A Bold Budget

Notwithstanding the accumulation of inflationary forces, the Treasurer has resisted the temptation to apply the fiscal brakes abruptly and has budgeted boldly for the maintenance of rapid economic growth.

In constructing the Budget for 1964/5, the Commonwealth Government and its advisers were confronted with a task of exceptional difficulty and delicacy. In a situation clearly calling for some restraints, the Treasury was also faced with the inevitability of a very large increase in government spending. In the first place there was the urgent need for a substantial addition to the defence budget; indeed many of the critics have argued that the actual increase of £36 million is insufficient. Second, there were heavy financial commitments into which the Commonwealth Government had already entered as a consequence of election undertakings and of decisions by the Loan Council. Third, there were urgent financial requirements of the States arising from large-scale development works already under way and the public clamour for more spending to remedy the serious community deficiences in roads, education and the like. Fourth, the Government was faced with automatic and unavoidable increases in expenditure on the social services, particularly pensions, and, on top of this, rising costs in administration and public utilities traceable to wage and salary increases, both statutory and otherwise.
It is not altogether surprising, therefore, that the rise of £224 million in total Commonwealth Government expenditure is an all-time record increase in any one year, far surpassing last year's increase of £181 million. Principal items contributing to this increase in expenditure are payments to the States—up £50 million; social services—up £36 million; defence—up £36 million; Commonwealth public works and services—up £24 million; and departmental expenditure—up £17 million.

Nevertheless the fact has to be faced that this large jump in Commonwealth spending has come at a time when the economy is already operating at high pressure. Employment is near over-full and ominous shortages of skilled labour are developing; after years of quiescence, prices and costs are on the move; total national expenditure is threatening to outstrip resources. The £1 basic wage increase granted in the recent determination of the Commonwealth Arbitration Commission is resulting in cost and price rises and is adding to the inflationary pressure. The unfortunate effects of this decision suggest that the Commonwealth Government might be more forthright in the future in putting its view (formed on the advice of its departmental experts) before the Commission.

The rise of £224 million for the current year represents a 10% increase in government outlay over last year. This should be set against a probable rise over the year of say 6% in the Gross National Product. This means that the Government will be attempting to appropriate a substantially larger share of the labour and other resources likely to be available. At a time when strictly economic and financial considerations called for a tightening of the reins, this largely inescapable expansion in government spending made the Treasurer's task exceedingly difficult.

No doubt some economists confronted with a situation of this kind would have pressed for larger increases in taxation than those for which the Budget has provided. But this view would overlook two important considerations—one psychological, one technical—which were no doubt well to the fore in the minds of the Treasurer and his advisers. Business confidence has become acutely sensitive to measures of economic restraint
since the over-strong application of the brakes in the 1960 boom—which was savagely resented. The hostile reaction evoked by any suggestion of a "credit squeeze" is clear evidence of this. In the second place it is becoming more and more doubtful whether tax increases can really be very effective in curbing inflation and in effecting a transfer of resources from the private to the public sector of the economy. In strict theory, of course, an increase in taxes is supposed to reduce spending by individuals and by companies and thus make more resources available for the use of governments. Up to a point this is what the Budget purports to do. The removal of the 5% income tax rebate, the additional 6d. in the £ on company tax, the 2½% addition to sales tax on motor vehicles, the increase in government charges in television licences, post office services and elsewhere are steps that have been taken with this end in view. The Budget shows a small estimated surplus of £18½ million; in the event the surplus could be substantially greater.

But the thinking of many economists and fiscal experts on taxation policy has yet to catch up with what is perhaps the outstanding phenomenon of present-day society, that is, the expectation of a steadily rising standard of living year by year. The natural resistance to a cut in consumption or living standards (which Keynes, a quarter of a century ago, regarded as one of the most significant features of economic behaviour) has now been strongly reinforced by an entirely new factor. Today we live in a middle-class society with middle-class ambitions and expectations. Attempts to cut or even restrain individual consumer spending thus run up against a rather intractable obstacle. To maintain or, more, to sustain the improvement in their living standards, people will reduce or run down their savings, buttress their expenditure by additional borrowing, and seek to increase their money incomes to counter-balance the higher taxes they are called upon to pay. For these reasons, increases in taxation directed at consumer spending have, at best a very limited influence.

In its decision to raise company tax by 6d. in the £, the Government no doubt had in mind that this would have a restraining influence on business investment. But here again it must be questioned how far modest increases in business taxes are effective in braking back plans for investment in an
economy growing rapidly and with a strong in-built expansionary bias. It is probable too that, in the main, the additional company tax will simply be passed on in higher prices.

The Australian economy is one in which government spending on development has come to occupy a very crucial part. The idea that if government capital expenditure is increased, this may imply a reduction in private capital expenditure, is hardly a valid one. Rather, the contrary seems to be true. Heavy public spending on capital projects today provides one of the main incitements to capital expansion in the private sector.

It cannot be denied, therefore, that the Treasurer has budgeted boldly and with an element of risk. One can only view with some reservation, even concern, a record increase in government spending at a time when inflationary forces are moving into the ascendant. It is clear from the text of the budgetary speech itself that this concern is present in the mind of the Treasurer himself. The Treasurer's words are worth quoting in full: "Such a large rise in expenditure raises, first of all, a question as to the effect it will have on the economy. The broad answer to this is simple and certain—it will have a strongly expansive effect since, directly or indirectly, an increase in government expenditure adds to demand for goods and services. The point here is that these expenditures will be making a substantial addition to demand at a time when, as I have just said, demand in general is rising strongly. To say this is not at all to concede that the rise in expenditure should or could be any less than it is. In fact if the various main terms which make up the total are taken, one by one, I think it would have to be agreed that they are either inescapable as being the costs of services required by a fast-growing economy, or so far as they flow from new decisions are entirely justifiable."

Undoubtedly the factor that has encouraged the Commonwealth Government to choose the bold path of uninterrupted expansion, and to take risks with stability, is the extraordinarily robust state of the international financial reserves which, at the end of the last financial year, stood at the impressive figure of £854 million.
1963/4 was an altogether exceptional year. The increase in the Gross National Product of a record 9% was, naturally enough, associated with a growing tightening in the labour market and a tendency, particularly toward the end of the year, for prices and costs to rise. But owing to a series of remarkable coincidences which resulted in a quite stupendous income from exports, the level of overseas reserves rose over the year by the substantial figure of £228 million. This was a reversal of the classic situation where strong and rapid internal economic expansion and the build-up of inflationary pressure are usually associated with a tightening external position, making measures of restraint, more or less severe, unavoidable. But the peak level of overseas reserves, combined with the fact that prospects for exports in the current year remain good, has enabled the Treasury to refrain from imposing any strong check to the growth of national expenditure.

It shouldn’t be too much to expect that all sections of the community will make their contribution toward the preservation of stability, and thus keep cost and price rises in the current year down to a minimum. This is the way of a democracy that regards itself as responsible—it cannot expect the Government to solve all its problems, even those of inflation and deflation. This applies more especially to business and the trade unions which should form their policies and make their plans in light of a situation of increasingly scarce resources. The tax increases should be taken as a warning by all sections of the community to observe moderation in their demands on resources by tailoring their spending programmes accordingly. The monetary and financial mechanism will have a difficult and maybe even unpopular role in the coming months. But it cannot avoid its responsibilities if the tremendous potentialities inherent in Australia’s economic position are not to be squandered in the old cycle of boom-recession-recovery, along with the “stop and go” policies which many have been so strongly condemning. If inflationary forces should gain the upper hand in the coming twelve months, the community itself will not be free from blame. The best of riders cannot make an unruly, fractious steed run a smooth, steady course.
It is the easiest thing in the world to criticise a national budget, but how many of the critics could really do any better, or perhaps as well, if they were in the shoes of the policymakers? It is rather like the spectators at a football match. They are not slow in telling the players what to do; but could they do it themselves?

If a Treasurer could base his budgets on a strictly economic calculus, his difficulties would be greatly lessened. But, in real life, there must unavoidably be a large element of politics in any budget. No Government can ignore the public mood. In light of the manifest difficulties with which he was confronted, the fair-minded observer will agree that, all in all, the Treasurer has handled an unenviable task with courage and competence.
TWENTY years ago to a month, the I.P.A. issued its first publication, "Looking Forward". "Looking Forward" was a comprehensive statement of I.P.A. policy of some 70 close-printed pages. Its basic concern was with the kind of economic and industrial system Australia should strive to achieve when the war was over. It represented the views of a dozen or so men concerned with the direction of some of the biggest industries in Australia and its impact on public opinion was more profound than even its authors had hoped.

Eventually 50,000 copies were distributed. This, we believe, constituted an exceptional circulation for a serious, weighty treatment of economic issues and was a reflection of the tremendous interest in the industrial and social problems that the post-war world would present.

The winds of change were blowing furiously and the views of men prominent in the business life of Australia on "the new order" aroused great curiosity among all sections of the community. "The Age" (Melbourne) wrote of "Looking Forward": "It is a healthy sign that important interests and influential individuals are no longer content merely to defend the old citadels. Obviously, the book is inspired by a desire to meet the other party to the industrial contract half-way, and to emphasise the obligations, even more than the rights, of private enterprise."

What sort of economic and social system did "Looking Forward" visualise and its authors support?

In common with many other people giving thought to the post-war world, the Institute accepted as central and fundamental the concept of Full Employment. In these days it is easy to forget that, twenty years ago, the goal of Full Employment represented a revolutionary break with the past. The
idea that a conscious, deliberate attempt should be made to organise and manipulate the economy in such a way as to provide work for all seeking it was an entirely new one and many doubted its practicability. Conditioned by long experience, people had come to accept a "pool" of unemployed as more or less inevitable; a minority went even further and regarded it as a necessary part of the modern industrialised economies. Full employment, in the sense we understand it today, had never been achieved and the business and trade cycle, with alternating periods of prosperity and depression, was the great problem that had occupied the minds of governments, businessmen and economists throughout the world. How could the deep valleys of economic depression be avoided and mass unemployment be averted? This, in itself, would be a major advance. But the war changed this kind of thinking.

Over the six years of war, most countries had had little difficulty in providing work for all—the problem indeed was not a surplus, but a shortage of labour. This fact gave a new direction to public thought and to national ambitions. It was argued, with some passion, that what was possible in war should be equally possible in peace, and Full Employment became a kind of national imperative, a national demand that post-war governments should meet—or else!

Associated with the demand for Full Employment was the demand for economic security and the elimination of poverty, the provision of an acceptable minimum standard of life for all. This was the Welfare State. It embraced, on the one hand, protection against loss of income due to sickness, accident, old age, temporary unemployment, or other disability, and financial assistance for those with children; and, on the other, the provision of proper treatment for the sick and adequate educational opportunities for all members of the community.

The two names which will always be indelibly associated with these high goals were Keynes (Full Employment) and Beveridge (the Welfare State). At that time, in the years toward the end of the war, there were many who believed these aims to be unreal, and some who believed them undesirable. "Cradle to the grave" economic security, they thought, would destroy enterprise and thrift, undermine the will to produce and breed a race of slackers.
These were the primary goals. There were, of course, others. Twenty years ago there was an alarming rift in employer-employee relations and the period around the end of World War II was marred by industrial unrest and strikes on a scale almost unparalleled in Australian history. "Looking Forward" placed the improvement of industrial understanding high on its list of post-war objectives and it proposed a kind of industrial "new deal".

"The Australian democracy", it said, "is confronted with few more serious or pressing problems than that of bringing about a reasonable measure of trust and confidence between employers, management and employees. A new spirit throughout industry is urgent". It proposed much fuller information to employees about the organisation in which they worked; the wider use of bonus and profit-sharing schemes; a minimum of two weeks annual leave for all; the eventual reduction of working hours; higher standards of factory amenities and working conditions; factory medical services; company welfare and pension schemes; company assistance in vocational training; and the provision of full opportunities to rise to better-paid jobs carrying greater responsibilities.

There were, in addition, other important objectives. Apart from the provision of a floor of economic security, the economy, "Looking Forward" argued, should furnish a steady and progressive improvement in the standard of living of the entire community. But this, it said, depended on higher, more efficient production and the renaissance in the post-war world of individual enterprise and courage. In this task, private enterprise, based on the profit motive, had the major role to play. But in addition to the pursuit of profit, business leaders had wide responsibilities to the community, to their employees and the general consuming public. Power without responsibility, "Looking Forward" contended, was as much to be condemned in the field of industry as in that of government. It addressed a plea to business leaders. "The employers of labour and the leaders of industry should assume the responsibilities they owe for the material and social uplift of the community by virtue of the privileged station which they occupy."

Of course it was not difficult to establish objectives which could be expected, in any case, to command widespread assent.
The real issue was how these great aims could be achieved and here there developed a violent and basic conflict of viewpoint.

There were those who argued that the system of free enterprise had shown itself in the past to be incapable of "delivering the goods" and that unemployment, economic security, social welfare and industrial harmony could be realised only in a socialised economy, where the major industries were owned or controlled by the state, where governments planned and laid down the priorities and set targets of production, and exercised comprehensive control over the economy. The numerous advocates of this revolutionary conception envisaged a vast enlargement of the public sector of the economy and the relegation of the private sector to a position of secondary importance.

The profit motive was attacked on the grounds that it led to grave inequalities of income and to the production of things least needed by the community at the expense of the basic essentials of life—champagne for the rich before milk for the children. The fact that these arguments achieved a growing, indeed alarming, measure of acceptance through the community posed a threat to the survival of free enterprise in Australia.

In "Looking Forward", the Institute strongly contested these views. It held that the issue of private enterprise versus government enterprise was largely irrelevant to the over-riding aim of full employment. Full employment, it argued, was a question of maintaining total national expenditure (private as well as public) at a level sufficient to employ the available workforce. This was a problem of effective administration at the national plane and of sensitive financial, monetary and budgetary policies. Within the framework of these policies, the role of government was to provide a healthy, stimulating climate for the encouragement of private enterprise. The imposition of crushing taxes and a system dependent on detailed government controls would be inconsistent with such an objective. "Such a policy will, we hold, lead to the improvement of the material welfare of the nation at a more rapid rate and provide sounder foundations for social security than a policy whose effect would be to limit and discourage private enterprise concurrent with a vast development of the economic activities of the state."
If we look at the Australia of today, some twenty years after this fundamental cleavage of viewpoint, what has happened?

No one can foresee the future clearly, certainly not in economic and political matters. And not even the most optimistic could have expected the remarkable success we have achieved in maintaining full employment in the two decades since the war. Nor did any of us fully realise the vast benefits which would flow from such an achievement. Conditioned, as we were, by under-employment, by recurring economic crises, by a predominantly working class society, by a slow and hesitant long-term improvement in living standards, and by, at best, a very modest rate of growth and national development, none of us could have foreseen the tremendous improvement in living standards and the transformation of Australia into a virtually middle class society (with all that that implies) in the short space of twenty years? A society, for instance, in which the majority of its wage-earning families would possess a motor car (20 or so years ago the hallmark of personal affluence) would have been completely inconceivable at that time. Nor could any of us have foreseen the sensational growth in the Australian population (the outcome of continuous large-scale immigration) the sustained rapid pace of growth and national development, the spectacular flowering of great new industries, the almost unbelievable expansion in the basic traditional primary industries, the discovery of rich natural resources on a scale that has aroused the interest and attracted huge amounts of capital from wealthy industrial nations abroad.

All this, of course, cannot be solely attributed to the success of the policies of full employment; science, technology, mechanisation, advances in managerial methods and competence have made indispensable contributions. But it can be said, with assurance, that the full employment economy has provided the climate which has made much of it possible. It has given the businessman, the wage-earner and the consumer a confidence and certainty in the future that they never previously possessed. They can make their plans and arrange their spending without the unwanted guest at the table—the ugly, ever-present spectre of economic depression. The proliferation of the household “gadgets”, for instance, would not have been possible without the
willingness to incur debts—a willingness produced by the financial security of the full employment economy.

For the ordinary person, full employment has meant a much fuller, richer life. Apart from the material benefits it has brought in the way of higher all-round living standards, it has greatly extended the boundaries of personal freedom. The wage-earner today has a much greater range of choices about the kind of life he will live. Before the war, many regarded themselves as lucky to have a job at all—any kind of job—simply because so many did not have one. Now, by and large, the employee can choose and change his employment at will. Wives, too, find little difficulty in obtaining a paid job if they wish to buttress the family income. With shorter hours, the extension of paid annual vacations, long service leave, the worker enjoys an amount of leisure time that would have been quite inconceivable to the worker of twenty years ago.

Today’s economy provides, too, not only better living standards at all gradations of the income structure, but many more opportunities for getting on in the world and for climbing up the social and economic ladder. Opportunities for acquiring knowledge and special techniques, opportunities in education for children are immeasurably greater. Children can stay longer at school because better living standards have meant that they don’t have to contribute to the family income at such an early age. The great extension of the scholarship system has broadened the pathways to higher education.

Without full employment, progress in living standards would have been very much slower, the pace of industrial development very much less, the increase in population not nearly as spectacular.

While these successes have been achieved in an economy which is still predominantly free enterprise, the role of government has expanded vastly—both in the degree of government direction of the economy and in the scale of developmental public projects. During the war, governments had been compelled to exercise detailed control over all aspects of the economy—finance, materials, finished goods, labour, capital, prices. After the war many argued that, as these controls had succeeded during the war, they should become a permanent part of the peace-time structure of society. But they have been
confounded by events. Those who predicted woe and disaster unless important industries were nationalised, and unless government controlled and directed the minutiae of everyday life (as they did during the war) have been proved poor prophets. The last two decades have provided a brilliant vindication of two things—the great expansive and creative powers of private enterprise, and the effectiveness of wise and carefully conceived economic and financial planning at the national level. It is the marriage of these two ingredients—once considered irreconcilable opponents—that has produced the tremendous economic progress and the unparalleled national development of the past twenty years.

Of course there have been mistakes—for instance, the failure to keep inflation within reasonable bounds in the 1950's, the speculative excesses of 1960/61. But nothing in life ever works perfectly, and experience had to be gained by both government administrators and business leaders in the conditions of the successful operation of the "full employment economy".

It is not easy in any case to keep an economy moving at or near full stretch without at times leaving the road into the rough and dangerous territory of inflation or, at other times, applying the brakes so abruptly as to severely jolt the passengers. But one of the most significant developments in the last twenty years has been the gain in economic wisdom and discretion by those charged with the execution of national economic policies and with the responsibility for monetary and banking management; with experience has come confidence and self-assurance. On their side, too, business leaders are acquiring a better understanding of the kind of economic policies needed to maintain full employment and steady growth without inflation, and of their own part in helping to make those policies fully effective.

Today, only a tiny minority of people really believe that economic problems can be solved or national prosperity advanced by sweeping political dogmas of an extreme kind. A month or two ago, the Chairman of the President's Council of Economic Advisers in the United States, Mr. Walter Heller, referred to the "decline of the doctrinaire" in economic affairs.
He said that "the recent expansion in the United States had avoided excesses by labour, excesses by management, excesses in economic policy thinking and action. As a result the doctrinaire extremists are on the defensive. They must face the fact that avoiding extremes has brought us a healthier, longer and stronger expansion than we have ever experienced in peace time."

These words are true also of Australia.
Consumer Spending Surveyed

No elaborate statistics are needed to demonstrate the great improvement in the living standards of Australians in recent years. The evidence of one’s eyes is overwhelming. Perhaps the most conspicuous symbol of this spectacular advance is the motor car—once the hallmark of the wealthy and well-to-do.

Nevertheless, it is now possible to give precision to the picture as a result of the new “National Accounts” publication recently released by the Commonwealth Statistician. For the first time we are able to determine in considerable detail the changes that have occurred since 1948/9 in the way in which the average Australian spends his income. If we measure the improvement in living standards by what he spends on the whole range of his personal needs—from tea to television—the rise since 1948/9 (after adjusting for price changes) has been over 20%. But of equal significance with the actual magnitude of the improvement is the changed pattern of his spending. There has been a marked increase in the proportion spent on the comforts and luxuries and a corresponding decline in the proportion spent on the necessities of life.

This changing picture of what the economist calls “consumption expenditure” can perhaps best be presented in “question and answer” form.

Q. By how much has Australian consumption expenditure increased since 1948/9?

A. Between 1948/9 and 1963/4 spending on personal consumption in money terms increased from £1,500 million to £5,300 million. After adjusting for price rises, this represents an average yearly increase of about 1½% per head of population. On the basis of these figures it can be reasonably
concluded that over the past sixteen years Australian living standards have improved by over 20%.

**Q. Has the rise been consistent?**

**A.** No. Real spending per head rose by 3% to 4% a year up to 1950/1, but then fell back under the impact of the anti-inflationary measures imposed in 1951/2. A further big increase occurred in 1954/5, again to be curbed because of balance-of-payments difficulties and fears of a renewal of inflation. Spending per head rose by 4% in 1959/60, but then sagged for several years after the boom collapsed. We are again in the midst of a big expansionary wave in consumer spending with a rise of 3% in 1962/3 and even more for the year just ended.

**Q. Has the pattern of spending altered?**

**A.** Yes, most significantly! The proportion spent on non-durables—clothing, food, drink and tobacco—has declined from 53% in 1948/9 to 44% in 1963/4. But the proportion spent on durable goods—cars, household and electrical appliances, for example—has increased from 10% to 14%.

**Q. Is this trend peculiar to Australia?**

**A.** No. Recent figures published in the United Nations Statistical Bulletin show that in all advanced countries people are spending a smaller proportion of their incomes on food and clothing. Consider the following figures:

**EXPENDITURE ON FOOD, DRINK, TOBACCO & CLOTHING AS A PERCENTAGE OF TOTAL PERSONAL CONSUMPTION**

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1962</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia*</td>
<td>53</td>
<td>44</td>
</tr>
<tr>
<td>Canada</td>
<td>49</td>
<td>39</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>56</td>
<td>52</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>46</td>
<td>35</td>
</tr>
</tbody>
</table>

*Years beginning 1st July.*
Q. What have been the most significant trends in spending on non-durables?

A. The position is summed up in the following table:-

<table>
<thead>
<tr>
<th></th>
<th>Total Expenditure 1962/3 £m.</th>
<th>Expenditure Per Head 1948/9 (Constant £')</th>
<th>Percentage of Total Consumer Expenditure 1948/9 %</th>
<th>1962/3 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>1194</td>
<td>107</td>
<td>106</td>
<td>25.8</td>
</tr>
<tr>
<td>Alcoholic Drinks</td>
<td>323</td>
<td>24</td>
<td>29</td>
<td>7.5</td>
</tr>
<tr>
<td>Tobacco</td>
<td>175</td>
<td>12</td>
<td>15</td>
<td>3.7</td>
</tr>
<tr>
<td>Clothing, Shoes</td>
<td>541</td>
<td>57</td>
<td>48</td>
<td>16.0</td>
</tr>
<tr>
<td>Drugs and Cosmetics</td>
<td>141</td>
<td>7</td>
<td>12</td>
<td>1.8</td>
</tr>
<tr>
<td>Newspapers, Books</td>
<td>86</td>
<td>8</td>
<td>8</td>
<td>1.9</td>
</tr>
<tr>
<td>All other</td>
<td>145</td>
<td>14</td>
<td>13</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td>2605</td>
<td>229</td>
<td>231</td>
<td>60.3</td>
</tr>
</tbody>
</table>

Preliminary estimates suggest that in 1963/4 food consumption per head was roughly the same as in 1948/9. This seems surprising in view of the big increase in incomes.

Part of the explanation may be that the number of children under 10 years old has increased by 70% since 1947 compared with a rise of less than 50% for the total population. It is also possible that the price index used to reduce the money values to real values has been too severe. Over the last 10 years or so there has been a revolution in the preparation, packaging and distribution of food through super-markets and chain stores. These developments have tended to restrain the rise in grocery prices. It may be significant that the Statistician does not allow for “discounts” and “specials” in constructing the consumer price index. The apparent fall in the consumption of groceries is not borne out for most other food items, particularly meat, fruit and vegetables. The emphasis on better packaging and greater variety has led to a change in consumption habits. Instead of porridge and bacon and eggs for breakfast, people now apparently eat more prepared cereals and fruit. Consumption of traditional staples such as potatoes, flour
and jam have fallen but consumption of prepared meats, canned fruit and quick-frozen vegetables is well up. Largely because of “instant” coffees, per head consumption has doubled while tea has declined in favour. Consumption of beer rose from 144 pints a head in 1948/9 to 194 pints by the mid-1950’s. By 1961/2 it had fallen back to 180 pints. In view of the influx of new Australians, the Statistician’s figures surprisingly show no change in the amount of wine drunk per head and also no increase in the consumption of spirits. (The greater proportion of young people and output of domestic production of wines by new Australians could be factors here.) From 50 ounces a head pre-war, tobacco smoking reached 80 ounces a head by the mid-1950’s. It peaked at 88 ounces in 1960/61 and now shows signs of a slight decline. Over the period there has been a switch from sales of ready-cut tobacco to cigarettes and more recently from cigarettes to pipes and cigars. Even since 1957/8, cut-tobacco production has dropped by 30%, but cigarette sales have more than doubled.

The decline in spending on clothing may also be partly due to more young people and the problems of measurement in constant prices. Clothing prices have risen much less than other prices. The “younging” of the population, television, and the motor car may have all engendered a more casual attitude to dress and this possibly accounts for the reduced rate of spending.

The rise in expenditure on drugs and cosmetics is remarkable. There could be a number of explanations. The younger may be more preoccupied with their appearance and the older with their health. The “free medicine” scheme has undoubtedly helped towards filling the family medicine cupboard.

Q. Has the motor car been a major influence on the change in spending habits?

A. Undoubtedly! Not only has buying and running a motor car pre-empted a greater share of income (10% of all consumption spending now compared with a mere 4% in 1948/9), it has created new types of spending—drive-in
shopping centres, drive-in theatres, caravan tours and motels are obvious examples. The following table shows a remarkable increase in spending on motor vehicle acquisition and upkeep. The sharper rise in car operating expenses is largely a consequence of greater mileages run.

### MOTOR CAR EXPENDITURES

<table>
<thead>
<tr>
<th></th>
<th>Total Expenditure 1962/3 (£m.)</th>
<th>Expenditure Per Head 1948/9 (Constant £'s)</th>
<th>Expenditure Per Head 1962/3 (Constant £'s)</th>
<th>Percentage of Total Consumer Expenditure 1948/9 %</th>
<th>Percentage of Total Consumer Expenditure 1962/3 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of Motor Cars</td>
<td>289</td>
<td>11</td>
<td>25</td>
<td>2.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Operation of Motor Cars</td>
<td>200</td>
<td>4</td>
<td>18</td>
<td>1.1</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Expenditure on the purchase and operation of motor-cars appears to have made further substantial gains in 1963/4, both on a per capita basis and as a proportion of all consumer expenditure.

**Q. Has there been a sharp increase in home ownership in Australia?**

**A. Yes.** Over 80% of Australian homes are now owner-occupied. This figure is the highest in the world and well above United States and most other Western countries. Fifty years ago only one Australian family in three owned their home (or were paying it off) and even as late as 1947 the proportion was only one in two. The trend in housing expenditures is set out below.

### HOUSING EXPENDITURES

<table>
<thead>
<tr>
<th></th>
<th>Total Expenditure 1962/3 (£m.)</th>
<th>Expenditure Per Head 1948/9 (Constant £'s)</th>
<th>Expenditure Per Head 1962/3 (Constant £'s)</th>
<th>Percentage of Total Consumer Expenditure 1948/9 %</th>
<th>Percentage of Total Consumer Expenditure 1962/3 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-occupied</td>
<td>354</td>
<td>13</td>
<td>29</td>
<td>4.4</td>
<td>7.1</td>
</tr>
<tr>
<td>Rented</td>
<td>129</td>
<td>16</td>
<td>11</td>
<td>3.5</td>
<td>2.6</td>
</tr>
</tbody>
</table>
Q. Have expenditures associated with housing also risen significantly?

A. Yes. But not uniformly, as the table below shows:

**EXPENDITURE ON DURABLE GOODS AND OTHER ITEMS RELATED TO HOUSING**

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Expenditure 1962/3 £m.</th>
<th>Expenditure Per Head 1948/9</th>
<th>Expenditure Per Head 1962/3 (Constant £'s)</th>
<th>Percentage of Total Consumer Expenditure 1948/9 %</th>
<th>Percentage of Total Consumer Expenditure 1962/3 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>118</td>
<td>11</td>
<td>11</td>
<td>3.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Electrical Goods</td>
<td>182</td>
<td>8</td>
<td>17</td>
<td>2.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Other household Durables</td>
<td>89</td>
<td>7</td>
<td>8</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Fuel, light and power</td>
<td>147</td>
<td>8</td>
<td>13</td>
<td>2.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

In view of the increase in housing expenditures, it is remarkable that spending on furniture and other household items such as hardware should have remained so steady. The main increase has been on electrical goods — first, the refrigerator and washing machine boom and, later, in the 1950's, the television, transistor and long-playing record. Greater use of domestic appliances has undoubtedly led to the proportionately higher expenditure on fuel and power.

Q. Has the tremendous emphasis on ownership of homes, cars and other durables increased the vulnerability of Australians to debt?

A. Undoubtedly there has been a great rise in personal debt since 1947. It now approaches £2,750 million of which some £2,200 million is due to housing. Personal debt as a proportion of personal income after tax has grown as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Housing</th>
<th>Cars</th>
<th>Other H.P. debt</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>12</td>
<td>1</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>1955</td>
<td>25</td>
<td>3</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>1963</td>
<td>40</td>
<td>5</td>
<td>5</td>
<td>50</td>
</tr>
</tbody>
</table>

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Before the War and even after the War many people were reluctant to enter into heavy debts for a home, a car or even a refrigerator because their employment and incomes were not secure. All this has changed in the modern full employment economy where there is virtually a job for everyone. The habit of buying widely on terms has not harmed the American economy and it is hard to see the general run of Australians getting into serious trouble with their debts.

Q. Are Australians spending much more on services?

A. Overall there is no notable increase in spending per head, a large rise in some items being counterbalanced by a fall in spending on others. In 1962/3, food, drink, tobacco, clothing and other non-durables, housing, household equipment, and transport accounted for 82% of Australian expenditures leaving 18% which was spent on services. This proportion has not changed noticeably since 1948/9. The principal items of Australian expenditure on services are set out below:

<table>
<thead>
<tr>
<th>PERSONAL EXPENDITURE ON SERVICES</th>
<th>Total Expenditure</th>
<th>Expenditure Per Head</th>
<th>Percentage of Total Consumer Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1962/3 £m.</td>
<td>1948/9 (Constant £'s)</td>
<td>1948/9 %</td>
</tr>
<tr>
<td>Fares</td>
<td>167</td>
<td>19</td>
<td>4.7</td>
</tr>
<tr>
<td>Medical, hospital</td>
<td>157</td>
<td>9</td>
<td>2.2</td>
</tr>
<tr>
<td>Entertainment</td>
<td>82</td>
<td>10</td>
<td>2.5</td>
</tr>
<tr>
<td>All other — (School fees, insurance, hairdressing, dry cleaning, etc.)</td>
<td>480</td>
<td>35</td>
<td>8.9</td>
</tr>
<tr>
<td></td>
<td>886</td>
<td>73</td>
<td>18.3</td>
</tr>
</tbody>
</table>

The fall in spending on fares is substantially due to the competition of the motor car. The big rise in medical and hospital services is difficult to understand unless it means that people have been encouraged to devote more attention to their health because of government medical and hospital schemes and benefits. The fall in entertainment expenditures is probably mainly due to the decline of the picture theatre.
Q. Has the large increase in spending on personal consumption led to a decline in savings relative to incomes?

A. No! In 1963/4 savings represented 11% of personal income after tax compared with just under 10% in 1948/9. The current level of savings in Australia is high by international standards, particularly when account is taken of the fact that taxes are used to finance public works to a greater degree in Australia than overseas.

Q. Summing up, what are the main factors that have influenced the change in Australian spending habits since 1948/9?

A. Many things have undoubtedly contributed, but the main ones would appear to be:-

1. The higher level of incomes leaving more scope for “discretionary” spending after basic needs have been met.

2. Full Employment and the greater sense of financial security, making people more ready to incur debts.


4. The “American” trend in Australia, particularly the acquisition of motor cars and durable goods on credit and food production and retailing.

5. Technological progress and the development of new products.

6. Changes in the population structure—more young people, more migrants with different tastes and so on.

7. The drift to the cities. Only 18% now live on the land compared with 31% in 1947.

8. Increased leisure—since 1948 the standard working week has been reduced, annual leave increased, and long service leave introduced.
For some years now there has been a great deal of debate on the level of taxation in Australia.

One school of thought has argued that in view of the serious shortcomings in many of our public facilities and services—roads, water supply, transport, education, hospitals and many others—the community should be prepared to pay substantially higher taxes so that these deficiencies can be remedied; it has also pointed out that the scale of government-provided social services, such as pensions and sickness benefits, is very much less than in many other countries.

This school has been accustomed to support its view by claiming that the tax burden in Australia is much lighter than in these countries and that therefore ample scope for raising taxes without damage to the economy. It has measured the relative burden of taxes in the different countries by a simple comparison of the ratios of total tax revenues to Gross National Product. This method of comparing the tax burden was repeated in a recently published report, "Taxation in Australia—Agenda for Reform", produced by a Committee of four prominent University economists—R. I. Downing, H. W. Arndt, A. H. Boxer and R. L. Mathews—with the conclusion that Australia is "the most lightly taxed of all western industrialised countries".

An article in the last number of "Review" entitled, "International Comparisons of the Tax Burden", criticised this basis of assessing the relative burden of taxation in different countries. We argued that if in country A, tax receipts as a percentage of G.N.P. amounted to say 25%, whereas in country B, the percentage was say, 20%, it did not necessarily follow that the burden of taxes in A was greater than that in B.

Following the publication of our article we received a letter from Professor R. I. Downing who is Ritchie Research Professor of Economics at the University of Melbourne and, later, a joint letter from the four authors of the above-mentioned Report. These letters led to an exchange of correspondence between the Director of the Institute, Mr. C. D. Kemp and Professors Downing and Arndt. Professors Downing and Arndt have kindly consented to the publication of this correspondence in "Review".

The correspondence not only highlights the differences of viewpoint between the I.P.A. and the University economists on the matter of tax comparisons between different countries, but also, and perhaps more important, on certain broader issues of national economic policy, particularly the practicable magnitude of government spending in the Australian economy.

We hope it will be of interest to readers of "Review" and to students of Australian economic problems.

I cannot be happy about your comments on "International Comparisons of the Tax Burden" in which you question the validity of the statement by a group of economists, under my chairmanship, that Australia is the "most lightly taxed of all western industrialized countries".

You claim that comparisons of the tax burden between different countries must take into account the extent to which taxes are used to finance cash benefits such as pensions because these taxes, while a burden on some people, cannot be considered a burden on the community as a whole since they merely transfer income from one section to another. As benefits of this nature are much more extensive in Western European countries than in Australia you argue that this reduces the disparity between the burden of taxes in those countries and Australia. But your adjusted figures still show Australia well below the other countries in terms of taxes as a percentage of G.N.P. In any case, if one compares Western Germany where, as you say "all workers are guaranteed 75% of their most recent earnings on retirement (you do not add the fact that this pension is automatically increased after retirement in step with subsequent movements of the index of average earnings) and 90% of their current earnings in the event of illness", with the position in Australia where retirement allowances are much less generous in amount and usually not protected against erosion by taxation, and where sickness benefits are very small, does not the higher tax burden incurred by Western Germany gain in attractiveness?

It is precisely because social provisions in Australia are relatively low, and the alternative private provisions are both burdensome and unsatisfactory, that there seems to me a good case for improving social services in Australia, and welcoming an increase of taxes if that is necessary to finance them.

You rightly say that America and Canada, being richer than Australia, have a greater capacity to pay taxes than Australia. But the same argument implies that Australia has a greater capacity to pay taxes than any other country with the possible exception of Sweden (who anyhow pays 31% of G.N.P. in taxes compared with our 22%).

In paragraphs 13 to 51 and Table 7 of our tax report we also make the point that Australia stands higher in the international league table of personal income taxes (excluding social security contributions) as a percentage of G.N.P. than she does in other tax comparisons. But we conclude that "even after (appropriate) allowances have been made, she still comes far below such socially progressive countries as Sweden, New Zealand and Denmark in her reliance on direct taxes, however narrowly defined".

You point out that an abnormally high proportion of Australian taxes (in fact nearly 50%) is used to finance public works and government capital expenditures. You argue that taxes to finance these projects, the financial benefits of which are often postponed to the distant future, impose a much heavier burden on the taxpayer than taxes used to finance such things as social security and medical and educational services. But what about the much higher defence expenditures carried in many other countries' budgets? Nobody ever gets any direct financial benefit from defence expenditure. What indirect benefits of national security are obtained accrue to the Western alliance as a whole, including Australia.

Finally, if I have written and said publicly many times that Australia is lightly taxed, you have perhaps even more often quoted Colin Clark's dictum that 25%
of national income was the outside limit to which taxes could be raised. (Clark claims that this view was supported by Lord Keynes.) Two points can be made against his dictum. First, the whole of your own article is an argument that the burden of taxation can be judged only in the light of the services provided by means of the tax revenues raised. Secondly, whatever may be the validity of the guess of Lord Keynes (who died before the event) about the tolerable limits of taxation in Great Britain after the war, does not the experience of Western Germany in avoiding inflation and achieving growth more successfully than any other western country, while carrying a tax burden of well over 34% of her national income, throw doubt on the Clark dictum?


I was very interested in your letter; it seems we are fated to disagree. I doubt whether it is possible to prove conclusively that there is one right way, one right course of action, in all these problems that beset us. Just because one country does things in a different way from Australia, does not necessarily prove that it is right and we are wrong. For instance, you say New Zealand is a "socially progressive" country, implying that Australia is less so, but I doubt whether you would be prepared to argue that New Zealand was an economically progressive country compared with Australia. It is possible that New Zealand has paid a big price for being so "socially progressive" and that price is a much slower rate of economic progress.

Our only concern in the tax article was to question whether measurements of tax as a percentage of G.N.P. were an adequate basis for comparing the burden of taxes in different countries. We put up various arguments to suggest that they were not. Whether Australia should have much more extensive social security provisions—on the level, say, of the Scandinavian countries—is another problem. My own inclination is in favour of leaving much more than you apparently would to the personal responsibility of the individual and I am inclined to think this is the general view of most Australians. Perhaps we are wrong. But one thing is certain: if you take a far greater proportion of people's incomes, either through taxes or compulsory contributions, to pay for social services on a "Scandinavian" scale, then obviously they will be far less able to make provision on their own behalf. I think, as far as possible, and beyond a certain decent minimum, it is wise to encourage people to look after themselves and to develop the spirit of self-reliance. I think the concept of social services in Australia—which began to gain acceptance around the end of World War II—is that of protecting people against poverty and destitution that might result from forces outside their own control, or even to some extent because of their own mistakes. This was a kind of National Minimum—a floor of social security. With advancing G.N.P. and standards of living I think it was believed that the National Minimum should be advanced too—or the floor raised. Over and above the Minimum, the individual should be encouraged to make his own provisions against the rainy day. But I think this conception—which also applies to some extent in Britain and in the North American countries—is a very different one from the idea (largely implicit in the
schemes of many European countries) that the State should virtually assume the entire responsibility for the provision of social services, with little or nothing left for the individual or private sources to do.

There is another consideration that enters here. By and large, and whether rightly or wrongly, I think the Australian people are firmly opposed to any substantial general increase in the taxes they pay. Now you may regard this attitude as misguided, but it does exist as one of the political facts of life. I do not mean by this that you and others with similar ideas should not attempt to change this attitude, if you believe it to be wrong. But you have to be prepared for disappointments. Your report seems to indicate some awareness of this obstacle.

I don’t think that what you say in your letter invalidates Clark’s “25%” dictum. It is, of course, true that the real burden of taxes is affected by the way in which the taxes are spent. But it is also surely affected by the amount of the taxes. A tax system which amounted to 40% of G.N.P. must, other things being equal, be a heavier burden on the community than one which takes only 20%. There must surely come a point where the sheer volume of taxes begins to impose an over-heavy burden on the community with adverse effects on their incentives to produce and to indulge in enterprise. Clark, rather arbitrarily admittedly, suggests that this point comes at about 25%. Perhaps he puts it too low; on the other hand it may be worthwhile moving warily when taxes start to get much above this point.

I think it is a mistake to reason too readily that what has been done in one country should (and can) be done in another. Countries differ widely in their problems, in historical setting, the stage of their economic development, the political temperament of their peoples. It is true that Western Germany has achieved an astonishing rate of development, despite a very high level of taxes. But a whole host of extraordinary factors contributed to the German “economic miracle”—not the least being the tremendous refugee influx of highly skilled workers, scientists and professional men. You must remember that post-war Germany started from nothing and had tremendous initial external aid, particularly from the Marshall Plan, and worked day and night to pull herself up by her own boot-straps.

Moreover, the German tax system has many special features that have to be taken into account. Professor Henry Wallich of Yale University who made a special study of the German “economic miracle”, pointed out that under Erhard the basic tax structure was entirely altered. “Whoever made money was allowed to keep most of it under a system that forgave taxes to those who saved and invested”. Incentive-killing income taxes were reduced; customs, excise and sales taxes were greatly increased. Special tax concessions were granted to business, investors and savers. Accelerated depreciation for capital expenditures was introduced. Tax rebates up to 100% were extended to exporters. Businesses were able to keep and plough back a large part of the big profits made in the early years after currency reform. Professor Wallich says that tax privileges led to severe inequalities of income; but this was the price that had to be paid for high saving and high investment. “ ‘Fair shares ’”, writes Wallich, “may have over-burdened the strong and all might have sunk together. By being allowed to save their own skins first they were put in a position where they could pull the rest after them. The rapid advance of the economy helped everybody.”
I hardly think you would have been prepared to go along with this kind of policy; indeed in your Tax Report you are advocating a tax system which is precisely the opposite of that followed in Western Germany—i.e. higher taxes on personal incomes and business, and lower indirect taxes.

The fact—mentioned in your letter—that some other countries have much higher defence budgets than Australia might be used to cast further doubts on your argument. The United States, Canada, Britain, France, may be willing to pay very high taxes where they feel their eventual survival is at stake. Does it follow that they would be prepared to support such a high level of taxes under other conditions? If you deduct taxes used for financing defence I think you would find that, as a % of G.N.P., taxes in the U.S.A. and Canada are well below the Australian level and in Britain not greatly above. If Australia were to spend less on its development, it could no doubt spend more on defence and social services. It is just not possible to have everything—and a choice has to be made. But you no doubt want more money for social services, more for education and possibly more for development and more for defence.

I would hope that we can continue to debate these issues without rancour, in a friendly spirit, and with as much intellectual integrity as any one of us can expect to bring to bear on questions where the judgments of all of us are influenced by our own experiences, our own everyday environment and our own particular prejudices and biases.

Incidentally, I said in the tax article that I thought your report had many admirable features and is, in many respects, a first-class piece of work.


I agree that it is difficult for us to agree. You should acknowledge though that, in all I've said on social services, I have argued for retention of the means test so as to keep social services for those who need them. There are advantages in maintaining private provision—e.g. for retirement. But if you are to do this, you must provide some protection for the self-providers against erosion of their savings by inflation. Hence our suggestion for a Supplementary Superannuation Scheme—which seems to me essential if you are not to have a (generous) National Superannuation Scheme of the German sort.

Therefore I would argue that the price of not raising Australia's tax of 22% to Germany's 34%, is raising it by the two or three percent needed to improve social services to the point where they are meeting needs for minimum protection.

Of course, I do want more public spending on social services, education, development and defence.

I enclose a letter drafted by Professor Heinz Arndt of the National University and signed by all four signatories of our taxation report.
My colleagues and I had hoped that a responsible and influential journal like the "I.P.A. Review" would submit our study of the Australian tax system and our proposals for its reform to searching, critical and expert examination. We are therefore disappointed to find your only response to our report is to react—like the proverbial bull to the red rag—to a passing factual statement that the ratio of taxation to national product in Australia is lower than in other western industrial countries.

Every international comparison in economics does, as you say, "greatly oversimplify what is, in fact, an intricate and difficult exercise". Our international comparison of tax ratios (taken in the main from a study by the National Institute of Economic and Social Research, London) is no exception. But we confess we are not very impressed by the particular objections you advance.

In effect, you make five points. (i) Some countries, like Germany, have higher tax ratios than Australia because they have more extensive government-financed pension and other social welfare schemes. (ii) Other countries, like Sweden, have higher tax ratios because they have more extensive state education systems. (iii) Among the western countries with higher tax ratios than Australia, two (United States and Canada) have higher per capita incomes. (iv) Among the western countries with higher overall tax ratios than Australia, three (France, Belgium, Canada) have lower ratios of personal income tax to G.N.P. (v) "The burden on the present taxpayers is all the greater" in Australia because here much public investment is financed from taxation.

The first two points are quite valid—it would be surprising if the countries with higher tax ratios did not have something to show for them in the form of more extensive government welfare, education or other services. But it is hardly necessary to point out that they give little comfort to anyone who should wish to argue against better government social welfare or education services in Australia on the ground that taxation is already too high. The force of point (iii) is considerably weakened by the fact that all other western countries with higher tax ratios than Australia—Germany, Austria, Finland, Norway, France, Sweden, Luxembourg, Britain, Netherlands, Italy, Denmark, Ireland and Belgium—almost certainly have lower per capita incomes than Australia. The force of point (iv) is similarly weakened by the fact that five other, and no less respectable, western countries—Britain, United States, Sweden, New Zealand, and Netherlands—have higher ratios of personal income tax to G.N.P. than Australia. Point (v) we quite fail to understand; we cannot see why the burden on any of us of £100 income tax is greater if the government spends the money to build roads than if it spends it on salaries of public servants or old age pensions.

We are surprised to find you trying to revive Mr. Colin Clark's discredited "25% Law", a decade after it had been given a decent burial (see, e.g., Pechman and Mayer, "Mr. Colin Clark on the Limits of Taxation", "Review of Economics and Statistics", August, 1952). We can only assume that you would wish us to regard Western Germany, with its 34% tax ratio and its 7½% rate of growth as the exception which proves the rule that "when taxation exceeds 25% of national income people start to 'set store on leisure' and restrict enterprise and output".
To end on a more serious note, we hope that you will not treat the bit of fireworks in the last issue of the “I.P.A. Review” as the sum total of thought and space you can devote to questions of tax reform. We suggest, without false modesty, that the issues we have discussed in our report—though not necessarily our proposals for reform—are worth more serious attention than you have given them so far.

Signed
R. I. Downing
H. W. Arndt
A. H. Boxer
R. L. Mathews

Reply: From C. D. Kemp,
Director, Institute of Public Affairs, 30 July, 1964.

I was very interested to receive your further letter and also the enclosed letter signed by you and your colleagues.

I think the differences of viewpoint between us undoubtedly have their roots in a conflicting conception of the role of government spending in a modern economy. Many times in the past I have found myself at variance with you and Heinz Arndt on whether Australian governments should spend a great deal more, not only on social services, but on education, hospitals, public works and all the rest. I have argued that you cannot push public spending too far in these directions without giving rise to inflation. This may be not so much a difference of political viewpoints, as a difference about what is practicable in the Australian economic and political context. You say in your letter that you not only want 2 or 3 per cent additional tax in order to improve social services but you also want more public spending on education, development and defence. My argument is that we cannot have these additions (on any scale) all at the same time and we are therefore forced to make choices, or, in effect, to set priorities.

This does not mean that I do not agree with you that there are serious inadequacies in many directions—roads, water supply, sewerage, defence and education are just a few. But there will always be inadequacies in these things, just because, as a community, we will never be as wealthy as we would like to be: I personally would like to have many more things—say a better motor car for my wife—and no doubt there are some things you would like more of too. I hardly know of anyone who thinks he has enough. We all want much better roads on which to drive our cars, but how many of us would be prepared to pay a really large increase in our tax in order to get them?

This is just the time-honoured economic problem of “scarcity of resources” and when it ceases to exist there won’t be any economic problem. To want substantial increases in public spending on all these things at once is, I suggest, buying for the moon. One of the reasons why overseas countries can have more extensive social services than us, and perhaps spend more on education and other things, is that they haven’t got our massive problem of development with such huge amounts of public moneys necessarily being directed into public projects. I have argued many times that you can have higher living standards in the present if you are prepared to put up with a slower rate of development. But you and your colleagues certainly don’t want that. Nor do I!

I think this matter of government spending is the real nub of the difference between you and some of your Univer-
sity colleagues on the one hand, and my-
self on the other—and has been right
through the piece.

To my mind Clark's 25% dictum has
not been satisfactorily disposed of—
simply because when you push taxes too
far people will make all sorts of adjust-
ments to their way of life to try to protect
their personal standard of living. They
will reduce their savings. Businessmen
will raise prices; wage and salary earners
will seek pay increases; there will be
liberal use of expense accounts and other
devices; people will seek additional
moneys from stock exchange and other
speculation. In all sorts of ways pres-
sures will build up which will promote
inflation and, in effect, give rise to a
pitched battle for scarce resources. This,
I believe, is the real core of Clark's argu-
ment. (He has repeated his theme in a
booklet just published—entitled "Tax-
manship").

I don't think it is worth trying to con-
test all the detailed points in the letter
you have signed jointly with your
colleagues except to express some sur-
prise that you have repeated the argu-
ment about Western Germany and its
high rate of growth in spite of heavy
taxes. I suggest—and I thought I had
established this point in my previous
letter—that there is no analogy at all be-
tween conditions in that country and
those in Australia.

Every right-thinking person wants to
see justice done in economic matters; but
what is "equity"? You seem to see it
rather too simply in terms of disparities
between different incomes and to assume
that any action that reduces these dis-
pairies is a movement in the right direc-
tion. This may be so, but is not neces-
sarily so.

I agree that many of the issues raised
in your tax report are worth more serious
treatment than we have been able to give
them in "Review". Indeed, we strongly
implied this when we said in our article
in "Review", that the report had many
admirable features. I am surprised that
your report has not created more public
discussion. This is a great pity. But the
point in the report we selected for criti-
cism is not unimportant because it is
clearly introduced as a basis for arguing
for a substantial increase in taxes in Aus-
tralia. What we have said, in effect, is
that the figures of taxes as a percentage
of G.N.P. cannot be taken at their face
value, that you have to look behind the
bare figures to try to determine what they
mean. I believe this to be profoundly true
—not only of these figures but also of
aggregate measurements covering the
whole range of our economy. I have
argued before that these aggregate figures
are used much too blithely in analyzing
practical economic issues and in propos-
ing policies to deal with them. To get to
the truth of things we have to try to get
behind these figures to see what they
really mean. This is admittedly not easy,
but it is to my mind the beginning of
serious economic analysis.

I have been interested in our discus-
sions and hope it will be the precursor
of more to come. I am enclosing copies
of this letter which you will no doubt
wish to circulate to your colleagues.
From: Prof. H. W. Arndt,
Australian National University, Canberra, 4 Sept., 1964.

I have now had an opportunity to see Professor Downing's letter of July 15 and your reply of July 21.

You now make four further points:
(a) Social services should not be extended to the point where little or nothing is left for the individual or private sources to do. (b) The Australian people are firmly opposed to any general increase in the taxes they pay. (c) There must come a point where the volume of taxes begins to impose an over-heavy burden on the community. (d) The United States and other countries are willing to pay higher taxes than we for defence but would not be willing to do so for development or social services.

All four propositions may be true, although personally I have some doubt about the validity of the second and fourth. But I am quite unable to see their relevance to the original question between us, whether the ratio of taxation to national income in Australia is lower than in all comparable countries and whether Australia can therefore be said to be 'the most lightly taxed of all western industrialised countries'.

Final Note from C. D. Kemp, Institute of Public Affairs.

The question of whether the ratio of taxation to national income provides a satisfactory way of comparing the burden of taxation between different countries is a severely technical one. But those who have used this ratio for purposes of comparison have linked the comparison with the view that Australia should pay higher taxes to finance more government spending on social services, education, roads and other public facilities.

We have been concerned to show that conditions in other countries, which may pay higher taxes, are different from those in Australia and that it cannot be argued that what may be right and practicable for them is necessarily either right or practicable for us. We have argued that if government spending is increased in all the different directions advocated by many University economists, and taxes raised to finance the increased expenditure, the result will be inflation.
In August this year the I.P.A. published a book of biographical essays comprising character studies of four businessmen who achieved great prominence in the business and public life of Australia. The essays were written by the Director of the Institute, Mr. C. D. Kemp.

The subject of the essays—Sir Herbert Gepp, Sir Walter Massy-Greene, Sir Leslie McConnan and Mr. Geoffrey Grimwade—all played a big part in great events that have had a determining influence on the shape of present-day Australia. All four were also closely associated with the foundation and development of the Institute of Public Affairs.

Although the market for a book of this kind is necessarily limited, we are already in sight of sales of the first thousand copies and a further steady flow of orders is anticipated from book-sellers throughout Australia.

For sales we must largely look to the interest of the I.P.A. subscribers, businessmen and business organisations. It is very desirable that Australians generally should have a more clearly defined “image” of Australian business and its leaders, and their contributions to our industrial and economic progress and to the life of the community.

Copies of “Big Businessmen” may be obtained from the Institute. The cost is 27/6, including postage.