater volume of importing on credit. There is no guarantee, however, that the fall in imports will be more than a temporary lull. The remaining months of 1961 will be a testing time during which the present policy of virtually free importing may have to be reviewed in order to bring our overseas trading into equilibrium. The sudden removal of the protective shield of import restrictions, combined with the tight money policy, has created grave difficulties for many industries. This has had a serious effect on the small firms. Because of the special problems of these industries it seems very doubtful whether even emergency tariffs are able to give them adequate assistance. It may be noted that a number of overseas financial authorities are reconciled to the need for young developing countries to impose import restrictions within reason, and have expressed surprise that Australia has gone so far in discarding them. We know, of course, only too well from years of experience that import restrictions create distortions in the economy and that they are only suitable as a temporary measure pending the full realisation of a long range policy.

The only constructive answer to our balance-of-payments problem in the long run lies in an intensified drive to increase exports by every possible means. But the difficulties should not be minimised. Increasing competition for wool from synthetics, and the possibility of Britain joining the Common Market will not make the position any easier. However, the Economic Survey expresses the opinion that there is no need to take too gloomy a view of export prospects. It states that there are "some signs that the long decline in the general level of commodity prices may have ended and that an improvement may be in sight" and "with the prospect of more favourable business conditions abroad, the outlook for export earnings in 1961-2 seems rather better than in the current financial year".

*   *   *   *   *   *   *

The main objectives of the Federal Government's economic policy over the coming months should be threefold:

1. to maintain business confidence and prevent the level of economic activity from deteriorating any further;
2. to increase exports and if necessary reduce imports;
3. to promote the sound growth of the economy in an environment free from a burst of inflationary pressure.
Although it would be wishful thinking to expect the budget to provide the answers to these objectives, it can, with the right blend of incentives and financial disciplines, undoubtedly make a useful contribution to business revival, which seems to be our immediate problem.

The one thing the next budget should avoid doing is to raise taxes. Indeed, a strong case can be made for selective tax reduction in the 1961-62 budget. What the nation needs is an enlightened tax policy directed especially at lowering the overall level of costs, giving further encouragement to exporters to battle for a bigger share of world markets, and aiding local manufacturers to compete with imports. The Government has already introduced a scheme for market development allowances and payroll tax rebates as taxation incentives aimed at increasing exports. While these are important and useful measures, even more liberal concessions are now called for.

In an article written prior to the recent British budget, "The Economist", London, strongly advocated tax reliefs "to increase the incentive to earn, the incentive to invest, the incentive to export, the incentive to change jobs and the incentive to innovate". Australia would also do well to provide an economic climate conducive to sound growth — a climate in which private initiative, productivity, innovation and creativity will flourish. The I.P.A. believes this type of philosophy should inspire those who are now engaged in framing the 1961/62 budget. The challenge facing the Government is to reduce taxes that will be most fruitful in aiding cost stability.

It would be consistent with these principles that a general review be made of the incidence of payroll and company tax, with the object of achieving lower costs. The effects of the Government's economic measures on many small companies have been particularly severe and they need special consideration. Private companies suffer real disadvantages by their inability to retain sufficient profits to enable them to keep pace in an expanding economy. They are unable to attract capital, and in times of economic difficulty, like the present, a growing number of private companies are being forced into premature public company status, or take-overs by listed companies.

Existing allowances for depreciation have become unreal and inadequate owing to the inflated cost of replacing plant and equipment. Australia has the least liberal tax depreciation allowances of all industrial countries. As Japan, Sweden, the United Kingdom and others have discovered in recent years, accelerated and liberalised depreciation is a potent stimulus to productive investment — hence to economic progress. A drastic new look at the depreciation problem is called for in the interest of improving the competitive position of Australian industry.
The broad outline of the budget must be consistent with the Government's policy announced in February 1960 and re-affirmed in the undertaking given to the International Monetary Fund: "to make every effort to keep the growth of Government expenditure under restraint". This is an important undertaking, strangely enough not mentioned in the Economic Survey. But it should be followed through vigorously and without the lip service which has often characterised such pronouncements in the past. Insufficient attention has been devoted to the inflationary effects of the vast increase in Government expenditure over the post-war period. On the several occasions when it has been necessary to slow down a boom, restrictive policies have fallen almost wholly on the private sector of the economy and Government spending has continued unabated.

There seems no change of achieving a reduction in the level of Government spending on social welfare, national development and defence. Moreover, there is need for some additional public works expenditure to help produce greater export income. The highest priority needs to be given, for example, to port and transport improvements which will facilitate the export trade. There is a case too, for further financial assistance in the search for oil and minerals.

While it is not possible to use the axe on Government spending, the pruning knife would produce valuable economies here and there. But the need is urgent for strict tests and checks to be applied to all aspects of public spending. Although ministers and departmental heads have the major responsibility, it should be a matter of genuine concern to each parliamentarian and to every member of the public service. The community is entitled to expect an example of sound business administration from its leaders.

Throughout its twelve years in office the Government has many sound achievements to its credit, whatever criticism may be made of certain aspects of its policies. Recently, however, there has been increasing criticism on the one hand of the Government's failure to react quickly enough to changing economic conditions, and on the other hand in not pursuing a steady course. To some extent, the Government's measures have been misunderstood and misinterpreted, as the Economic Survey admits. But the Survey, though valuable, is no substitute for keeping the press and public properly informed in simple terms about the fundamental issues confronting the economy.

Australia might well follow the example of Britain and the United States in providing simple, factual, graphic material on the economy for popular information. The lesson of the past few months is that governments and their advisers must at all times keep in close
touch with the market place. The psychological impact of government measures on businessmen's expectations may be far more important than the actual measures themselves. And, in periods of difficulty and uncertainty, as current events are demonstrating, public and business confidence is critically important.

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THE Economic Survey presents an optimistic picture and to this extent, is a valuable antidote to current doubts and fears. But it does not pretend that the road ahead is going to be easy. "Price stability must be the central goal of policy". This objective must be pursued by means of flexible policies and in the knowledge that "severe measures of correction are inevitably disturbing to business and the steadiness of economic growth". The Survey rightly says that business, wage-earners and consumers have some responsibility for cost and price stability, but in the community what is needed is "a wider and deeper appreciation of how illusory and yet damaging to the general interest, gains in money terms can be unless they are a response to greater productivity." The forthcoming budget gives the Government an opportunity to stimulate awareness in all sections of the community of the vital importance of productivity to our future progress.

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Imports, Exports and the Terms of Trade

THE VOLUME OF IMPORTS AND EXPORTS
(Australia 1948/9 to 1960/1)

This graph compares the trend in the volume of imports, i.e. imports in money values deflated by an import price index, with the rise in the volume of exports. It will be noted that over the whole of the 1950's, the import trend, despite restrictions for most of the time, rose faster than the export trend.

THE TERMS OF TRADE
(Australia 1948/9 to 1960/1)

This graph shows the serious decline in the terms of trade since 1948/9. The main reason has been the constantly rising trend in world prices of manufactured goods, which we mainly import, but the falling trend in world prices of commodities, which we mainly export.
Believing that the present economic situation merits the widest possible discussion, the I.P.A. is pleased to publish in this issue the opinions of three of Australia's leading economists — Professor D. Cochrane, Mr. R. F. Holder and Professor P. H. Karmel.

1. My View — by PROFESSOR D. COCHRANE
Monash University
Victoria

The basic economic question at the moment, is whether the measures introduced by the Commonwealth Government in 1960, have reduced the level of domestic expenditure by an amount which is large enough to overcome the balance-of-payments difficulties, but not so large as to cause too much unemployment or retard economic growth. The achievement of these ends would be a neat feat of economic balancing. If they are not achieved, it is apparent, that part of our worries originate in the fact that some domestic costs are too high, relative to import prices.

Having removed the excess demand, which was spilling over on to imports in 1960, the credit squeeze and other economic measures have been exerting a deflationary pressure on unemployment for some months. Despite the slowing down of activity and the small increase in unemployment, and despite
the steady building up of stocks over the past twelve months, it is only in the last couple of months that imports have shown signs of falling. Imports for May, however, dropped quite substantially. On current indications international reserves could lie between £450m. and £500m. at the end of June 1961. If the average monthly imports do not rise above the level in May the balance of payments for 1961/2 could present few difficulties. This is a satisfactory position, and so long as it prevails there is little likelihood that speculative importing will recur. Nevertheless it is far too early to say that the economy is out of trouble.

First, unemployment has reached too high a level in recent months. The time has come to expand the economy gently back towards full employment. Assistance in this direction could be given by starting some of the public works which have been deferred for so long, and by continuing the support at present being given to home building. These expenditures should have little effect on imports and could do a lot to correct the deficiencies in public services so often providing a check to our economic growth. In addition the credit squeeze could be slowly eased. It should, of course, be observed that the decision not to reduce advances any further, is tantamount to an easing of credit, when compared with the past six months.

Second, even if external balance has now been achieved, is this situation likely to continue beyond 1961/2, and might it not be upset in the latter part of 1961/2 if the forces of expansion become too vigorous? These are disturbing and difficult questions to answer, and although it is easy to make assumptions regarding the future demand for imports, which will produce almost any desired result, one cannot help feeling the answers are in fact unfavourable.

If the various policy measures introduced in 1960 cannot maintain balance-of-payments equilibrium, either in the short or long run, without an unacceptable level of unemployment appearing it suggests other corrective measures need be applied. The three obvious remedies commonly advocated are (a) a return to import licensing; (b) increases in tariff rates or the imposition of a flat import or primage duty; (c) devaluation of the exchange. There has been a great deal of pressure in recent months for an immediate reimposition of import licensing, but
little support has been heard for increases in import duties and
only slight interest has been displayed in exchange devaluation.
Is this popular preference well-founded?

The decision to introduce import restrictions in 1952 was
undoubtedly a wise one. The alternatives, of increasing
import duties or devaluing the exchange rate, would have
meant an increase in the cost of imports with a consequent rise
in the cost structure, just when Australia needed to do every-
thing possible to hold costs after the inflation of 1947/50.
Nevertheless in the eight years which followed the imposition
of import restrictions, costs were not held up as well as they
might have been. As a consequence we are again in a position
similar to that in 1952. There can, however, be no question of
an exchange devaluation unless wool prices fall (and there is no
sign of that at the moment), and unless internal prices are pre-
vented from rising and so undoing the good done by such a
devaluation. It might be added as corollary, that if it is possible
to stabilize internal prices there should be little need to consider
exchange devaluation as a long run solution. As a consequence
it is tempting to assume that if imports rise the same policy
measures as 1952 would be appropriate. But before doing so a
strong note of caution must be sounded.

It is attractive to think it is possible to make the best
choice of imports through a system of licences. But can we say
with impunity that the price mechanism works reasonably well
in deciding what sort of goods should be produced internally
but fails when it comes to deciding what sort of goods should be
imported? If it is true that we need to ration our international
resources on some basis of “essentialness”, might it not be we
should take greater care to see our internal resources are allo-
cated on a similar basis? Further, might not the very process
of blocking “non-essential” goods, and admitting “essential”
goods, provide too much of an encouragement to the “non-
essential” goods industries in Australia and accordingly exert
an undue influence over the direction in which industrial ex-
pansion should take place? In so far as this is so any future
attempts to lift the reimposed import restrictions will always be
met with the same resistance as at present.

Further, what sense does tariff policy make if import re-
strictions are to become a near permanent feature of our eco-
nomy? Can we go on having two authorities controlling our imports? Difficult as all these questions are to answer, they must be faced if present economic policy fails to produce internal and external balance in the near future.

The longer the economy can be left free the more time there is for structural adjustments to take place in industry. These adjustments are permitting labour to find its way to industries which can both compete and expand under conditions of no import restrictions and leave industries which cannot do so. This process could be assisted by a judicious selection of indirect taxes, and also by an attempt to revise our tariff structure. If economic conditions should force a return to import restrictions, they should if possible be applied on a very selective basis pending a rapid readjustment of tariff rates. The recent decisions by the Tariff Board are therefore welcome but there is much to be said for moving towards an overall flat tariff rate. Industries which needed additional protection could be investigated by the Tariff Board in a similar manner to that at present. Thought, however, might well be given to providing for automatic reductions in any special rates that were approved.

None of these policies are, of course, substitutes for encouraging exports, although it must be pointed out that the present reallocation of resources might well enable the more efficient Australian industries to expand beyond internal needs and accordingly seek export markets. This is certainly the case for steel.

Finally, it should be mentioned that a necessary complement to all future economic action is strong fiscal and monetary policy. If we are to develop in a more orderly manner in future we must lighten the burden of monetary policy and maintain or even intensify our present fiscal policy. Those who imagine a return to import licensing, an increase in tariffs or an exchange devaluation would be accompanied by a complete relaxation of the present economic measures are doomed to disappointment. The reduction of imports, however achieved, will of itself be an expansionary element, and it is essential that price stability should be moved higher up the list of economic priorities, if our future development is not to be marred by intermittent balance-of-payments crisis.
2. My View — by MR. R. F. HOLDER
Economist
Bank of New South Wales
Sydney

In the flood of comment on the economic situation in recent months, no one has seriously denied that some form of Government action was necessary. Decisive steps were required to restrain the boom conditions in evidence last year and to correct the depletion of international reserves which assumed serious proportions in the current financial year. What much public comment has glossed over is that these two aspects are closely related.

The boom has now subsided, but the correction of the balance of payments lags behind, and fears have been voiced that unless the Government initiates an expansionary policy, Australia will suffer deflation and unemployment.

This is the third occasion within a decade when Australia has been confronted with the consequences of internal boom and an external, balance-of-payments crisis. The current year’s loss of reserves is less in magnitude than in 1951/52, but its causes appear to be more fundamental and less ephemeral. The position may therefore be less tractable. The Government’s critics have assigned the demon’s role in the balance of payments to the virtual abandonment of import licensing. This would seem to mistake the symptom for the cause. Imports have since been very high and only now, fifteen months later, does the monthly rate appear to be falling. But the fact is, that the pressure of internal demand, whether for immediate consumption or for building up stocks, constituted the bulk of demand for imports. It is impossible to escape the conclusion that, apart from the unlucky coincidence of a fall in export prices, the balance-of-payments problem arose directly out of the mounting conditions of internal boom.

This experience of the immediate past is highly relevant to both current and possible future policies. What has gone wrong is that the size of our expectations has run ahead of our capacity to fulfil them. The Government’s policy has been designed to bring down to earth the more extravagant plans, without affecting basic growth. It is obvious that it has had no little effect on the short-term position. The credit squeeze and a policy of open imports have reduced last year’s wave of speculative development, brought down the demand for consumer durables,
lessened the general tempo of production and employment, and have built up stocks. As far as these trends have gone they have done no irreparable damage to the economy, although their full effects are perhaps not yet in evidence.

Yet diminishing activity has only just begun to make a noticeable impact on imports and the drain on reserves must be expected to continue for some time, if at a falling rate. The main reasons for this are two. In the first place, the broader-based economy has become paradoxically more highly geared to imports particularly while in a state of active growth. Secondly, in view of the high cost structure of much Australian industry, at a time of squeeze, freely available imports may be substituted for local products. It is rather surprising that the cost problems of Australian industries have not taken a much more prominent place in recent economic discussion.

The immediate economic outlook, therefore, is dominated by three big issues; how far will the current measure of deflation go, what solution is in sight to arrest the serious depletion of international reserves, and how, for purposes of long-term solvency, is the Australian cost structure to be kept relatively stable in comparison with price levels overseas? No easy or glib answer is available.

The Government had little alternative last November but to initiate a measure of deflation. From the point of view of conditions in the labour market, it has probably gone far enough; it is not so evident, however, that the redistribution of labour between industries has been sufficient, either to assist total productivity or to ease the strain on the balance of payments. But further deflation leading to substantial unemployment can be ruled out as wasteful and unacceptable. On the other hand, in the interest of long-term stability, any appreciable easing of financial stringency, apart from a few tender spots, would be likely to aggravate the less desirable tendencies of the Australian economy including the unsolved propensity of costs to rise.

But the nub of the situation is still the balance of payments. Imports are likely to decline from their unusual level and exports are showing more buoyancy. Restraint at home will be necessary for a time to keep up this improvement. Imports may well fall substantially until stocks are reduced, but the decline may not be so evident in international reserves if, as suspected, part of the recent capital inflow is associated with delayed payment for imports. Nevertheless, the size of the reserves and of
available international credit facilities is not as desperate as is sometimes suggested.

The immediate prospect, however, is only part of the problem. Import requirements in recent years have been growing to meet the needs of economic expansion. Recurrent booms strongly suggest that Australia's economy has built up import requirements beyond its capacity to finance except in the most favourable circumstances of world commodity prices. In other words, externally we are living beyond our income. Thus we are living on a razor's edge between full employment and rapid growth on the one hand and external financial insolvency on the other.

An expedient like import restrictions, if it has occasional short-term merit, would only make the longer-term adjustments more difficult except within the context of a wholly regimented, and therefore unacceptable, economy. Devaluation, though a realistic recognition of the fall in the external value of the currency, could provide temporary relief, but it would need to be supplemented by taut budgetary and credit policies and strict cost control to give any lasting benefit. It can be ruled out as a likely policy now that the Government has drawn on its I.M.F. credit facilities. Short cuts to restore equilibrium in the balance of payments are therefore unlikely without major disadvantages in other directions. The process is likely to require persistent effort on a wide front.

The drive to increase exports is necessarily the most constructive solution, but the one fraught with the most imponderables. It is basic to the whole design of Australian growth but it is unlikely to provide spectacular results in the short-term. In the meantime a much closer look is required at the composition of Australian industry; some sections never appear able to withstand pressure from imports without mounting protection, others can perhaps be encouraged by tariffs to rely less on imports. These are matters which might call for a comprehensive inquiry by the Tariff Board.

Behind the pattern of Australian industry, where for all the growth, we may not be getting full value for the investment of a decade, lies the endemic question of costs. No answer has yet been found, and none is likely until inflation has been finally exorcised. But perhaps we should remember, in the common urge for quick development, the significance of the fable of the tortoise and the hare.
OVER the past decade Australia has produced a remarkable record of growth. Since 1948-9 population has risen by 30 per cent and the volume of production by 60 per cent. Thus we have provided for a rapidly growing population at a steadily rising standard of living. Factory output has almost doubled, rural output increased by over one-third. And those, who are accustomed to denigrate the Australian economic effort, should note that we have done this almost entirely from our own resources (overseas investment has provided for only one tenth of aggregate capital formation), building on a relatively unsophisticated industrial and financial structure, and in the face of a continuous limitation on the inflow of imported goods.

Rapid growth has not been achieved without difficulties nor without interruptions. Three cycles in internal activity can be discerned in the past twelve years. Boom years occurred in 1951, 1955 and 1960. These were followed by periods which, whilst appearing depressed in comparison with the boom years, did little more than slacken the upward march of production. In all three cases the booms were associated with intensive activity in the motor vehicle and building industries. Their termination was partly the result of a slow-down in these industries following the rapid accumulation of the quantity of cars and buildings in existence, and partly the result of government action to restrain aggregate expenditure in response to actual and anticipated inflationary pressures.

The three internal booms were reflected in the balance of payments, which went heavily into deficit as the booms drew to a close. Over the whole period, our demand for imports has exceeded our capacity to pay for them. Until recently, import restrictions have been enforced, increasing in severity whenever the internal boom spilled over on to imported goods.

The current situation, which marks the end of the third boom, differs from the two previous down-turns in two main ways. First, government action to dampen down activity occurred at a much less advanced stage of the boom than on the two previous occasions. This may be a reflection both of the Commonwealth Government’s increasing sensitivity to inflation and of its willingness to risk unpopular anti-inflationary action.
In any event, the 1960 boom was arrested before the demands on labour and equipment had become grossly excessive. Second-
ly, whereas in the two earlier booms the Commonwealth Gov-
ernment had markedly increased the severity of import restric-
tions during and at the down-turn of the boom, in the recent
boom, restrictions were eased and finally abolished before boom
conditions had clearly emerged. The rationale of the action in
the first two cases was to protect our London Funds, whilst
that of the third was partly to increase supplies as an anti-
inflationary measure and partly to get rid of a cumbersome
and increasingly inefficient set of controls. However, the aboli-
ton of these controls allowed the high internal demand to boost
the demand for imports, and so exacerbate the growing pressure
on the balance of payments deriving from the general expansion
of the economy.

During the past four months unemployment has climbed
to about the same figure as at the troughs of the two previous
recessions, whilst the flow of imports has continued at extremely
high levels. Government thinking appears to interpret the
high levels as being due both to excessive internal demands and
to stockpiling, speculative and genuine. To the extent that the
boom is over, the demand for imports can be expected to fall.
Excessive inventory accumulation must sooner or later cease,
particularly in view of the credit squeeze, and is likely to be
reversed. Hence the flow of imports can be expected to fall in
the near future; although, to the extent that this is partly due
to the working-off of stocks, this fall may be temporary. The
real issue is: can the balance of payments be brought into equi-
librium, without requiring an intolerably high level of unem-
ployment to moderate demand?

The answer to this question rests, on whether the present
excessive level of imports is a temporary phenomenon, associ-
ated with internal inflation and speculative stockpiling; or
whether, whilst being partly due to these factors, it also is due
to a fundamental lack of balance between the structure of our
productive capacity, and the structure of our demand in rela-
tion to domestic and foreign-trade goods. The experience of
the past decade suggest that, putting aside short-term influences
on the demand for imports, there remains a residual excess
demand for imports which can be attributed only to structural
factors. If this is so, equilibrium in the balance of payments will
not be achieved, except perhaps temporarily, unless internal activity is very greatly damped down or some positive action, aimed to operate directly on the balance of payments, is taken.

DEFLATION and unemployment is hardly an acceptable policy for tackling a long-run disequilibrium in the balance of payments. Some small measure of unemployment is probably unavoidable when booms burst of their own accord or are pricked by government action. That is the cost of putting the brake on the inflationary forces inherent in a fast growing economy and of providing for structural adjustments within the economy. But once unemployment goes beyond this small amount, then the lack of jobs, the loss of production and the inhibition on growth become overwhelming considerations.

Two lines of attack on the current balance-of-payments problem are necessary. First, we should have available some weapon which can be used quickly to protect our international reserves. On present circumstances there seems little alternative to import licensing. Second, we should take action to bend the structure of the economy towards a greater supply of exports and/or a smaller demand for imports. This can be achieved only in the long run.

The classical answer to a fundamental balance-of-payments disequilibrium is devaluation. But devaluation, whether of the conventional or one sided variety, can be successful in raising exports relative to imports, only if wages, and hence domestic costs, can be prevented from rising along with the rise in prices which will inevitably follow it. In the Australian context such wage restraint may prove impossible. This suggests that direct measures to encourage exports and import-replacement, of the kind being tentatively explored by the Commonwealth Government (including the expansion of public works directly connected with overseas trade, e.g. roads and harbours), may be the best policy for handling the structural problem. In addition fiscal action, through indirect taxation, could be taken to discourage expenditure on goods with a high import content, e.g. motor vehicles. Moreover, the worst feature of import licensing is that it masks the need to take action to modify the structure of the economy. So long as a conscious policy of export promo-
What I think of the Economic Outlook? (continued)

tion and import-replacement is being pursued, this ceases to be an important consideration; and to the extent that this policy is successful any need for import licensing will be so much reduced.

Although the present slack in the economy has appeared rapidly, it is relatively small in magnitude and certainly does not justify the panic statements which have been emanating from some quarters. Nevertheless it would not be desirable to permit any considerable growth in the number of unemployed, and the time will shortly arrive when the Commonwealth Government will have to consider relaxing monetary and/or budgetary restraint. Indeed some expansion of credit for home building has already taken place. Our London Funds, due to an unprecedented inflow of capital, are running at a much higher level than could have been anticipated a few months ago. Nevertheless the balance of payments on current account remains weak and any renewal of internal expansion may make a reimposition of import controls an unavoidable, if unpleasant, necessity. In any event, if the expansion of the past decade is to be carried on undiminished into the next, we need both a healthy balance of payments and a high level of economic activity. Thus measures to strengthen the balance of payments without substantially reducing the tempo of the economy are the pre-requisites to future growth.
The Importance of Skills

Commonwealth technical training week with its arresting and timely slogan, “Training To-day for To-morrow”, has focused attention on the importance of apprentices, trade skills and technical knowledge in Australia’s future prosperity.

During the past 20 years Australia has emerged as an industrial nation and the output of our secondary industries has overtaken farm production. Today 30% of the work force is engaged in manufacturing. Our factories are already making a useful contribution to our export income, but the need for a much more intensified effort is now clearly recognised. A young industrial nation like Australia has to face tremendous competition with overseas suppliers at home, and in export markets abroad. We must watch carefully many things — the price level, cost structure, quality of work and production, plant and equipment, marketing, the supply of managerial talent and the skill of the work force. The most important assets of a nation are its people. National resources, size, climate, geographical position are significant factors in any economy. But, people, particularly their quality, their skills, their knowledge and education, their attitudes to work are vital things in a nation’s economic performance.

There is a serious shortage of skilled people throughout the world. It is not that there has been a decline in the number of craftsmen, but rather the increased need for them in every country; because the world has been swept along by the great industry of discovery, by innovation and science, by a second industrial revolution which is altering our whole way of life. We have entered an age highlighted by nuclear energy, the conquest of space, automation and the computer. As an eminent scientist sees it: “The world into which we were born is gone. It is the rate of change, even more than change itself, that I see as the dominant fact of our time”.

It may sometimes be thought that automation and technological progress are eliminating the need for skilled craftsmen. Nothing could be further from the truth. The skilled worker has always been the pivot on which every industrial operation turns. Advancing technology, far from reducing the need for skilled craftsmen, actually increases it. Australia must earn its standard of living in a competitive world. We cannot lag behind in capital equipment, education, training and industrial skills. Indeed the great need for technical skills is, in many ways, the key to our whole future progress. The existing shortage of technical and scientific manpower is now well known. But Australia needs not only more science and engineering graduates, we need technical skills in depth, at every level throughout industry, from the scientist and engineer at the top, right down through technicians and qualified craftsmen.

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Since 1945 Australia's population has risen faster than the labour force. But over the next 10 years it is expected that the work force will be increasing at a faster rate than the population. The number of 15-year-olds has been rising steadily since the beginning of the 1950's and will continue the upward movement throughout the 1960's, except for a slight decline in 1963.

The marked upward movement in the number of boys aged 15 to 19 years expected to enter the work force over the next 10 years, is seen in the following figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>1947</td>
<td>241,000</td>
</tr>
<tr>
<td>1954</td>
<td>241,000</td>
</tr>
<tr>
<td>1959</td>
<td>297,000</td>
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<tr>
<td>1960</td>
<td>315,000</td>
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<tr>
<td>1962</td>
<td>363,000</td>
</tr>
<tr>
<td>1965</td>
<td>417,000</td>
</tr>
<tr>
<td>1970</td>
<td>452,000</td>
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</tbody>
</table>

Forecasts show that the number of young people both male and female as a proportion of the total work force is rising steadily. As a percentage of the male work force the number of boys aged 15-19 years is expected to rise from 9.7% in 1947 to 10.2% this year and 11.6% in 1965.

This is a completely new development. For many years past, employers have had to face a situation in which there was a real shortage of young people becoming available for employment. From now on industry faces a two pronged challenge, first to find additional jobs for young people, and in the second place, to employ them in such a way as to promote the highest possible increase in productivity. Confronted by this upsurge of young people, Australia now has an opportunity, unique in its history, of building up its supply of skilled manpower.

The increasing industrialisation of Australia, the advance of technology, the continued flow of new capital from overseas and local sources into new industries, must inevitably lead to increasing demands for skilled manpower of all kinds. There can be no doubt, that our industrial future and living standards will depend heavily on keeping up with the rapid rate of world technical progress and "know how"; and what is equally important, strengthening the skilled content of our work force. One encouraging sign is the increasing number of students enrolling for science and engineering courses at Australian Universities and Technical colleges. But at the same time, it is vital that we should seize the opportunity of building up our skilled manpower at the technician and tradesman levels.

Probably the most serious manpower shortage we have in Australia are the highly skilled people known as technicians*. It is a career not yet widely recognised by the public. These people enjoy a status somewhere between that of a qualified tradesman and the scientist or engineer. In industry overseas there is a much greater use of technicians for routine technical work in production, research and development, thereby releasing scientists and engineers for more important work. In the United Kingdom about five or six technicians are required for every professionally qualified scientist or engineer. The supply of technicians in Australia would have to be greatly increased to meet this proportion. There is clearly a need for concerted planning by both industry and education to train more tradesmen to the technician's level of skill.

* A technician is a person with a wide background of technical experience and knowledge, able to understand the operation for which he is responsible and having the ability to supervise the work of skilled craftsmen. An engineering technician, for example, may be required to work on research and development, designs for engineering plant and repair and maintenance.
The majority of Australian tradesmen are trained by serving a period of apprenticeship. This is usually a period of 5 years, during which an apprentice serves his indenture with an employer and attends a technical school part-time. There is a serious lack of statistics on apprenticeship for Australia as a whole. But at the present time it is estimated that at least 70,000 apprentices are in training. According to the Department of Labour and National Service, while the numbers of young men becoming available for employment has been rapidly increasing, since 1956 the number of new apprenticeships has not been keeping pace. The figure for new apprenticeships granted in 1959 was the lowest since 1954, and over this period the number of 15 and 16 year-olds rose by more than 25%. The failure of new apprenticeships to keep pace with the number of 15 and 16 year-olds means that we have already lost a considerable number of future tradesmen. The intake of apprentices in 1959 was about 25% of the number of 15 year-olds males in the population. This ratio may well be too low for Australia's needs. But even if this ratio is to be maintained the Department of Labour and National Service estimates that the annual intake would have to increase from 18,000 in 1959 to 26,000 in 1965 and 28,000 in 1970. It is probable that, owing to the current recession, there will be a smaller intake of apprentices this year. The intake of the building and motor trades is likely to be most adversely affected.

Upon the completion of apprenticeship indentures, it is understandable that the majority seek to broaden experience and to change places of employment. This is not a new tendency, but it can be a discouragement to employers unless it is realised that, as the pool of skilled workers grows, the effect of this transfer is reduced. In any event, the young tradesman is usually attracted to the sound establishment which trains — and loses its quota of — its own apprentices.

By and large the apprenticeship system has served Australia well, but the Report of the Commonwealth-State Apprenticeship Inquiry 1954 expressed some doubts about the apprenticeship system being able to provide sufficient tradesmen for Australian industry. The system has remained virtually unchanged for many years. "This should carry its own warning" says Mr. H. A. Bland, Secretary, Department of Labour and National Service, "that at least the system is due for an overhaul".

What are some of the criticisms which have been levelled at the present system? There are several. Perhaps the most important is, that in spite of the great value of the skills of thousands of migrants who have come to these shores, our progress over the past 15 years has been hampered by shortages of skilled labour. It still is. The present system of apprenticeship is not flexible enough to meet the changing occupational requirements of industry, and it cannot be relied on to supply the numbers of tradesmen needed during a time of rapid industrial expansion and technological change. Many employers who could take apprentices don't employ any, and many others are not taking their full permitted number. The apprentice is normally taught in industry by a craftsman, and unhappily not all of these are good teachers. Apprenticeships usually begin at 15-16 years of age, in spite of a tendency for boys to stay longer at school. Owing to these age limits, a young adult, who may have started work at something else, is virtually precluded from entering a trade. And, a boy with the leaving certificate finds himself faced with the prospect of commencing an elementary technical college course appropriate to the age of 15. By contrast, in the United States, there is great flexibility in the age limits for apprentices.
A boy is not expected to begin an apprenticeship until he is 18, and men can become apprentices up to the age of 35. With higher educational standards to-day, the advance in teaching techniques and the tendency to stay at school longer, there is a growing belief that it is possible to train many tradesmen in a shorter period than 4-5 years. Could there not be some system of giving credit for qualifications and experience to those who have higher educational qualifications? It is worthwhile noting that the length of apprenticeship training is somewhat shorter in the United States, Western Germany and Holland, than it is in either Australia and the United Kingdom.

WHAT can Australia learn from overseas countries in the training of tradesmen? Obviously a great deal. This year the Tenth International Apprenticeship Competitions will be held at Duisberg, Western Germany. Boys from eleven countries will compete in individual tests each occupying over 30 hours. The competitions cover about 20 trades. Commencing with a single competitor in 1955 the British team last year comprised 32 boys. These competitions indicate the enthusiasm for technical training overseas. One thinks immediately of the benefits Australia might derive from participation in these competitions, or from the establishment of similar inter-company and interstate contests for young tradesmen.

Western Germany is often cited as the outstanding example in the world for the training of tradesmen. Germany has an intensified apprenticeship training system with indentures lasting about 3 years. A vast number of companies in Germany have their own schools especially set up for the training of apprentices. In the engineering industry alone there are over 1000 apprentice training schools. By means of intensified training, Germany is achieving a much higher standard and a far bigger throughput of tradesmen than can be achieved under the traditional 5 years "shop" method.

In France, Apprenticeship Centres have been established for the full time training of tradesmen. They are governed by Local Committees consisting of representatives of employers, trade unions and the Ministry of Education. For the first six months, students are taught the elements of a number of trades, after which they begin to specialise. At the end of three years an examination is taken and those who pass gain a "Certificate of Technical Proficiency" which entitles them to receive the wage of a qualified worker.

In Italy, a number of full time residential training centres are being established to provide skilled workers for the six countries of the European Common Market.

An impressive picture of what Russia is doing in training skilled workers is set out in an article by H. Zelenko in the December 1959 I.L.O. Review. Russia has a vast network of vocational and technical colleges designed to prepare skilled workers for specific trades. In 1959 there were 3,200 Manpower Reserve Schools which every year train up to 1,000,000 skilled workers for various branches of the economy. In addition, there were some 600 factory training schools which prepare an average of 100,000 skilled workers p.a. for their respective undertakings.

Enough has been said in this sketchy outline to show that overseas countries are placing tremendous importance on the training of skilled workers. If Australian industry is to keep abreast of world competition, we should study very carefully what overseas countries are doing, and seek to profit from their experience.
There have been several encouraging developments in the establishment of apprentice training schools in Australia, both in the public and private sector. In Government, for example, special schools are operating in the Railways, State Electricity Commission of Victoria and Munitions establishments. In private industry apprentice schools have been set up by the mining companies at Broken Hill, by Repco, I.C.I.A.N.Z., and B.H.P. But there are far too few. Over £60,000 has been invested in the Repco Apprentice Training Centre in Melbourne. It is modelled on the best overseas practice and is the largest institution of its kind in Australia. Forty young men spend their first year of apprenticeship at the centre. They receive expert full time instruction, which would be impossible under factory conditions. It is planned to attain in 3 years the standard currently achieved elsewhere in 5 years. The centre is equipped with modern machine shop equipment, a technical library, a lecture room and first-class amenities. Repco aims at turning out better tradesmen through more advanced and thorough training than is possible under normal apprenticeship conditions.

I.C.I.A.N.Z. report they have noticed a great improvement in the standard of trade skills since their Apprenticeship Training School opened at Deer Park three years ago. Each year the Company hand-picks 15 boys for this school for intensive and individual training as fitters, turners and instrument makers. After completion of a year at the school the boys are given wide practical experience in I.C.I.A.N.Z. factories and sometimes with outside contractors. I.C.I.A.N.Z. expects that 3 or 4 boys from each school will eventually be upgraded from tradesmen to become technicians and engineers.

In the stern competitive and fast changing technological world of the 1960’s, there can be few things more important than a labour force well trained in modern skills.

What can Australia do to meet the challenge? Concerted and imaginative action by employers, trade unions, governments and technical educational authorities is clearly needed. A strong case can be made for the setting up of additional company apprentice training schools similar to those established by Repco, I.C.I.A.N.Z. and other companies. Special schools of this type may be beyond the resources of smaller companies, but they should be practicable for some of the larger concerns. Small businesses are obviously limited by financial considerations from embarking on extensive training programmes. But it may be possible for a group of companies, pooling their resources, to set up their own apprentice training schools, on an industry basis — each contributing to the cost and each nominating apprentices. Training costs money. Some form of tax concession could be a powerful incentive and should be investigated.

There is considerable support for the establishment in Australia of intensive trade training centres, similar to the successful French system, with full time three year courses for trainees of all ages. This is another suggestion which is well worth investigation by Governments, employers and trade unions. But, fundamentally, it seems to be a Government responsibility, which would require greater resources for technical education.

Because the average skilled tradesman is not necessarily a good teacher of his trade, “on the job” apprentice training is likely to be more efficient if the training of apprentices is carried out by trained instructors, responsible for individual training in the best work methods. In larger concerns a staff of instructors may be necessary. In a small organisation technical training could be a part-time activity of one instructor or a competent
foreman. But the important thing is for apprentices to be trained by the best men available.

* * * * *

The proposals mentioned above point to several methods by which a larger number of qualified tradesmen may be trained, and many of the young people entering the work force may be channelled into skilled and worthwhile occupations. Clearly apprenticeship must be encouraged in every possible way and the potential tradesman must feel that his career will be a rewarding one.

Australia must greatly expand educational and technical training facilities, (and maintain a high rate of capital investment), to assure the effective employment of the record number of young people who will join the work force during the 1960's. Changes and modifications in the apprenticeship system as we know it may be required. Better technical education and training is a worthwhile investment in the future, and additional expenditures from both public and private funds is justified. Walter W. Heller, Chairman of the President's Council of Economic Advisers, Washington, recently drew attention to the fact that unemployment in the United States is confined largely to the uneducated and the unskilled. He stressed the enormous economic value of education and called for increased investment in "our most valuable resource, the human mind". Heller points to an important new frontier in economics the idea that "human capital" (knowledge, skills, invention) contributes more to economic growth than "tangible capital" (factories and machines).

The implications of this concept are important for Australia, and demand the closest study, because what we do with our "human capital" will have such a tremendous effect upon our productivity and our future progress.
Mr. Clarence B. Randall has had a long and distinguished career in business and government service in the United States. A graduate of Harvard University, Mr. Randall practised law until 1925, when he joined the Inland Steel Company as Assistant Vice-President. He was elected Chairman of the Board in 1953, but retired in 1956 to become Special Assistant to President Eisenhower in the area of Foreign Economic Policy. Honorary degrees have been conferred on Mr. Randall by a number of universities and he has received many awards from other institutions. He is the author of numerous articles and six books, including "A Creed for Free Enterprise" and "Freedom's Faith".

Mr. Randall is truly a business statesman. We are privileged to publish this article, which was specially written by him for "The I.P.A. Review".

BUSINESSMEN in the United States are being driven these days to take a hard second look at the philosophy and the practices of free enterprise.

This system of accumulating private capital under single control, and risking it for gain in response to no other directing force than individual initiative, has come to them as instinctively as the act of breathing the air about them. They have known no other way of life. In fact, until recently some of them lacked even a rudimentary awareness that there were in the world other systems for the production and distribution
of goods, and few there are even yet who have studied those other methods with sufficient continuity and earnestness to warrant their undertaking critical comparative evaluations.

All this is changing. Thanks to the Russians, who, instead of concealing their strength until they could choose their time to strike, rather naively rang the alarm bell wildly by Sputnik, and by putting the first man in space, the American businessman is now searching his soul, his heart filled with apprehension, which is precisely what he needed to do. He now knows that this way of life to which his entire effort is dedicated is under severe challenge nearly everywhere in the world, and that he must either justify it by his conduct, or face the grim prospect that his grandchildren may lose it. Lifting his eyes to the far horizons, he is staggered by the sudden realization that free enterprise does not automatically export itself, and that new nations, when given an opportunity for a free choice, are apt to reject it, and knowingly accept the communist program. Vigorous person that he is, he resents this incredible phenomenon, and a highly creditable determination to do something about it is seizing possession of him.

When he takes this hard second look at himself and his way of life, what does he find? What are the "truths" which he "holds to be self-evident", if one may borrow without irreverence the sacred words of the Preamble to the Constitution of the United States?

His first truth is that the principle of freedom, upon which our form of democracy must irrevocably be based, is a concept that is integral and indivisible. There are no separate freedoms that may be specifically allocated to particular groups or institutions. The right to make private decisions with respect to the production of goods is precisely the same right exercised by the professor at the university who insists upon teaching whatever economic doctrine he believes to be true. Each must fight to the death to protect the right of the other, or all will be betrayed together. Whatever restricts one restricts each, and all who believe in freedom must jointly resist limitation wherever it appears without immediate thought of self. We have reached a point where it must be all hands on deck all of the time if "life, liberty, and the pursuit of
happiness,” the national goals proclaimed in our Constitution are to be preserved.

It is this freedom applied in industry to the point of complete saturation which has given the American economy its enormous vitality and resiliency, and which the businessman is determined to see preserved at all cost.

This is so because no other system of production has yet been conceived which so effectively releases the full creative effort of each individual involved. Our industrial way of life dignifies the worth of the individual, first by preserving to him full choice as to what calling he will embark upon, and secondly by rewarding him in direct ratio to the contribution which he makes to society. We believe that incentives created by monetary compensation are both effective and moral. We have proven by our long history that the sum total of all effort when given freely, and with enthusiasm, in our form of society, is greater than the resultant of total effort that is brought forth by compulsion under collectivism. And we see not the slightest thing wrong in doing well by those who try, and little for those who do not. We believe that in granting rewards that are proportionate to effort we are merely giving recognition to the fact that in a free society the goals of the individual and those of society are not in conflict, but in parallel.

Powerful testimony in support of these truths is now coming from behind the Iron Curtain. Of all people the communists are the most thoroughgoing of pragmatists. A thing has to work or it will be discarded. They boastfully began the reorientation of their industry on the starry-eyed theory that society would take from every man according to his ability, and grant him his share of the total production in strict accordance to his need, regardless of his effort. Now they know better. Quietly they have dropped that will-of-the-wisp, and now they employ a wide range of group bonuses, and of individual incentives accomplished both through salary and emoluments. In a land that has few automobiles a limousine and chauffeur can create powerful motivation. Add a dacha on the Black Sea and the upward surge of production can be pronounced. In fact, incredible as it seems, the spread between the compensation of the manager of a steel plant in Russia,
and that of the lowest paid worker, is unquestionably greater than the comparable difference in the United States.

We apply this principle of freedom that saturates not only to the production of goods, but to their sale and distribution as well. We have no lonely commissar pontificating by himself as to what quantities and qualities of merchandise we should turn out. We vote all day every day as to what they should be. Every time a housewife goes into a supermarket and buys a package, she casts a ballot, as does her husband when he makes the down payment on an automobile. By totaling the resultant from an infinite number of such free choices, we arrive at consensus as to our goals.

In fact, the basic concept that underlies everything that we do is the idea that the wisdom of the many is at all times more to be trusted than the wisdom of the few. There is always the chance under communism that a commissar may display great genius, but there is a still greater chance that he may display colossal ignorance and stupidity, and only fools would knowingly take such risks.

We employ the same principle of freedom that saturates in the formulation and gathering of the capital required in the building and equipping of our industrial plant, and in the financing of our operations. We rely on no other force than the incentive of intelligent self-interest for the providing of our funds. No individual is required to save. He may eat today and starve tomorrow, if he so elects. No part of that share of the product of his toil which has been allocated to him will ever be taken from him against his will in order that capital may be accumulated. But being a rational being, he soon senses that there is a future, and that for him and his family it will be a better future if he withdraws a part of his earnings from immediate consumption, and risks it for further gain by buying the common stock of the company for which he works, or that of another, if he prefers.

This broad diffusion of the ownership of the means of production does two things. First, it keeps management on its toes, for unless industry fully measures up and gives full value in terms of return on investment, the flow of capital will stop. People will spend and not save. And secondly, those
who own, instinctively want to understand, and a means of communication is established by which people everywhere acquire insight into the problems of the economy.

The powerful magnetic force which keeps the compass of industry pointing toward the true north with respect to the welfare of society as a whole is competition. The rule of survival of the fittest, which is the counterpart of freedom of enterprise, sternly demands that each separate unit of production put forth its utmost effort at all times, and that is social gain of a high order. We speak of ours as a profit system, but actually it is a profit and loss system, and the two forces of hope and fear operate in parallel to eliminate those who in America we call the “free-riders”.

When one businessman enters into a secret agreement with another businessman to restrict competition, he is either guilty of moral turpitude or is lacking in understanding of the enterprise system. The pegging of prices, the arbitrary dividing of territories, the withholding for a fixed period of advances in technology, and all similar devices which evil minds can think up to fatten profits at the expense of the consumer are a denial of our heritage. If persisted in they will destroy the enterprise system. Such power over society cannot be lodged in private hands, and an angry public, when fully roused, will punish us all by withdrawing the privileges which it has bestowed in the field of private endeavour.

This, of course, raises the whole question of the importance of moral attitudes in the preservation of the enterprise system. It is actually more important that we be right than that we be effective. The very highest standards of ethics must henceforth govern the conduct of industrial leaders if society is not to turn against us, and we in the United States now comprehend this clearly.

We still have areas of weakness, however. Take executive salaries, for example. It is urgent and right that men who bear great responsibility should be generously compensated, but when moderation yields to avarice, hostile social forces are swiftly set in motion. Here are some danger signs. When the top man takes twice the compensation of his second in command, something is surely wrong. When the top man has
the highest salary in his industry, he may be justified, for someone has to be the high man, but he should be put upon great caution to be sure that he is right. And when the top man submits his proposed compensation to no one but an "inside board," namely a group of directors all of whom work for him, he is clearly vulnerable.*

We have erred too with respect to expense accounts. Under our law, legitimate entertaining may be deducted as a cost for purposes of computing the corporate income tax, but when the company president gives a champagne party at a night club, or uses the company airplane to take his friends on a duck hunting trip, he steps far over the line of propriety. His conduct poses a threat to the survival of the entire private enterprise regime. His subversion differs from that of the communist only in degree.

On the other hand, there have been great advances in general probity during the years of the present generation. In my day, for example, I have seen commercial bribery all but completely eliminated. Time was when one company would place an industrial spy in the research department of a competitor, or when a supplier would buy the favor of a purchasing agent, but those moral lapses have been cleaned up, and cleaned up by industry itself without the necessity for new laws.

In fact, the outstanding characteristic of the entire business community in the United States today, and the one which holds the greatest promise for the future, is its high sense of social responsibility. We now see clearly that the welfare of a particular enterprise and that of the area in which it is located are inseparably linked, and we see further that the welfare of industry as a whole and that of our country are likewise indivisible. It has taken a long time for this full sense of social mission to become the dominant philosophy of our industrial leadership, but such is now the unquestionable fact.

And it is very right that this should be so. It is merely the logical extrapolation of a principle which, once accepted, could lead to no other conclusion, which is this: for every

* The expression "inside board" means a board of directors entirely composed of full time employees of the company.
privilege bestowed upon individuals in a democratic society there is a corresponding obligation. Such is the essence of freedom. In the past in our country we have heard too much about our rights, and not enough about our responsibilities. All this is now undergoing revolutionary change, and the businessman is assuming an important role in this significant transformation as he takes his hard second look at the enterprise system.

Nearly all of the leading American firms, for example, now set aside a part of their profits for philanthropy. Most of them do this by establishing a charitable foundation, which is administered by a special staff, and not by the board of directors. Through this medium they give support to hospitals, homes for the aged, child welfare institutions, health programs, and a wide variety of social agencies. This is only the beginning, however, and in large corporations literally hundreds of worthy causes will be assisted. Education stands high on the list, and liberal arts colleges are supported in parity with those who turn out technically trained graduates. Above all, the motive behind the allocation of such funds is not to help the company, but solely to serve the community and the nation. That is industrial statesmanship of the highest sort. We had a little trouble with the lawyers on this at the start, but it is now entirely clear that under our law a corporation may use its funds for the common good, as, of course, it should.

Moreover, businessmen in the United States now give themselves in addition to their money. You will find them lending their management skills to community institutions by taking unpaid executive posts, or by serving on boards of trustees, and you will find them employing their promotional gifts in the leading of campaigns for the raising of funds for charitable purposes from the general public. They are establishing by their conduct the proposition that free enterprise not only receives from society, but gives full value in return.

You will find businessmen in our government these days, too, at every level, carrying heavy responsibility at substantial financial sacrifice, and doing so with distinction. When unexpectedly a corporation officer is asked to close his desk for
a term of years and go to Washington, or to his state capital, he does so in a high spirit of dedication. He knows that in this world of crisis the demand for talent in government has greatly exceeded the supply, and he answers the call in the spirit of his new philosophy of social mission. Actually, the combination of the mature executive from business, paired with a career officer, makes a strong team. The professional provides the indispensable familiarity with the subject matter, and the knowledge of how government operates, while the amateur brings awareness of the state of public opinion, and the courage to take a fresh approach, inasmuch as his own future is never at stake in anything he does. His greatest desire is to get the job done worthily, and go home.

Leaders in American industry are thus in many ways rising magnificently to the challenge of a world in torment and distress. They believe fervently that the forces of private initiative as released into the field of production in a free and democratic society bring greater good to more human beings than is possible under communism. But they also know that freedom brings responsibility, and that production as such is not a goal in itself. They are fully aware of their social obligations, and are determined to fulfill them abundantly.

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