The 1966/67 Budget

Mr. McMahon's first Budget commands respect. In shaping the Budget, it is not easy for a Treasurer, in any year let alone an election year, to refrain from attempting to win at least some small measure of popular acclaim. Mr. McMahon has shown firmness in refusing to succumb to this temptation. The Budget makes little, if any, concession to popular tastes; it has clearly been tailored strictly to fit the Commonwealth Government's conception of the national needs.

In the weeks preceding the Budget an expectation grew that this year would see some small reductions in taxation — for instance, there was talk of the removal of the 2 1/2% income tax levy imposed in the previous Budget and also of concessions for the family taxpayer. The economy, although fully employed, had a subdued tone. In particular, there was some concern, even in Government circles, over the sluggish state of consumer demand. In these circumstances, it might not have been difficult for the Treasurer to justify some minor tax concessions. Certainly few would have accused him of financial irresponsibility if he had seen fit to do so. The Government, however, was content to take the line that the recent wage rise, along with the anticipated improvement in farm incomes, would provide a stimulus to consumption spending, adequate in the context of the economy as a whole.
The tremendous jump in defence expenditure has clearly been a decisive factor in the pattern of this year's Budget. While a large rise in the defence vote was to be expected, the magnitude clearly came as a surprise to everyone. The increase of $252 million has brought total annual expenditure on defence close to the round figure of $1,000 million. Thus, in the space of two or three years, defence, which had been a comparatively insignificant item in the totality of the Budget, has become almost a dominant feature. Defence now makes up 17% of total Commonwealth expenditure and represents just on 5% of the GNP. In 1962/3, it comprised only 10% of the Budget and little above 2% of the GNP. This latter percentage was spectacularly less than in other countries of the Free World. The Commonwealth Government was accustomed to justify its low rate of defence spending on the grounds that Australia had unique problems of rapid development and population expansion demanding a concentration of effort and resources in these fields. The argument was that the build up of population and industry was as necessary to Australia's future security as enlargement of the defence establishment.

Now, faced with the urgent need for strengthening Australia's defences, the Government is, understandably, reluctant to curtail the pace of development. (Indeed, since the Budget the migration target for the current year has been increased to 148,000; 4,000 above last year.) The policy of building up population as rapidly as possible by large-scale migration puts Australia in an almost unique category among the countries of the Free World. Along with the special development problems of a country such as Australia, the immigration programme imposes tremendous pressures on governments for the provision of public facilities of all kinds — power, roads, houses, sewerage, schools, hospitals and the rest. In the current year Australia will spend almost 10% of its GNP on public works, compared with around 7% in France and the United Kingdom (where large sections of the economy, particularly in France, are under Government ownership), 5% in Germany, 3% in the United States, and a remarkable 2% in Japan. Now that we are confronted, in addition, with a rate of defence expenditure more comparable with that of other countries in the Free World, the demands on the Budget are intensified. Indeed, it is difficult to see how the claims of national
security and rapid development can be reconciled with the kind of booming, expanding consumer economy we would all like.

These are the inescapable national imperatives behind the pattern of Mr. McMahon's Budget. At the same time, it is human nature to want rising living standards in the present and this places both economic and political limitations on the options open to the budget-makers. Taxes are now high, and further increases would be likely to encounter political and industrial resistance. They would also run the risk of reducing incentives to enterprise and work. (It is not perhaps generally realised that government receipts from all sources, including borrowings, now exceed 30% of GNP compared with 26% in the last year of the Chifley Labor Government, when there was widespread clamour for reduced taxes.) The Budget Speech recognises this dilemma.

"This problem just cannot be solved or evaded by some conventional process of turning the screws a little harder and then a little harder again — that is, by increasing taxation to cut back consumption in order to release resources and when this has been done to increase defence expenditure and provide for more development. Beyond a point that sort of process can have adverse effects on the economy. It can set up reactions which are liable to defeat the original purpose. Carry it too far and it will lead to unemployment and that obviously would be helpful neither to defence nor to progress."

These important considerations have led the Government to refrain from imposing tax increases, notwithstanding an estimated $551 million lift in total Commonwealth expenditure from $5,385 million in 1965/6 to $5,936 million in 1966/7. The main increases contemplated are —

<table>
<thead>
<tr>
<th>Defence</th>
<th>$252 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money for the States</td>
<td>146 „</td>
</tr>
<tr>
<td>Social Services</td>
<td>79 „</td>
</tr>
<tr>
<td>Departmental Running Expenses</td>
<td>47 „</td>
</tr>
<tr>
<td>Commonwealth Public Works</td>
<td>37 „</td>
</tr>
<tr>
<td>Business Undertakings</td>
<td>29 „</td>
</tr>
<tr>
<td>Immigration</td>
<td>21 „</td>
</tr>
<tr>
<td>Territories</td>
<td>15 „</td>
</tr>
</tbody>
</table>
As total receipts from all sources, including borrowing from the public and the U.S. defence credit ($114 million), have been estimated at $5,666 million, there is a budgeted cash deficit of $270 million. The size of the deficit is considerable and, at first sight at least, it seems to support the intention of the Treasurer (made clear in the Budget Speech) that the general effect of the Budget should be expansionary.

* * * * *

From the point of view of the economist, and also of the businessman, the impact of a national budget on the economy is of paramount interest. Will the net effect be to increase total demand and thus help to stimulate the economy to a higher pitch of activity? Or will the budget tend to depress demand and thus have a sobering influence on economic and business conditions? Concerned no doubt with the rather subdued psychological tone in many business circles, and with the sluggish state of the consumption sector which comprises such a large proportion of the whole economy, the Government intends that this year the Budget should have an expansionary bias.

The strength of the stimulus to the economy provided by the Budget is, however, anything but easy to assess. The size of the cash deficit used to be taken as a rough measure of the initial addition to demand provided by a budget. But over the last few years, the staff of the Commonwealth Treasury have developed much more refined techniques, which make the conventional deficit or surplus concept look extraordinarily crude.

An important feature of the new analysis (which appears in Statement 6, an attachment to the Budget Speech) is the demonstration that the net addition to spending provided by the budget depends, among many other things, on how much of the budgeted cash deficit is represented by expenditure in Australia, as against expenditure overseas on imports. Since spending on imports will clearly have no immediate direct effect in boosting internal demand, allowance has to be made for this in assessing the impact of the Budget on the economy.
When spending on imports is excluded, the budgeted deficit of $270 million is reduced to $155 million so far as the effect on Australian demand is concerned.

In treatment and tone, this year’s Statement 6 is significantly different from last year’s. The analysis has been refined and improved but, in the process, its authors seem to have become less confident in the utility of their methods for measuring the Budget’s economic effects. In their gallant attempt to determine the economic impact of the budget, it is as if the Treasury staff, in probing deeper and deeper, had uncovered new and unexpected obstacles to the achievement of the central purpose of the whole exercise.

The root of the difficulty seems to stem from the fact that the actual outcome of the budget is likely to be substantially different from the budget estimates which are necessarily based on a prediction of economic developments that cannot hope to be, at best, more than approximate. These developments will affect the amount of tax revenues actually collected by the Government. They may also substantially influence the size of the Government’s borrowing from the public. And these things, in turn, will affect the amount of the actual deficit and thus the stimulus provided by the budget to the economy. For instance, this year the Treasurer has taken what many experts believe to be an extremely conservative view of the amount the Commonwealth will be able to borrow from the public ($100 million less than last year). Should his estimate prove to be considerably below actual loan raisings then, other things remaining the same, the cash deficit will be reduced and the Budget will, to that extent, have a less expansionary impact on the economy than is at present contemplated.

Despite the intellectual sophistication and probing brilliance of the analysis, Statement 6 seems like an attempt to measure the unmeasurable — there are too many inter-acting variables and unknowns for even an approximate mathematical determination of the budget’s economic effects. But for all that the Statement has considerable value. Indeed, its authors would be well advised to continue their investigations for publication in future Budget papers. The Statement has, for one thing, a very definite usefulness in revealing the limita-
tions of the budget as a weapon of over-all economic control. A budget is far from a precision instrument. When all the calculations have been made and the figuring has been done, the final form of the budget, the size of the surplus or deficit itself, a decision to balance receipts and out-go, are matters which, like so many things in applied economics, depend heavily upon human intuition and judgment. Several significant sentences in Statement 6 support this view. One reads:

"It (i.e. the analysis) is however but one piece in the jigsaw; taken alone it can yield useful guidance as to the 'initial impact' of the budget, but it cannot itself indicate whether that initial impact will, in conjunction with other forces operating or likely to operate in the economy, prove appropriate to the objective of maintaining full employment within the context of a growing economy."

In the modern full employment economy, the national budget is a blunt, clumsy and rather ineffective instrument for inducing changes in total demand and for thus regulating the tempo of economic conditions. Indeed, its function seems to be reverting more and more to the limited pre-Keynesian concept of the budget: that of determining the appropriate level and fields of government expenditure and then of finding the money to meet them. For one thing, the budget is only an annual event and sudden, unpredictable changes in the economic climate are almost certain to take place during the year, and these changes are likely to call for immediate remedial action either through monetary policy or special measures. Indeed, Federal Treasurers in recent years have been accustomed to mention somewhere in the Budget Speech that measures supplementary to the Budget may be required during the year to maintain economic balance. This year's Budget Speech was no exception.

"We do want resources to be fully and effectively employed. This is not an easy task and will require both sensitive judgment and continued attention. We must always keep in mind the possibility of significant changes occurring both at home and abroad which could affect the prospect of achieving our goals. We do say that we will be ready to meet the changes and shall do our best to see that our objectives are achieved."

Already, since the Budget, one or two developments in the economy are causing some concern, particularly declining
demand in the motor trade on which so many other industries depend. The months to come may show whether corrective government action is required.

*   *   *   *   *

INTELLECTUAL qualities of the rare order which have been responsible for the production of Statement 6 could be turned, with great prospective profit, to an examination of the tax structure and the alternative avenues available for raising the immense revenues the Commonwealth now needs. The level of taxation is now pressing against the ceilings of the politically practicable and economically desirable. Since government expenditures in today's economy make such heavy demands on the nation's resources, it is imperative that the money required to meet these expenditures should be raised in ways least harmful to the economy. In particular, the present income tax scale is falling very heavily on the middle income brackets making it difficult for people in these income ranges to benefit as much as they are entitled to from their enterprise, professional skills and the responsibilities they carry. This is a big and important subject which cannot be considered here, but it is one worth the Treasury's attention.

*   *   *   *   *
I.P.A. Council

Mr. Henry R. Harper

Mr. Harper, a member of the Council of the Institute for over twenty years, died on July 24, 1966. Throughout his long association Mr. Harper maintained an unflagging interest in I.P.A. affairs, and he will be greatly missed by the Council and Staff.

Mr. Herbert Taylor, C.M.G.

Mr. Taylor, who joined the I.P.A. Council in 1945, recently tendered his resignation owing to ill health. Mr. Taylor was a member of the Executive Committee of the Institute for seventeen years. His public spiritedness, wide knowledge and experience of national affairs, and great enthusiasm for the work of the Institute made him an invaluable member of the Council and the Committee. His retirement is deeply regretted.

New Members of Council

Mr. A. S. Grimwade, Mr. H. M. Lightfoot and Mr. G. M. Niall have accepted invitations to join the I.P.A. Council.

Mr. A. S. Grimwade

Mr. Grimwade is Managing Director of the Carba Industries Group and a Director of the National Bank of Australasia, Commonwealth Industrial Gases and Cuming Smith. Mr. Grimwade will continue a family association with the I.P.A. established by the late Mr. Geoffrey Grimwade, who played such an outstanding part in the early years of the Institute’s work.

Mr. H. M. Lightfoot

Mr. H. M. Lightfoot is Chairman of Nicholas Pty. Ltd. and Chairman of the Victorian Division of the Australian Institute of Directors.

Mr. G. M. Niall

Mr. G. M. Niall is a partner in the legal firm of Blake & Riggall, the Chairman of the National Mutual Life Association and a Director of Elder Smith, Goldsbrough Mort and several other companies.
I.E.A. Publications

The I.P.A. has recently become the Australian agent for publications of the Institute of Economic Affairs, London.

Since its inception in 1957, the I.E.A. has published about 80 books and pamphlets which have been widely read and acclaimed.

The I.P.A. carries small stocks of these publications. Some recent books are described below:

"Agenda For a Free Society" 192 pages Price $3.50
A collection of ten essays by leading scholars who assess the philosophy of the great liberal economist, Hayek, and discuss how his ideas can be translated into public policy, e.g. the impact of taxation on incentives.
'A learned and profoundly thoughtful piece of work ... What these writers have in common is not an idolatrous admiration of Hayek's work but an affection for a "free society".' (The Times Review of Industry.)

"Competition for Consumers" by Christina Fulop 323 pages Price $3.90
Among the many subjects discussed are productivity in distribution, competition for the consumer's purse, discount houses, consumer protection and the future of the small shopkeeper.
'No one involved in the remotest way in the education of up and coming retailers or marketing men (and women) can afford to ignore this book.' (The Times Educational Supplement)

"Radical Reaction" 306 pages Price $3.50
This volume brings together six essays in the Hobart Papers series, which have appealed strongly to reviewers, students, university teachers, businessmen and politicians.
Among the topics examined are resale price maintenance, rent control and take-over bids. The authors draw attention to the new opportunities for harnessing enterprise and innovation to the creation of wealth on a scale undreamed of a generation ago.

"Ancient or Modern?" 271 pages Price $3.50
This is the second volume of selected Hobart Papers. The new conditions of the Twentieth Century require changes to enable the economy to respond to the preferences of consumers. The title, "Ancient or Modern", links the outdated practices in British life with the need for modernisation and progress.
Among the subjects discussed are the revolution in retailing, business restrictive practices, economic growth and the market for labour.

A Catalogue of I.E.A. publications will be posted on request.
Judges or Economists

It is probably true that there is fairly widespread, if somewhat vague, public disquiet about the arbitration mechanism and procedures of wage fixation. The question therefore arises whether an improvement could be effected through a differently constituted tribunal.

Many find an anomaly in the fact that while a large part of the work of the Commonwealth arbitration authority necessarily consists in the consideration of complex economic phenomena — in other words, in an assessment of the state of the economy — the presidential membership of the Commission is composed of judges without specialised training in economic matters. Since wage adjustments must be based in the main on economic criteria, it might be argued, from a narrowly logical standpoint, that the Commission should be comprised of respected economists. Indeed, this has been suggested from time to time. But the logical course is not always the best course, and it must be doubted whether such a radical change would produce any improvement in the present situation, unsatisfactory though this may be in some respects.

One criticism of the members of the Commission in recent years has been their failure to achieve anything like unanimity, either on the increases to be granted or on the principles of wage fixation to be followed. With all due respect, it must be said that the prospect of unanimity from a body of economists might be just as unlikely. Nor could it be confidently anticipated that the decisions of a tribunal thus constituted would be any better, or more in accord with the national interest,
than those made by judges. With one or two exceptions, it would be fair to say that over the years the awards of the Commission (and prior to that, of the Court) have not been notably detrimental to the economy. By and large the record has been reasonably good.

A Commission comprised of judges would seem to have one substantial advantage over any alternative. This stems from the fact that judges command a kind of mystical respect or status in the community accorded to possibly no other profession. Judges are expected, and believed, to be sober, impartial, just and wise. This means that their decisions are more likely, on balance, to be respected and accepted than would decisions of a body composed of economists or experienced laymen. This is not said in any sense as a criticism of economists, but purely as a statement of a fact that exists.

It has been said that certain judges have political and industrial leanings which predispose them towards giving a judgment favouring the unions, whereas the awards of other judges, with a different inclination, are less likely to do so. Of course, it is unreal to expect that judges, being human like the rest of us, will be perfectly free of political predilections. But if this criticism applies to judges, how much more strongly would it be likely to apply to economists whose field of work is so closely associated with politics?

Some critics of the Commission may harbour the idea that economists, with their expert and intimate knowledge of statistics, would be able to relate the amounts of wage variations more scientifically and precisely to the economic factors bearing upon them. Behind this idea is the notion that, for any given set of economic circumstances, there is a right increase or decrease in wages which can be more or less mathematically determined. If this were so, the whole problem of wage determination would be immensely simplified.

One expression of this hankering after scientific exactitude is the straight "wages-productivity" formula by which wages would be adjusted periodically in accordance with the measured movement in productivity. Apart from the fact that
the concept of productivity itself cannot be precisely defined, let alone measured, the task of wage determination, in practice, unfortunately presents a much more complicated problem. The wage-fixing body is compelled to consider and weigh up a vast complex of inter-related economic matters concerned with the past, present and future. It also has the task (of which more is said in the article on the 1966 Judgment on page 82) of "settling the dispute" and of endeavouring to dispense the elusive concept of "industrial justice". No matter how exhaustive the examination of the relevant economic material (and no one could criticise the Commission for ever consciously skimping on this part of its task) the members of the wage-fixing body, in arriving at their decisions, are compelled in the end to fall back on their own informed discretion, commonsense and intuitions.

In his Judgment in the 1966 case, Mr. Justice Wright, the Presiding Judge, drew attention to these considerations: "Any pretence on my part of confident exactness would be patently absurd. In my view the estimation of a fair and reasonable increase in the basic wage rates must be what in other cases I have joined in calling a matter of impression and judgment. To set down all the prevailing and countervailing considerations which have had their influence on one's mind would tax one's stamina and industry beyond endurance . . . There is wide scope for differences of opinion when it comes to quantification."

All this suggests that what is needed in the personnel of the Commission is not merely specialised knowledge but — and probably more important — qualities of practical commonsense and wisdom and an intuitive flair for assessing the realities of the current and prospective economic situation and the climate of industrial and public opinion. Most of these attributes are just as likely — some might say a shade more likely — to be possessed by judges as by economists.

On the other hand, it must be said that at times the Commission's lack of expert economic knowledge seriously handicaps it in the proper evaluation of intricate economic and statistical arguments advanced in support of one side or other of the case at issue. This showed up clearly in one highly im-
important aspect of the recent wages hearing — the revival of the statistical concept, “the wage-earners’ share of the national product”, which was first raised during the 1950 Basic Wage Case.

It is clear from the text of the individual judgments that this concept played a not insignificant part in the decisions reached. Mr. Justice Wright comments that “Mr. Hawke (the unions’ advocate) justifiably laid great emphasis on his statistical studies of the share of the Gross National Product going to wages and salaries and especially upon the persistent downward trend from 1953/4 until 1963/4”. This led him (Mr. Justice Wright) to the “firm belief that the general level of salaries prescribed by the Commission over the past ten to twelve years could justifiably have been fixed at higher levels”.

Mr. Justice Gallagher agreed that “the necessity of providing for constancy of shares is a matter to be taken into account”, and that “there is some evidence that shares may not have remained constant”. Commissioner Winter considered that the “appreciable slump in the share of gross national product falling to wages and salaries was, at the least, significant. Viewed from certain aspects, it might be said to be alarming . . . An attempt to correct the position should be made”.

The question of the wage share in the GNP arose out of a table tendered to the Commission by Mr. Hawke, based on statistics originally compiled by the Vernon Committee from the official National Accounts.

Mr. Hawke’s table showed that, excluding rural production and mining (where profits are greatly affected by fluctuating export prices), wages and salaries as a percentage of GNP at factor cost (i.e. after deducting indirect taxes) had declined from 64.6% in 1953/4 to 61.1% in 1963/4.

Mr. Hawke’s figures gave no details of changes in the remaining income components of the GNP. But to assess what significance, if any, should be attributed to the figures showing a declining share of the GNP going to wages and salaries, it is necessary to look at the complete picture.
A table showing the distribution of all items in the GNP at factor cost (other than rural and mining) is set out below.

**DISTRIBUTION OF GNP AT FACTOR COST**  
(excluding rural and mining)

<table>
<thead>
<tr>
<th></th>
<th>1953/4</th>
<th>1963/4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages &amp; Salaries</td>
<td>64.6</td>
<td>61.1</td>
</tr>
<tr>
<td>Dwelling Rent imputed to Owner-Occupiers</td>
<td>2.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Depreciation— Companies</td>
<td>1.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Public Enterprises</td>
<td>0.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>2.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Company Profits (before tax)</td>
<td>13.6</td>
<td>12.8</td>
</tr>
<tr>
<td>Public Enterprises Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i.e. surplus or “profit” on government business undertakings)</td>
<td>1.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Other Business and professional Income</td>
<td>13.5</td>
<td>10.5</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**SOURCE:** Australian National Accounts, Commonwealth Statistician.

At the outset it must be said that the wage and salary component of this table is of dubious significance as a measure of “labour’s share of national production”. On the one hand, it excludes the large “wages and salaries” element in the incomes of shopkeepers and others working in their own businesses — the major part of the incomes of these people is a reward for work (or labour) and not “profit” in the economic sense. And, on the other, it includes the salaries of executives, senior public servants and people engaged on “brain” as opposed to manual and routine clerical work. As the Professor of Economics at the Melbourne University, Wilfred Prest, pointed out in an article in the August, 1950, number of the “I.P.A. Review”: “It is impossible to derive from the National Income Estimates, any information about the rewards paid to a homogeneous class of labourers as opposed to any other section of the community.” He concluded: “It is difficult to see what significance can be attached to the share of national income paid in salaries and wages. It indicates what part of national income is paid in a particular form, not what is paid to a particular class.”

But, more important than this, the figures in the table showing a decline in the wage and salary share of the GNP.
are themselves misleading. It is clear from the table that the fall in the share of GNP going to wages and salaries is largely to be explained by rises in:

1. Depreciation provisions (from 4.5% to 7.6%): mainly because of the increasingly capital-intensive nature of industry, with a much higher ratio of equipment per employee, particularly in fields such as the petroleum refining and the chemical industries.

2. Imputed dwelling rent, (2.8% to 5.0%) principally accruing to wage and salary earners: brought about by official encouragement given to home-ownership and increased savings by employees from higher earnings.

3. “Profits” of public enterprises (1.0% to 3.0%): mainly the post office, electricity undertakings, etc., where charges have been deliberately increased to help finance capital expansion.

The great increase in capital investment per worker over the past decade has not been reflected in an increased share of the national product going to shareholders (as might have been expected). As a proportion of GNP, the table shows that company profits, before tax, have declined. After tax they have fallen from 8.6% in 1953/4 to 8.0% in 1963/4. Dividends before personal tax, fell from 3.7% to 3.5% of GNP. Assertions that the “wage share of the GNP” has risen and that “industrial justice” therefore demands some redistribution of the GNP in favour of wages as against profits. But the table above shows that business profits, as indicated in the items “company profits” and “other business and professional income”, have also fallen over the period in question.

An analysis of the individual industry components of the GNP reveals that there has been a remarkable decline in the share of wages and salaries paid to employees of predominantly government-owned undertakings such as electricity, transport and communications, where capital investment has been substantial from ploughed-back “profits” accruing from higher charges and prices. It could hardly be argued that this government-induced “drift” should be consciously reversed by the Arbitration Commission.

The large rise in capital investment per worker demanded by much modern industry, both public and private, must tend to decrease the “share” of the GNP paid in the form of wages
and salaries, but will, at the same time, greatly improve the real income of all wage and salary earners.

The idea that the "wage share" of the GNP should influence the determinations of the Commission seems to be based on the notion of a hard-and-fast dichotomy between wages and profits: where all non-wage incomes (i.e. dividends, interest, rent) go to one section of the community and wages to another. This is an unreal conception in the modern world. Home and share ownership has become widely spread and employee superannuation and life assurance funds are invested in company shares, the dividends on which benefit not just a small section, but the overwhelming proportion of the community.

It seems clear that the idea that there should be a constant proportion of the GNP going to wages and salaries should not be entertained by the Commission at future enquiries.

* * * * *

WHILE it is desirable that the national wage-fixing body (in performance of its major functions) should continue to be comprised, in the main, of judges, the Commission would undoubtedly gain in strength by the appointment of one or two economists commanding public eminence and respect. (This would need a change in the legislation under which the Commission is established.) * In a Commission thus constituted, evidence such as that relating to the "wage share" of the GNP might not have been accepted.

All advanced industrial countries today recognise that wage policy cannot be divorced from general economic policy; that wage policy is, inescapably, an integral part of general economic policy. Changes in general wage levels, by adding to costs on the one hand and total demand on the other, have profound effects on the overall state of the economy and can effect the success or otherwise of the economic programmes which the central government is pursuing and for which it is responsible to the people.

*The provision in the Act limiting the Presidential membership to judges or to barristers and solicitors is no doubt intended, partly, to prevent appointments of a blatantly political or sectional character.
While it may still be conceded that the main function of the Commonwealth Arbitration Commission is to prevent and settle industrial disputes, it is unrealistic in today’s world to think of the work of the Commission as in a kind of vacuum, as something unconnected with the decision-making process in important economic policy matters. A decision to raise wages is not just a decision to settle an industrial dispute; it is a major economic decision. Nothing can alter that. This is an additional and powerful reason why the inclusion of one or two economists on the national wages tribunal should be considered.

Any suggestions for the re-constitution of the Commonwealth Conciliation and Arbitration Commission should not lose sight of the fact that from its establishment in 1905 until the present day — a period of more than half a century — the national wage-fixing authority, in its major arbitral functions, has been composed entirely of distinguished legal men. This would indicate that governments have been loath to depart from the concept that the Commonwealth wage tribunal should possess at least something of the prestige, respect and authority attaching to the higher courts of law. In other words, the legislators have been concerned to invest the wage-fixing body with the mystique of the ultimate authority of law and the public reverence paid to judicial tribunals as the final arbiters of the law. Whatever changes may be made to the composition of the Commonwealth Conciliation and Arbitration Commission must not be exposed to the criticism that they could endanger its traditional impartiality and prestige.

While we have advocated the appointment of one or two reputable economists to the presidential section of the Commission, a majority of its members should, in our view, continue to consist of eminent legal men. The essential character of an institution, which over 60 years has become part of the traditional fabric of Australian life, should be preserved. But even the greatest institutions need, at times, to be reshaped and modernised to fit them for their changing role in a rapidly changing world.
Principles of Wage Fixation
—A State of Flux

FEW people have any conception of the complexity and delicacy of the task of the Commonwealth Arbitration Commission. For this reason, the Commission is deserving of more sympathy than it generally gets. At the same time, it must be said that the 1966 Judgment, considered against the background of other judgments of recent years, is hardly calculated to inspire public confidence in the procedures followed by the wage-fixing tribunal. The inescapable conclusion which emerges from a study of the individual judgments is that the Commission is still in a state of some indecision not only over its precise function, but, much more so, over the principles which should guide its approach to the problems of wage fixation.

This is 1966, and one would have thought that sufficient time had now elapsed for the Commission to have established a fairly firm set of acceptable criteria for the determination of wage levels in a full employment economy. It is understandable, of course, that individual members of the Commission will sometimes differ not merely in shades of emphasis but even diametrically on important issues. But the 1966 Judgment suggests that the Commission, considered as a body, is still groping in its endeavours to find a solid basis of principle on which to rest its decisions. It is an extraordinary thing when the national wage-fixing authority can almost entirely reject the concepts and principles it "established" only 12 months previously in the 1965 determination. Yet this is what the 1966 Judgment does. What, one is constrained to ask, will happen next year? Will the 1967 Judgment come up with a new set of standards, or perhaps revert to those accepted in earlier years and now cast out in 1966.

This uncertainty is evident in the important question of the frequency with which major wage cases are to be held and determinations given. In the 1956 Judgment, the tribunal (then the Arbitration Court) introduced a system of annual reviews of the basic wage based upon capacity to pay. But in 1961, the Commission shifted ground by deciding that major reviews of the basic wage should be made only at three or four yearly intervals; (the effect of price changes on wages was, however, to be considered every 12 months). The 1964 Judgment back-tracked on this procedure and intimated that the Commission might revert to annual reviews. In 1965, the Commission decided again in favour of annual inquiries based upon capacity to pay, but rejected the principle of yearly reviews of wages for changes in living costs. Now, in 1966, the Commission has agreed to continue with annual reviews (vis-a-vis economic capa-
The history of major wage cases over the past decade may be summarised broadly as follows:

<table>
<thead>
<tr>
<th>DATE</th>
<th>AMOUNT OF INCREASE</th>
<th>MAIN PRINCIPLES FOLLOWED</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1956</td>
<td>10/- in basic wage</td>
<td>Annual review of the basic wage based on capacity to pay adopted in 1956. Established</td>
</tr>
<tr>
<td>May 1957</td>
<td>10/- in basic wage</td>
<td>principle of separate hearings for marginal increases continued.</td>
</tr>
<tr>
<td>May 1958</td>
<td>5/- in basic wage</td>
<td>Annual review based on “capacity to pay” rejected in 1961 and superceded by 3-4 yearly</td>
</tr>
<tr>
<td>June 1959</td>
<td>15/- in basic wage</td>
<td>“capacity” reviews, with annual inquiries into effects of price changes on real wage.</td>
</tr>
<tr>
<td>Nov. 1959</td>
<td>28% increase in margins</td>
<td>Annual review based on real capacity to pay adopted. Notion that Commission should</td>
</tr>
<tr>
<td>Dec. 1960</td>
<td>nil</td>
<td>guarantee purchasing power based on 1½% of the total award wage.</td>
</tr>
<tr>
<td>July 1961</td>
<td>12/- in basic wage</td>
<td>Preference for annual reviews — based on capacity to pay.</td>
</tr>
<tr>
<td>Feb. 1962</td>
<td>nil</td>
<td>Principle of annual reviews based on real capacity to pay adopted. Notion that Commis-</td>
</tr>
<tr>
<td>Feb. 1963</td>
<td>nil</td>
<td>sion should guarantee purchasing power of the wage (i.e. by adjustments for prices)</td>
</tr>
<tr>
<td>June 1964</td>
<td>20/- in basic wage</td>
<td>rejected. Basic wage and margins hearings to be simultaneous.</td>
</tr>
<tr>
<td>June 1965</td>
<td>No increase in basic wage</td>
<td>Principle of annual reviews re-affirmed and total wage concept tentatively accepted.</td>
</tr>
<tr>
<td></td>
<td>as such.</td>
<td>Also indicated that Commission should have regard to the purchasing power of wages as</td>
</tr>
<tr>
<td></td>
<td>An increase in margins</td>
<td>affected by price changes.</td>
</tr>
<tr>
<td></td>
<td>based on 1½% of the total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>award wage.</td>
<td></td>
</tr>
<tr>
<td>July 1966</td>
<td>$2 increase in basic wage;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>margins increase indicated.</td>
<td>Preference for annual reviews — based on capacity to pay.</td>
</tr>
</tbody>
</table>

Apart from confirming the principle of annual reviews, the 1966 Judgment departs from the 1965 Judgment in almost every important respect. In 1965, the Commission rejected, although not finally, the total wage principle; in 1966, the Commission has accepted, although not finally, the total wage principle. The 1965 Judgment affirmed the Commission’s responsibility for price stability and rejected the concept that wages should be adjusted for price changes; the 1966 Judgment repudiated the idea that the Commission can or should take responsibility for maintaining stable prices (so far as prices are affected by wage increases). The Commission also now accepts the view that price changes should be incorporated to some extent in its awards (although with varying emphasis by individual members of the Commission). The 1965 Judgment seemed to accept the “economic consequences” or “public interest” concept as paramount in the wage determinations of the Commission; the 1966 decisions seem to revert to an earlier-held notion that the prime consideration of the Commission must be the settlement of the industrial dispute.

If, then, there is so much uncertainty and flux in the attitudes of the national arbitration authority itself about the right
principles to be adopted for wage fixing, it is hardly surprising if the community, which looks to the Commission for guidance in these matters, is deeply confused about the whole business.

"Settling The Dispute"

The perennial conflict between the Commission's statutory function of bringing about a "settlement of the dispute" and its responsibility for not acting contrary to the "public interest" raises its head again in the 1966 Judgment.

The Commission cannot consider only the economic factors in arriving at its decisions. It also has the task, which it has been at pains to emphasise many times (and does so again in the recent Judgment) of "settling the industrial dispute". In fairness to the Commission it must be said that this aspect of its task tends to be disregarded by those seeking a "perfectionist" wage policy. Admittedly, the Commission, in settling the dispute, must have regard to the economic consequences of its decisions: a determination which settled the dispute but ran seriously counter to the public interest would be unthinkable.

The emphasis which the Commission has placed on these two considerations — namely, the settlement of the dispute on the one hand and the needs of the economy and the public interest on the other — has varied from time to time. The Judgments in the recent case reveal a tendency to stress the primacy of the responsibility of the Commission for settling the dispute. Mr. Justice Wright refers to this as the Commission's "transcending function". But in the 1965 Case, the majority emphasis was rather the other way, namely the paramountcy of the public interest.

But what does the phrase "settling the dispute" really mean? Presumably, it can only mean that the decision of the wage tribunal must be such as not to leave an aftermath of serious industrial dissatisfaction and unrest: the increase granted must be accepted by a high proportion of the community as about reasonable and fair in all the circumstances. What the community may think of as reasonable and fair is, of course, not based on considerations of economic logic. During the currency of a major wage inquiry, an expectation builds up that the increase will approximate to a certain sum — "not less than x and not more than y", is the phrase frequently heard. But if the Commission should grant less than x, and expectations are disappointed, this may result in widespread dissatisfaction and not, in the ultimate, "settle the dispute".

The Commission's attitude on this question would seem to imply that the amount required to settle the dispute will generally be above that warranted by a severely economic assessment. (Since the amount consistent with price stability may not be sufficient to settle the dispute, this partly explains the Commission's reluctance to accept the view that its wage awards should never result in price increases.)

Mr. Justice Gallagher in his Judgment refers to this as an "apparent conflict of interest" calling for "a middle-of-the-road approach by the Commission". "Public interest," he states, "must not be used as an excuse for not raising wages, but at the same time its existence as a valid reason for caution and, on occasion, for restraint has always to be kept in mind."

The Commonwealth Government's submission in the 1966 case discusses this dilemma at length. It argues that there is no real conflict between "industrial justice" and the demands of the public interest — that the two, in fact, are synonymous. While the broad proposition that what is best for the economy as a whole will, in the end, be in the best interests of wage and salary earners...
cannot be disputed, the Commonwealth's submission might be criticised for taking a mildly unreal position and for not making sufficient allowance for the actual situation with which the Commission has to deal.

"Industrial justice" is a goal devoutly to be sought after, but it is not quite the same thing as "settling the dispute". "Industrial justice" is a subjective concept about which one person's view will differ from the next. There can be no absolute standard of what is industrially just. Only a few wage or salary earners ever get as much as they think they are worth, and none as much as they would like. In arriving at the increase to be granted, the Commission is contending not only with strictly economic factors, but with the powerful pressures that arise from time to time for an increase in incomes. These pressures cannot be entirely ignored if the Commission is to achieve a settlement of the dispute and thus perform its statutory obligation. The real collision with which the Commission has to contend is between settling the industrial dispute and the public interest, not industrial justice and the public interest.

It still remains, however, to determine whether there is a genuine dispute at issue and not just a "manufactured" one. In deciding that wages will be reviewed yearly, is not the Commission itself creating a "dispute" every year, which may sometimes be fictitious rather than real? After all, if the Judgment of the Commission in the 1961 case had been adhered to, and wages in relation to capacity to pay considered only every three or four years, then, presumably, there would not be a yearly "dispute" for the Commission to settle (at least on these particular grounds). Indeed, if there is to be a yearly review of the general wage level for "capacity to pay" then, since one case so nearly runs into the next, it might almost be said that the dispute is never "settled", but is a continuing one. Has the Commission, therefore, in deciding for a twelve monthly review of wages, in effect, run precisely counter to the function which is allotted to it under the Act from which it draws its authority, namely the "prevention and settlement of industrial disputes"?

The Commission has repeatedly argued, and with justice, that it is not an economic planning or "incomes" body. But has not the Commission by its own decision to review the general level of wages every year, converted itself into just that, namely an economic planning authority? At any rate, the insistence of the Commission that its prime consideration must be the settlement of the dispute becomes nonsensical, if the "dispute" is, in effect, created by its own action.

In adopting a yearly review the Commission seems to have been persuaded by the arguments of some economists that the dangers of price inflation are less with small yearly wage adjustments than with a single large adjustment every three or four years. This argument is itself not conclusive in the Australian setting. It assumes, for one thing, that there is a more or less regular yearly increase in the capacity of the Australian economy to pay higher wages. But, in some years, the real capacity to pay increased incomes may decline because, say, of a sharp fall in prices for major primary products. Would a yearly review in circumstances of this kind lead to a decision to reduce wages?

But, more important, the adoption of a twelve monthly review by the Commission must create, or at the least strengthen a widespread expectation that wages will rise every year. A failure to grant a rise, or even a very small rise, would thus be liable to cause industrial discontent. A full-scale yearly review
must inevitably put increased public pressure on the Commonwealth industrial tribunal for wage rises. The existence of such pressures, and the difficulty of resisting them, is one of the main underlying causes of inflation. It may very well be that twelve monthly reviews will exacerbate, rather than reduce, the tendencies making for inflation.

**Wages and Prices**

There are two aspects of the problem of wages and prices. The first is whether past price increases should be reflected wholly or partly in the determinations of the Commission — that is, whether the Commission should endeavour to maintain the purchasing power of its awards. The second is whether it should refrain from granting increases of a magnitude that may result in future price rises — in other words, that would not be consistent with price stability.

The majority Judgment in 1965 maintained that the sole criterion for wage increases should be the capacity of the economy to pay and the Commission could not take upon itself to guarantee the maintenance of any particular level of real wages. This Judgment also adopted the view that the Commission should not deliberately grant increases in wages which were likely to prove incompatible with price stability.

Both these approaches are rejected in the latest Judgment, with varying degrees of emphasis by individual members of the Commission. Mr. Justice Wright appears to go furthest in arguing that generally speaking the Commission should endeavour to maintain the real value of the wage rates it fixes. He states: “I consider quarterly reviews (for price changes) too frequent, but twelve months may involve too long a delay in some circumstances.” Mr. Justice Moore takes the view that in fixing wages the Commission should concern itself with both price movements and productivity and “should not allow itself to be over-concerned with the elusive concept of price stability”. He does not, however, suggest the kind of regular automatic or semi-automatic adjustment of wages to prices which Mr. Justice Wright seems to have in mind.

The Commonwealth Government, in a lengthy treatment of this problem in its submission to the Commission, strongly urged that the adjustment of wages for price rises should not be an automatic process, but conceded that price rises should be one factor the Commission should take into account in assessing capacity to pay. At the same time, the Commonwealth Government emphatically rejected the granting of wage increases inconsistent with the maintenance of general price stability on the grounds that such increases by upsetting economic balance would not be in the best interests of wage-earners themselves.

While, in strict logic, the Commonwealth’s arguments on the wage-price relationship may be unassailable, the position of the Commission probably compels it to adopt a slightly more flexible approach. Experience throughout the world suggests that the avoidance of wage increases which may lead to price rises is a doctrine of perfection. On the other hand, we would agree entirely with the Commonwealth, and disagree with Mr. Justice Wright, that there should be an automatic, or semi-automatic, adjustment of wages to compensate for price rises. The Commission having, in a series of judgments, moved away from this conception, it now seems a pity that Mr. Justice Wright should have reverted to it in the latest Judgment. In an admirable analysis of the wage-price relationship, in an article in 1961, Professors R. I. Downing and J. E. Isaacs, pointed out “that there are very few situations in which wages should be in—
creased as a result of price increases".* However, if the principle adopted by all members in the 1966 case of an annual review of wages, based primarily on capacity to pay, is persisted with, it seems unlikely that the Commission will, in practice, adjust wages specifically for price changes at shorter intervals.

In view of its overriding responsibility for economic balance, the Commonwealth Government's strong attitude on the matter of cost and price stability is perfectly understandable, and Mr. Justice Moore's statement that the Commission should not be over-concerned with "the elusive concept of price stability" is surely an untenable one. In this, as in so many problems of economics, there is no perfect, final answer, but it is fair to expect the wage-fixing authority to give full recognition to the difficult responsibilities of the Commonwealth Government for maintaining full employment without serious cost and price inflation.

Over-Award Payments

The most significant fact of the wage structure today is the large amount by which actual earnings, or "market wages", exceed the minimum award rates laid down by the Arbitration Commission. This has posed a difficult problem for the Commission now for more than ten years. The two basic quandaries are:

First, to what extent should the Commission, in determining its awards, take cognizance of the actual amounts being paid to wage-earners?

Second, in deciding upon the amount of the increase to be granted, should the Commission disregard the extent to which this is likely to be added to actual rates already being paid and thus not absorbed in over-award payments?

The members of the Commission have been acutely aware of the difficult issues involved here and in the 1965 Judgment the President, Chief Justice Kirby, voiced his deep concern over the bearing of over-award payments on the decisions of the Commission. He made clear that he regarded this matter as one of first priority for the Commission and all those concerned with its deliberations.

The 1966 Judgments do little to resolve these issues. In saying this one can have every sympathy with the Commission, and at least Mr. Justice Wright rejects the absurd doctrine promulgated some years ago, that the widespread existence of over-award payments is in itself evidence of the capacity of the economy to pay higher award rates. Mr. Justice Wright's Judgment discusses the second problem posed by over-award payments (i.e. the non-absorption of award increases in these payments) at some length. But it seems to run away from the difficulties rather than confront them. After stating that "it would be sheer naivete for the Commission to suppose that any substantial portion of present over-award payments will be absorbed" in higher award rates, it then washes the Commission's hands of the responsibility and places it firmly on employers and the unions. Such an approach clearly fails to grapple with the realities of the situation. Mr. Justice Wright argues, too, that failure to grant increases in award rates may do an injustice to those who have no over-award payments. This, admittedly, is a real dilemma facing the Commission for which no one has yet proposed a convincing solution. In dealing with it, Mr. Justice Wright falls back on the old customary refuge of the Commission, when confronted with circumstances of perplexity, by taking a strict statutory interpretation of the Commission's position that "its one and only function under the law is the prevention and settlement of industrial disputes".

*Published in "The Economic Record", December 1961.
Principles of Wage Fixation (continued)

The Commission, in awarding an increase in wages, must clearly have in mind some conception of the broad economic consequences of that increase. In assessing these consequences, it cannot escape from the fact — which it itself concedes — that award increases will, for the most part, be added to the actual rates (including over-award payments) at present being paid. In other words, it cannot avoid the realities of the total wages situation as it exists. It cannot shelve responsibility on to the unions and employers for consequences that eventuate from its own decisions by taking the stand that if the increases it grants are absorbed in above-award payments, then the consequences will not be adverse for the economy. The 1966 Judgment seems to suggest that the Commission is not prepared to accept this view of its economic responsibilities.

The Total Wage Concept

The 1966 Judgment suggests that the total wage concept, after being rejected in the 1964 Judgments, is now in sight of being accepted by the Commission. When the Commission last year decided that reviews of the basic wage and margins should in future take place simultaneously, we were led to comment that events were moving in the direction of the adoption of the total wage. (The concept of the total wage was first advanced by the Institute in 1960 and later taken up by the employer bodies directly concerned in wage hearings.)

There still lingers, however, some confusion about the precise meaning of the concept of the total wage. It simply means, in our view, that in future wage cases the trade unions will be expected to apply for a single increase in wages and not for separate adjustments to the basic wage and margins (on grounds of capacity to pay) and that the Commission will give its determination in terms of an addition to the total wage.

What seems to be puzzling many people is whether the adoption of the total wage implies the abolition of the basic wage. Clearly, the original concept of the basic wage as a minimum needs wage has long since vanished. It is applied to the lowest-paid adult male worker, but it is a theoretical rather than an actual sum because all unskilled workers now get something in addition by way of loadings. The basic wage is still, however, the standard by which margins for skill are assessed on the whole range of skilled workers. It may be convenient to retain the concept for this purpose, and Mr. Justice Wright seems to have this in mind when he argues that the total wage does not involve the abolition of the basic wage. The basic wage would then be a theoretical figure increasing from time to time by whatever additions are made to the total wage. Mr. Commissioner Winter, in his Judgment, urges the retention of the basic wage on the extraordinarily gloomy premise that we may be hit with another economic cataclysm when the minimum needs concept could again become important.

The Commission would eventually have to decide how an increase in the total wage is to be applied. Will it be a flat rate increase, or a straight "across the board" percentage increase or perhaps an increase on some graduated scale? Perhaps the method could vary according to the circumstances that may prevail at different times. On the one hand, the Commission will be influenced by the understandable desire to assist to the maximum degree the lowest-paid categories of workers; on the other hand, it may have to have in mind the need to retain adequate incentives to skilled and highly skilled tradesmen.

Concluding Remarks

The seeds of wage and cost inflation lie ultimately in the understandable human desire of practically everyone in
the community for more money in the pay envelope, and to progress faster, in the national sense, than the resources available to the economy will permit. It is unrealistic to think that the Commonwealth Arbitration Commission can entirely ignore these pressures, or that there is some objective concept of wage justice which will assist it to decide upon the increase to be granted in any given circumstances. At the same time, one would wish to see the Commission giving stronger emphasis to the economic consequences likely to flow from its decisions than at present. It is unlikely that the Commission can keep wage increases within the limits imposed by the requirements of rigid price stability. The Commission, however, should accept a greater degree of responsibility for avoiding inflationary wage increases than seems to be implicit in the 1966 Judgments. The present principle of a twelve monthly review of wages, based upon capacity to pay, is likely to aggravate rather than lighten the Commission's task in this regard.

It is time, too, that the Commission established a fairly firm set of principles on which to base its decisions. The present situation in which these principles are being altered about from year to year is manifestly unsatisfactory and must tend to damage public respect for the wage-fixing body.

It would help greatly if the members of the Commission could achieve a much closer approach to unanimity than has been the case in recent years. One judgment embodying the general views of the whole Commission should, in general, suffice, with provision for demurrers by individual members where they cannot be avoided. The Commission's judgments could be expressed more crisply and in simpler language than in the rather ponderous and excessively legalistic modes of expression in which they are at present framed.

The bewildering mass of words which now appear every year, the constant shifts of ground, the conflicting views of individual members, are giving rise to irritation and confusion; and, one would venture to think, not only among the community, but among the members of the Commission themselves.
Striking Change in Business Attitudes

IN thinking and attitudes businessmen today differ markedly from those of the previous generation. This is not surprising; because in the thirty years between the 1930's and the 1960's, the environment in which business operates has undergone a transformation. The pace of scientific and technological change has vastly speeded up. The under-employed, nearly stagnant economy of the Australia of thirty years ago has been replaced by an economic climate of full employment and rapid national growth. And — by no means least — the community expects much more of business today. People demand a much greater measure of financial security and personal independence and look to business to contribute to a progressive improvement in their living standards year by year.

Today's society is one of “great expectations” and the businessman himself has come to expect much more of the economy than his predecessor of thirty years ago. The latter lived in a comparatively hazardous environment. The trade cycle, like the weather cycle, was regarded almost as an unavoidable natural phenomenon, and, as such, as part of the risks of doing business. By today's standards, the world of the 1930's was a tough place and, not surprisingly, it produced a relatively tough attitude in many businessmen. It also produced a somewhat pessimistic attitude. There was no solid reason for thinking that next year would be a better year than this. Indeed, for all anybody knew, it might very well be worse. Just when everything was running along smoothly, economic difficulties and even calamities had a habit of cropping up, and they came to be accepted by the businessman of the Western World with a kind of resigned fatalism.
The businessman of those days had different ideas from his modern counterpart about what constitutes an economic recession. Fluctuations of a percent or two in the unemployment ratio would have been thought of as insignificant, indeed would have passed by practically unnoticed. (All things are, after all, relative.) The 1930 businessman, too, had to cope with a recurring phenomenon — one practically unknown today when prices generally move only one way — that of steeply falling prices which could overnight turn prospective profits into disastrous losses.

Today's climate of steady regular growth has revolutionised the businessman's attitude to the investment of capital. From the standpoint of the individual concern, a large expansion of the business in the 1930's was a great undertaking, entered into comparatively rarely and not without some misgivings. A major share issue by a big company was a financial event exciting widespread attention throughout the business and investing community. Today, yearly expansions of a high proportion of businesses are almost automatic and capital raisings, running into millions of dollars, by some large company occur almost every week.

The readiness of the modern businessman to invest money is largely the product of his confidence in the future. It was Keynes who stressed how much depends on the expectations of businessmen, and the fact that business now expects the economy as a whole to grow more or less steadily year by year is one of the most potent causes of growth itself.

Andrew Shonfield, the British economist, has expressed this very well in his book, "Modern Capitalism":—

"Once businessmen became convinced that they could safely ignore the risk of a serious recession during the productive life of some piece of capital in which they were thinking of investing, the whole tempo of the economy is likely to change. It moves forward then in the spirit of a driver, who arriving at a stretch of straight, broad highway where he can see ahead, slams his lever into top gear, and lets out the throttle."

It is perhaps not generally appreciated how much the element of risk in business has been reduced by the success of economic policies aimed at full employment and rapid economic expansion. This reduction of risks has, as one would ex-
pect, been reflected in a change in the businessman's attitude to profits. When the future was clouded with uncertainty, the businessman was understandably disposed toward “making hay while the sun shone”. Today he is less concerned with quick profits in the short term and more inclined to look to a reasonable and steady rate of return on capital over the long term. Moreover, he is readier to invest in projects where the pay-off may be long delayed.

While profit still occupies a central place in the businessman's mind (business must make profits to survive, and good profits are needed to attract additional capital into the business) it is nevertheless true that other considerations have now become prominent in business thinking, especially in large enterprises. Today's businessman is more sensitive to public opinion, more "socially conscious", more concerned with the "public image" of himself and his firm. To be a good businessman is not enough; he aspires also to acquire a reputation for being a public-spirited citizen, actively interested in the economic and social well-being of the community. The management of a large-scale enterprise feels a compulsion to show that its policies are not exclusively concerned with its own financial advantage, but also in tune with the broad national interest. Thus, while today's environment may be less hazardous, less fraught with risk, it is also in some ways more exacting in its demands. If the modern businessman has come to expect much more of the economy, the converse is also true: the economy has come to require much more of the businessman.

The average businessman of the 1930's was inclined to view any suggestion of increased government activity or direction of the economy with deep suspicion, as, in a sense, an interference with natural economic forces which could lead only to harm. The businessman of today, on the other hand, expects government to act positively in numerous directions to guard the health of the economy and to promote continued and stable growth.

In the 1930's, the merest mention of "economic planning", which was regarded as just another name for "socialism", was likely to arouse in most businessmen feelings akin to horror.
But in recent years, we have seen the extraordinary spectacle of businessmen urging the government "planners" further along in the direction of "planning" than even the planners themselves have been disposed to go. In their understandable, if unrealistic, desire to eliminate the element of "stop and go" from the economy, some businessmen have pressed the Commonwealth Government to establish targets for the future, embracing not only the economy as a whole, but individual industries.

At first sight, it may seem somewhat of a paradox that the modern businessman, operating in a stable full-employment environment, should be more interested in and aware of economic phenomena and changes than his predecessors, forced to cope with a much more variable and unpredictable economic climate. Yet this is so. Of course, he has the advantage of having ready at hand a far wider range of useful information from government economic sources than was available to businessmen before the war. Moreover, the quantity of independent, expert economic commentary has greatly increased. Economics as such occupies a much larger place in the modern businessman's scheme of things; he takes much greater pains to ascertain the changing facts of the economy and to assess their likely impact on his particular industry and business. He works less by-rule-of-thumb methods and brings to his problems a more scientific, comprehensively documented and "computerised" approach. Business planning for the medium and long-range future has become part of the technique of modern scientific management and methods of forward budgeting have become highly developed.

By contrast with the 1930's, the top management of a large modern business possesses a broader knowledge and understanding of the economy and of the nature and purpose of government economic and financial policies. Today's typical businessman has altogether broader perspectives than his predecessor. He reads more widely; he is much more travelled and is more aware not only of the domestic scene, but of the world trading and industrial background. All in all he is more of a professional, less of an amateur. This is, of course, not to say that the gifted self-made amateur may not, on occasions, be superior to the more disciplined and trained product. As
the greatest of British economists, Alfred Marshall, pointed out years ago, the business genius, like the poet, is born not made.

The full-employment economy has entirely altered the relationship between business and labour. From being plentiful, labour has become scarce. Instead of labour competing for jobs, jobs compete for labour. In a slack period, business is often prepared to carry an excess labour force rather than dispense with redundant employees and face the difficulties and expense of recruiting afresh when trade picks up. "Fringe benefits", that is, those cash benefits supplementing wages, was a term relatively unknown before the war. Although some pre-war firms did provide benefits in addition to wages, these were of small extent besides those customary today. The businessmen's changed attitude to labour, however, is not solely a result of the powerful bargaining position of the worker in the full-employment economy. The businessman today has a broader conception of his responsibilities and functions. To many top managements, the people who work in the business are of equal, if not more, importance than the people who provide the money. In the economy of under-employment the interests of shareholders and workers were often regarded as conflicting. If wages were held down, profits could be increased or held up. That is not the view today. The shareholders stand to benefit from the high productivity and efficiency which is only likely to be forthcoming from a labour force that is contented, happy and enthusiastic.

The businessman of today has a very different attitude to scientific and technical change. He lives in a world where the rate of change staggers the imagination, and where scientific achievements seem to pass the frontiers of credibility. He knows that this year's product is not likely to be good enough for next year; indeed it may be completely outmoded. He knows that the machines and methods that represent the last word in productive efficiency today may have to be scrapped and replaced tomorrow. "Innovation" is one of the most used and respected words in the vocabulary of the modern businessman. He is much more acutely conscious of the factor of "obsolescence" than the businessman of the 1930's. Many businessmen of those times tended to be almost resistant to new scientific and technical developments in their industry. Some
approached them with a caution almost amounting to suspicion. The well-tried, well-proven methods had a strong attraction. Big changes were to be undertaken only when their advantages had been established beyond all doubt. In scientific and technical matters, as in economic, the businessman of the '30's had a greater reverence for the past than his counterpart today. The modern businessman is thinking all the time of the future, indeed he is forced to if he wants to stay in business. He accepts the "fact" of change in a way his predecessor never did.

The compulsion on the modern businessman to plan for the future, in the economic, as well as the scientific and technical, area, and the increasing complexity and sophistication of methods of industrial production, have led to large increases in the number of administrative salaried staff in the typical business organisation. While no reliable figures are available for Australia, in the ten years from 1950 to 1960 salaried staffs in manufacturing industry in Britain rose from 17% to 22% of the labour force, and in the United States from 18% to 25%. By 1962, total salaries in Britain amounted to a surprising two-thirds of total wages, compared with only one-half in the mid-1950's.

The increase in administrative staff is associated with the striking change in the attitude of top business managements towards university-educated men and women. This is demonstrated not only by the strong business demand for graduates in the scientific and technical fields — which one would expect in today's world — but also by the demand for those educated in the "humanities" and social sciences.

In the 1930's, except among a comparatively few far-sighted businessmen, there was what amounted to almost a deep-rooted suspicion of the non-technical university graduate. The general view was that the best way to pursue a business career was to enter business at an early age and to "work up from the bottom". This view rested on the implicit assumption that the only training necessary for business leadership was business itself (and little, or nothing else), an attitude that now holds sway only among a rapidly dwindling minority. Today, the universities can hardly turn out enough graduates to meet the requirements of the larger industrial and commercial
organisations, which strenuously compete to attract the new
yearly crop of graduates into their employment. What a trans-
formation from thirty years ago, when the non-technical
university-degree man had to tramp the streets in search of
employment! Indeed, the university man of those days who
entered business could be forgiven if he now sometimes feels
that things have become rather too easy for today's graduates.

* * * * *

The businessman of the 1930's might fairly envy today's
businessman in his enjoyment of an economic climate of
full employment and rapid growth. At the same time, he might
find some of the features of the present-day business environ-
ment not entirely to his liking. In many ways, the business-
man of today is less the master of his fate than his pre-
decessor. He is more in the spotlight of public appraisal and
criticism. He is less "all-powerful". His authority vis-a-vis
labour has perceptibly diminished. He is subject to govern-
ment restraints, controls and directions to a far greater extent
than the businessman of thirty years ago. Today's business-
man is obliged to recognise the primacy of the national and
public interest. In a sense exposed to a more exacting set of
disciplines than his predecessors, he has to be more compre-
hensively informed on a wide variety of complex matters. The
ultimate test of his activities and of the free enterprise system,
on the stage of which he is the main protagonist, is service to
the community. Today, top management aims to achieve
maximum efficiency, not only or even mainly in response to
the lure of higher profit, but because this is what the nation
and community expect.