The 1967/8 Budget

The most portentous sentence in the Budget Speech comes close to the end. "... we plough back a quarter of all we produce into investment for the future, allocate 5 per cent of our national production for defence, and make a large contribution to international assistance." The Treasurer claims this to be "a worthy and creditable effort". It is even more than that. It is a truly remarkable effort, the significance of which has possibly escaped all but a small minority of Australians. No other country in the Western World is denying itself to this extent of the attractions of increased consumption and high living standards in the present in the interests of its future development and national security.

Consumption standards in Australia, while high on the world ladder, are improving year by year only marginally (a little over 1 per cent) compared with a much more substantial rate of improvement in the other Western countries. These countries devote a much smaller proportion of their resources to the provision of capital for the future, and to defence, and consequently a much higher proportion to the raising of their living standards in the present.

It comes as something of a surprise to learn from the Treasurer’s Budget Speech that Australia, which in the current year will be spending 5 per cent of GNP on defence, ranks
fourth in this regard among the Western countries — the only countries ahead of us being the United States, Britain and France. But by far the most important cause of the slow progress in average consumption per head in Australia is the massive capital expenditures made necessary by the high rate of population increase (resulting from large-scale immigration) and by the rapid development of far-flung natural resources. Few readers of this year’s annual Treasury survey of the economy could fail to be impressed, and perhaps astounded, by the figures comparing Australia’s outlay on capital with that of other countries — Australia 27.1 per cent of GNP; Canada (where conditions most closely approximate those of Australia) 24.6 per cent; France 21.7 per cent; Italy 18.9 per cent; United Kingdom 17.6 per cent; United States 16.5 per cent. Now, superimposed on this massive provision for capital in Australia is the steeply mounting scale of defence expenditure of the last few years.

Over these years the Commonwealth Government has been extraordinarily successful in its purpose of not permitting the rapidly increasing defence burden noticeably to impede the tempo of development. (Indeed, for 1966/7, the migration target was raised to 148,000 and has been set at the same level for the current year). This success has been achieved at the expense of the consumption sector of the economy, where the rate of increase in expenditure, of necessity, has been severely restrained.

The structural pattern of the economy in which the Budget must be considered is thus one of restricted consumption, exceptionally heavy investment in the future (second only to Japan), and a scale of spending on defence and foreign assistance which now ranks among the highest in the world. This is the pattern which the Budget is designed to maintain and fortify.

Within the constraints imposed by this pattern, Mr. McMahon’s second Budget, taken as a piece, must be given high marks. There can, of course, be criticisms of detail — but then that can be said of every Budget that has ever been produced. Some critics have argued that an increase in pensions should have been given a higher priority than other expendi-
## TEN YEARS GROWTH IN COMMONWEALTH RECEIPTS AND EXPENDITURE

<table>
<thead>
<tr>
<th></th>
<th>1958-59</th>
<th>1967-68</th>
<th>Increase</th>
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<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>%</td>
</tr>
<tr>
<td>Expenditures—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defence Services</td>
<td>378,616</td>
<td>1,118,270</td>
<td>195</td>
</tr>
<tr>
<td>Payments to or for the States</td>
<td>576,946</td>
<td>1,347,513</td>
<td>133</td>
</tr>
<tr>
<td>Payment to National Welfare Fund</td>
<td>556,454</td>
<td>1,071,025</td>
<td>92</td>
</tr>
<tr>
<td>Repatriation Services</td>
<td>145,784</td>
<td>261,365</td>
<td>79</td>
</tr>
<tr>
<td>Debt Charges</td>
<td>123,810</td>
<td>102,143</td>
<td>-17</td>
</tr>
<tr>
<td>Business Undertakings</td>
<td>222,102</td>
<td>409,832</td>
<td>84</td>
</tr>
<tr>
<td>Territories</td>
<td>40,480</td>
<td>137,611</td>
<td>240</td>
</tr>
<tr>
<td>Capital Works and Services</td>
<td>260,934</td>
<td>515,759</td>
<td>98</td>
</tr>
<tr>
<td>Other (e.g. Departmental Running Expenses, Other Services, Other Special Appropriations and War Service Land Settlement)</td>
<td>317,096</td>
<td>862,593</td>
<td>172</td>
</tr>
<tr>
<td>State works and housing programmes</td>
<td>414,110</td>
<td>657,000</td>
<td>58</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>3,036,332</strong></td>
<td><strong>6,483,110</strong></td>
<td><strong>113</strong></td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customs Duty</td>
<td>143,342</td>
<td>303,000</td>
<td>111</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>474,486</td>
<td>843,000</td>
<td>78</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>287,234</td>
<td>414,260</td>
<td>44</td>
</tr>
<tr>
<td>Income Tax—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals (net)</td>
<td>777,930</td>
<td>2,132,140</td>
<td>174</td>
</tr>
<tr>
<td>Companies</td>
<td>439,390</td>
<td>825,000</td>
<td>88</td>
</tr>
<tr>
<td>Dividend (Withholding) Tax</td>
<td>—</td>
<td>22,000</td>
<td></td>
</tr>
<tr>
<td>Pay-roll Tax (net)</td>
<td>99,238</td>
<td>184,000</td>
<td>85</td>
</tr>
<tr>
<td>Estate and Gift Duties</td>
<td>30,618</td>
<td>55,000</td>
<td>79</td>
</tr>
<tr>
<td><strong>Total Taxation Revenue</strong></td>
<td><strong>2,252,238</strong></td>
<td><strong>4,778,400</strong></td>
<td><strong>112</strong></td>
</tr>
<tr>
<td>Other Revenue—Business Undertakings and National Debt Sinking Fund, etc.</td>
<td>493,152</td>
<td>1,108,707</td>
<td>125</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td><strong>2,745,390</strong></td>
<td><strong>5,887,107</strong></td>
<td><strong>114</strong></td>
</tr>
</tbody>
</table>

The Government's decision not to adjust pensions is clearly based on a careful weighing up of the multitude of claims on the public purse; but the position may need to be reviewed during the coming months. Indications are that the annual rise in prices and living costs may accelerate in the current financial year. If this should occur, then the Government could well decide not to wait for the 1968/9 Budget before granting some increase in pensions. But, aside from detail, the broad strategy of the Budget to give some mildly expansionary cyclical bias to the economy in 1967/8 is, in the light of present prospects, probably right.
There is, however, a widespread tendency to over-rate the capacity of the Budget to influence the level of economic and business activity. A bad season on the land, a serious slide in wool prices, an inexplicable failure of nerve among the business community, a sizeable lift in wage rates — anyone of these, and numerous other possible (if not likely) eventualities during the year, could have a much more powerful effect than the Budget in determining what will happen in the year ahead. The inescapable limitations of the Budget in this respect are not generally understood. But they are made clear in a cautionary passage (italicised, let it be noted) in the important Statement No. 6 attached to the Budget in which an intellectually gallant effort is made to assess its economic impact.

"The economic effects of a Budget can only be adequately assessed in the context of the totality of trends in the economy as a whole. Those trends are affected not only by the outlays and receipts of the Budget, but by all of the other influences affecting the growth in demand and prospective increase in supplies both from domestic production and imports."

To understand the Budget it is necessary to bear in mind the structural economic context in which it has been introduced and to which we have referred. The Budget has been criticised in the daily press, almost without exception, as being too cautious. Presumably, it is believed that the Government could have made tax concessions and granted pension and perhaps other social service benefits and thus have budgeted for a larger deficit. One newspaper makes the strange criticism that the migration target has been set too low. Presumably it is prepared to face even greater increases in government expenditures or charges (such as postal and telephone rates) to provide for the expansion of essential services.

In truth, the Budget is anything but cautious. It is a bold, even adventurous document because it is based on the presumption that capital and developmental expenditure can be maintained at around a quarter of total national spending, along with a rise in defence expenditure which will make Australia's defence burden one of the heaviest in the world: all this without adverse effects on the economy, by way of infla-
tion, rising costs and eventually some strain on the overseas balance of payments.

Defence expenditure has much the same immediate economic effect as expenditure on capital. An increase in spending on defence creates additional incomes, but it does not create the goods on which they can be spent. It pre-empts resources which might otherwise be used for adding to the output of consumer goods. The scale of defence expenditure at 5 per cent of GNP, means that Australia is now diverting nearly one-third of its resources into capital and defence purposes. It is improbable that this effort can be sustained without intensifying competition for resources between consumption on the one hand and capital and defence on the other. This competition must result — indeed it is already resulting — in rising costs and prices.

A democratic community will not willingly save (in other words, not spend on consumption) one-third of its income. The appropriation of resources for investment (and defence) on this scale can be brought about only by some measure of inflation. Rising costs and prices, inflation, is, in effect, the instrument by which real consumption expenditure is curtailed, thus allowing resources to be diverted into the capital (or defence) sectors of the economy. It is argued that the higher postal and telephone rates imposed by the Government in the Budget are necessary to enable the Post Office to expand and improve facilities on the scale deemed necessary to cope with the growth of the economy and increasing population. The additional telephone and postal charges, which will realise $64 million in a full year, have much the same effect on consumer incomes and consumer spending as an increase in taxation of this order. They amount to a form of “forced savings”. Recently the Victorian Government substantially increased charges for electricity. These increases had the same purpose as the rise in telephone and postal rates — that is, to finance capital expenditure on electrical facilities to cater for the needs of the growing economy and of increasing numbers of people.
Many other recent examples of this attempt to channel resources from consumption into the capital sectors could be given. More are impending. Despite the very substantial additions to State Grants (both of a revenue and capital kind) provided for in the Budget, some of the State Governments have bluntly stated that they will be compelled to increase further their own taxes and charges in order to raise the money they claim to need for their developmental expenditures.* These increased taxes or charges would further add to costs and prices and thus reduce the community's ability to spend on its everyday consumption needs. The increased charges for the services provided by public utilities in order to finance capital outlays are really a form of taxation. They subtract from peoples' incomes, and thus their ability to spend on consumption, just as surely as a rise in taxes.

The level of wages and salaries tends, inevitably, to respond to higher prices and government charges for gas, electricity, fares and the like. In a situation of rising prices, the pressure for increased wages and salaries, always strong, intensifies. This pressure can be resisted but not entirely contained. No one readily submits to the threat of a reduction in their consumption. The clamour for higher money incomes is the community's reaction to a situation which threatens to reduce their living standards. Thus the initial inflation of costs and prices caused by higher government charges (made necessary by the scale of developmental expenditure) tends to aggravate the familiar spiral of prices, incomes and costs.

An accelerating price rise over a broad front is an indication that the economy is over-stretched, that too much is being attempted out of too few resources. From the government standpoint, the nigger in the woodpile is the consumer. A striking indication of the sacrifice being required of the consumer by government policies is to be found in the decision this year not to raise pensions. If the consumer were prepared to submit tamely to restrictions placed on his consumption, the proportion of resources which could be devoted to investment in the future (and to defence) could be increased without continuing inflation and without endangering internal and external economic balance. Governments could increase taxes and charges at will, and businesses could raise selling prices:

*This article went to press just before the Victorian Government's Budget.
and the resulting increases in government and business revenues could be ploughed back into investment.

The transfer of resources from consumption to capital and defence would be a simple manoeuvre, which could be effected without secondary complications. But in the real world things do not work like that. There comes a point (in the deployment of resources between investment and defence on the one hand and consumption on the other) where the community begins to resist, more and more fiercely, high taxes and public utility charges which threaten to curtail its standard of consumption. This is the point of danger where inflation can become menacing and consequently where governments should tread warily.

The disposition of resources between investment, defence and consumption can become such that it is no longer possible for government policy to maintain a balance between total national demand and total national supplies. The steed threatens to get out of the control of its rider. This is the danger in the present situation. In the months preceding the Budget, the rate of increase in consumer prices was accelerating rather disturbingly. In the June quarter prices rose at an annual rate of 5 per cent — this is mentioned in the Budget Speech. This rate is much too high for comfort and it is a little surprising that the Government did not pay it more attention in shaping the Budget. Over the ten years, 1956 to 1966, prices rose at an annual rate of 2 per cent. A price movement of this order can be contemplated without too much concern. It is when the price increase quickens to 4 or 5 per cent a year that alarm must be felt.

1967/68 is likely to be a year of increasing upward pressure on the cost and price structure, which the Commonwealth Government will be fighting to contain. Its problems in this regard would certainly be intensified if some of the State Governments carry out their announced intentions of increasing their own taxes and charges. If State Governments were to proceed too far in these directions, it would contravene the Treasurer’s desire that this year the expansion of the public sector of the economy should be restrained to leave more scope for the private sector.
If there is a weakness in present economic strategy, it stems from the reluctance in government circles to make sufficient allowance for the greatly increased pressures imposed on the economy by the mounting burden of defence expenditure. In the space of five years this has risen from $428 to $1118 million, nearly $700 million or over 160 per cent. One might have expected that the rapidly growing commitment for defence would have disposed governments to look more closely at their other expenditures, to seek economies wherever possible, and to brake back the rate of growth of the unavoidable annual increases. Up to this year, there has been little evidence that this has occurred.

It is, admittedly, not easy for a Treasurer to slow down the charging momentum of the huge omnibus of government expenditure. He is under insistent pressures, both from within and from outside government quarters, to increase spending. Many of the proposals or claims put before him look attractive or appear to be justified in themselves, and he must be sorely tempted to accede. On the other side, the clamour for reduced taxes is always loud in his ears. At times a Commonwealth Treasurer must feel like a prisoner on a rack, pulled one way by some people, the opposite way by others, and not infrequently in both directions at once by the same people. To retard the great unwieldy vehicle of government spending is no simple matter when you are in the driver's seat. This year Mr. McMahon has made a brave effort to apply the brakes. Reading between the lines of the Budget Speech, it would seem that government circles themselves have at last — although a little belatedly — become disturbed by the size and rate of expansion of government spending. The increase provided for in the Budget ($561 million) has been reduced to 9.5% compared with the preceding year's increase of 11%. (Gross National Product is expected to rise by about 9%.) It amounts, admittedly, to no more than a gentle application of the brakes; but it is something.

But the size of the reduction is not so important, as the implication it carries that there is now some alarm in Canberra at the growth of the public sector of the economy. This is, at least, promising, and one might hazard a guess that the
Treasurer himself is playing a prominent part in the swing of attitudes indicated not only by the Budget Speech, but also by the Treasury's annual survey of the economy published last June. The public may now reasonably expect that the brakes will be applied more firmly next year.

The actual scope which will be left this year to the private sector by the Commonwealth's exercise in restraint may not be known however until the States bring down their Budgets. The omens here are hardly propitious.

The real problem which Governments may have to face in the near future arises not only from the allocation of resources between the public and private sectors, but also, and more important, from their deployment between capital and defence on the one side and consumption on the other. There are signs of growing restiveness among the community over the meagre yearly improvements in their everyday living standards which are all that present policies permit.
The Industry of Words

FEW industries do not at some time come under expert critical appraisal: their efficiency, productivity, selling prices, the quality of their products, their contributions to the national economy. But one of the most prominent industries—the industry of the printed word—seems largely to escape this kind of assessment. Yet it is, indubitably, by far the most important of all.

The industries of wool and steel, retail trade and banking affect our material standards of life. But the industry of the printed word is concerned with something very much deeper than physical well-being. It affects, in fact profoundly influences, the quality of our society, our knowledge and understanding of what is going on around us, our standards and values, our attitudes, opinions and ideas, indeed our worth as human beings. It thus commands a power for good or ill far greater than any other industry. Yet seldom does one hear discussion of whether this power is exercised wisely and responsibly.

Countless billion words are poured out by the printing presses every year—the IPA contributes its own small quota. But how much of all this makes a positive contribution to the instruction, quality and well-being of our society? One cannot help reflecting, perhaps cynically, that we might be much better off, or at least no worse off, if, say, 50 per cent of the words had failed to see the light of day. If it were possible to submit the industry of words to the scrutiny of “experts” in the same way as other industries are subjected to critical investigation from time to time, what would the verdict be? No doubt the judges would find much to commend; but would the verdict, on an overall balance, be favourable?

The purposes of the printed word can be reduced to three—to inform, to influence, to entertain. These purposes cannot be separated by hard-and-fast division. To have one’s mind informed is, to some extent, to be influenced. One can be entertained by what one reads and at the same time be instructed, or have one’s opinions modified or even diverted in an entirely different direction. Indeed, it can be argued that the article or book intended to inform or influence will fail in its purpose unless it manages, at least in some degree, to be entertaining. Novels, no doubt, are concerned mainly with entertainment, but many of the greatest writers—Dickens and Galsworthy are good examples—wrote their novels primarily to influence, to direct the attention of people to what the authors considered to be serious abuses in society.

Of the industry of the printed word, the daily press accounts for a very high proportion of the entire output. Its task is an exacting, even unenviable one. The daily newspaper must strive to be all things to all men. It must cater for an infinite variety of tastes and interests. A newspaper’s clientele demands to be entertained and also to be accurately
and properly informed; its readers look, too, for guidance on what they should think about important issues. The daily newspaper is required to perform all functions. The pressures on those who produce it are unrelenting; it is hard to be at the top of one's form all the time.

The daily press is pervasive, omnipresent, reaching every day into every home. People form their opinions or take their cue quite largely from what they read in their newspapers. For this reason, the press has incalculable potential for doing good—or, conversely, for doing harm. In one sense, a newspaper is a business like any other business. It is concerned, and indeed must concern itself, with sales, productivity and costs. It must realise a profit, or otherwise, like any other business, it will cease to function. But the daily newspaper cannot claim—although it sometimes does—to be just a business. Because it is read every day in every home, it has responsibilities far transcending those of other business enterprises, no matter how large or how vital to the health of the national economy.

The Press is much more than an industry or a business; it is a major institution of our society comparable to the institutions of Government, the Law and Courts, the Church, the Universities and Schools. But these other institutions are unlike the Press in the respect that they are not concerned primarily with monetary gain—gain is incidental to the functions which they perform. Their sole purpose is to contribute to the order and stability and moral and material progress of society, and they are judged by the contribution they make toward the realisation of these objectives. But in pursuit of their objectives, they can be aided and abetted, or handicapped, perhaps dangerously, by the industry of the printed word, and more particularly by that section of it known as the daily press.

No other profit-making industry has anything approaching comparable powers to the press for good or harm. But the other side of the coin of power is responsibility and the responsibility carried by the press is of almost terrifying magnitude. It is no wonder that some of its representatives have at times been reluctant to shoulder the burden. For the paradox of the Press as a social institution is that unlike Government, the Law, the Educational establishments, it is not compelled to carry the heavy weight of responsibility. The free press, is in the main, answerable to no one but itself. If it wishes, it can cast the burden of responsibility aside. The institutions of Government can be overhauled, the content and administration of the Law improved, and Educational establishments reformed, but no democratic society has found a way of "reforming the Press", even though at times in some countries it may have given cause for profound unease and dissatisfaction. Every thinking person knows how much society stands to gain from a press that sets for itself high standards of responsibility and taste. But to ensure that the press conforms to those standards presents a problem for which there is no readily apparent solution.

In a democratic society, the free press is an indispensable institution. If it is controlled it ceases to be free. It must therefore remain largely its own master. If it is falling below the standards deemed desirable, correction must come, in the main, from within, must be self-imposed. Admittedly, no institution, no matter how powerful, can remain completely impervious to intelligent, purposeful criticism. And, of course, the more powerful an institution, the greater its capacity for doing good or harm, the
more should it be exposed to public review and judgment.

But one of the paradoxes and inconsistencies of modern democracies is that the Press, as an institution, largely escapes this kind of critical evaluation. It is widely said that you can't criticise the press. This presumably carries the implication that painful reprisals will be visited upon those who are bold enough "to put their necks out". The press, it is said, is too powerful to cross. It will get its own back sooner or later. If you desire a forum for your opinions, it can refuse it. Or if it gives publicity to your ideas it may pour ridicule on them, or take them out of context and present them in an unfavourable light. Or if you are a public figure, the press can conduct a personal vendetta against you. There are numerous weapons of retaliation in its armoury which it may be tempted to use against causes to which it is opposed or individuals who incur its displeasure.

But few would believe that those who control the fortunes of the daily newspapers could be quite so thin-skinned or so petty as to resent reasonable criticism, or to seek revenge upon those who offer it. All criticism, of course, hurts. And none hurts more than the kind which those on the receiving end know in their hearts to be valid and just. But the wise man, even though he suffers pain, will pluck benefit from the nettle of criticism. And those who manage the press, when it comes to large matters, have shown on numerous occasions that they are not lacking in bigness of mind.

Since many people are understandably reluctant to engage in combat with an adversary so powerful as the press, perhaps the press would benefit itself and the community by being its own stern critic.

The idea that the press should subject its activities frequently to honest, searching self-appraisal has recently been proposed by no less a person than a prominent staff member of one of the world's greatest newspapers, Mr. A. H. Raskin, assistant editor of the editorial page of "The New York Times".* Mr. Raskin does not pull his punches. "The real long-range menace to America's daily newspapers in my judgment," writes Mr. Raskin, "lies in the unshatterable smugness of their publishers and editors, myself included. Of all the institutions in our inordinately complacent society, none is so addicted as the press to self-righteousness, self-satisfaction and self-congratulation". "I feel," he says, "there is a need in every paper for a Department of Internal Criticism to put all its standards under re-examination and to serve as a public protector in its day-to-day operations". The writer goes on, "The press prides itself—as it should—on the vigor with which it excoriates malefactors in government, unions and business, but its own inadequacies escape both its censure and notice".

What, then, does Mr. Raskin find wrong with the American press? He chalks up a long list of shortcomings not all of which can be mentioned here. Some of the most important are:

- the lack of confidence among many people in the truth or relevance of what they read in their newspapers; in the selection of what they print, the failure or inability of the newspapers to discriminate between the important and the unimportant;
- the trend towards press monopoly noted as long ago as 1947 by the Commission for Freedom of the Press (this makes criticism by the community all the more important);

the lack of distinction and standards of editorial quality in many newspapers;
the idea that the health of the balance sheet is an infallible guage of the adequacy of their performance;
the tendency of news to become "a thin layer of filling to keep ads. from bumping together".

Mr. Raskin has a great deal else of interest to say about American newspapers. Despite the severity of his strictures, he does not agree with those who claim that the daily press is deteriorating. He argues rather that it is improving, but not sufficiently rapidly for the needs of modern society. "There never has been a time," Mr. Raskin writes, "when good newspapers have been more needed; there never has been a time, when it has been so hard to make them as good as they must be." His conclusion is that newspapers cannot expect to stand aloof from public accountability.

Mr. Raskin is, of course, writing of the American press and his criticisms are not directed at the press of other countries. But his broad contention has universal application.

The industry of the printed word, of which the daily press is by far the most important section, must be judged partly by the contribution it makes to the betterment of society. Its practitioners are in an explosive trade and the merchandise in which they deal needs to be handled with extreme care and with a responsibility exceeding perhaps that demanded in any other industry. The press cannot ask itself too frequently whether it is contributing, on balance, to raising or lowering the standards and tone of the society which it serves.

The press today, is catering for a better informed and educated, more discriminating, more intellectually critical and alert community than that of even twenty years ago. It would do well to ask itself whether the products which it offers are tailored in all respects to fit the needs and tastes of this new society.

Perhaps the ultimate test of the degree to which the press is fulfilling its high responsibilities is whether the people feel confidence in it. Sales and circulation figures have little or nothing to do with this test. People will buy inferior bread if there is nothing else offering. But that does not prove that they like it. The newspapers themselves are in a better position than anybody else to ascertain whether this confidence in their product exists.
A Profound Change

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N page 49 of the April/June “Review” there appears a table showing that the great proportion of company shares are now bought not by individuals in a personal capacity, but by institutions. Moreover, these institutions — life assurance companies, trustee companies, pension and superannuation funds, investment and unit trusts — appear on the share registers of many companies as the largest single holders of shares. As recently as 1954/5 life companies and pension funds bought only $7 million of company shares, compared with individual purchases of $132 million. In 1964/5 the life companies and pension funds bought shares worth $178 million, individuals only $78 million. Purchases of shares by institutions other than life companies and pension funds rose from $27 million in 1954/5 to $79 million in 1964/5.

This does not mean that purchases of shares by individuals are today of little significance or that personal holdings are not in some instances of substantial proportions. Nevertheless, it does indicate a change of profound importance in the structure of the private sector of the economy, the broad social and political implications of which nobody has yet bothered to thoroughly explore.

It should be remembered that only some 20 or so years ago, company shares were generally not regarded as a fit subject for investment of funds controlled by institutions such as life assurance companies, or by the trustees of pension funds and estates. (This, of course, does not apply to investment trusts which were formed for the specific purpose of minimising the risk of investment in company shares for the small man with limited savings.) Indeed, in many cases the law restricted the investment of these moneys to what were described as “gilt-edged” securities, that is to fixed-interest bonds.
or semi-government stocks, the capital of which was virtually guaranteed by the state itself. In the investment of “trustee” funds, the over-riding concern was to maintain the capital intact. But the steep inflation of the post-war years (which eroded the real value of government and semi-government securities) and the virtual elimination of the trade cycle (with the prospect of greater stability of share values) brought about a change of attitude toward institutional investment in company shares. Today, the institutions are not only investing a large part of their funds in shares but also in interest-carrying debentures and notes, the worth of which depends entirely on the continued success and profitability of the companies which issue them. At March, 1967, life assurance companies, for instance, held investments in company shares totalling $492.1 million, and in debentures and notes, $377.7 million. Investments in government, local and semi-government securities amounted to $1241.8 million.

When the Institute of Public Affairs was formed towards the end of World War II, the socialist attack on the free enterprise system was directed very largely at the concept of “profit”, especially the profits earned by large companies. The gravamen of the attack was that profits benefited only a comparative minority of wealthy or well-to-do people, and that the great majority were excluded from any participation in these benefits. Further, it was held that large public companies, which were, in effect, controlled by a relative few, were conducted primarily in the interests of their shareholders without regard to the wider and greater interest of the community as a whole.

The socialists proposed to correct this state of affairs by the compulsory acquisition of the shares of major companies (in strategic industries) by the government, that is, by the expedient of “nationalisation”. “The nationalisation of the means of production, distribution and exchange” was indeed the battle-cry of socialist movements throughout the world. Nationalisation, the socialists asserted, would transfer ownership from “the few” to “the many”, and industry would henceforth be conducted (by the appointed representatives of the government) in the public interest rather than in the interests
of a share-holding minority. Private profit, it was claimed, would be eliminated by being, in effect, transferred to the people in the form of lower prices.

However, in recent years, the socialists have virtually abandoned what was once the central plank of their platform — the nationalisation of industry. (The nationalisation of the British steel industry is one of those exceptions which proves the rule.) They have abandoned it for two reasons. In the affluent society of full employment and rising living standards, nationalisation, as a political objective, commands no popular support. It is just not politically "on". Among many people there is today probably more suspicion of "big government" than of "big business" — at least the latter has proved that it can "deliver the goods". The socialists have rejected "nationalisation" for the reason, too, that where it has been tried extensively, as in Britain, it has been far from an unqualified success. Indeed, it seems to have given rise to more problems than it has solved.* Nationalisation has lost face even among many of its formerly most ardent supporters in socialist ranks.

But, by a strange irony, some of the things the socialists wanted to achieve through "nationalisation" have come about, at least in part, in ways far removed from what they had in mind. The "institutionalisation" of company investment is, in effect, bringing about a kind of "social ownership" of industry. These days a large proportion of the community have life assurance policies; hundreds of thousands are members of a superannuation or pension plan. The value of their policies and the extent of their benefits in retirement schemes are significantly influenced by the investments of the "institutions" concerned in company shares, debentures and notes. Thus, company profits which used to be restricted to a comparative minority of the community, are now bringing direct individual benefits to an overwhelming majority. Moreover, the extent of the financial stake of the community in company profits seems certain to increase as the years go by. This process of the "democratisation" of profits has been furthered by the fact that, with rising standards of living, growing numbers of people now invest part of their savings either directly in company

*(See Sir Oscar Hobson's survey in the January/March 1954 issue of "Review").
shares or in investment trusts which in turn purchase shares and other company securities. The "institutionalisation" of investment has gone along with a great increase in the number of individual shareholders on the registers of most sizeable companies.

There is, it is true, one all-important difference between the pattern of things which the socialists were concerned to bring about and what has actually taken place. The socialists aimed not merely at the "social ownership" of industry but what was called "social control". Whether the latter was ever a realistic concept is doubtful. What it really meant was that the control and direction of industry would be exercised not by boards of directors accountable to shareholders but by boards appointed by governments and responsible (theoretically) to the people through their representatives in Parliament. The trouble is that a structure of this kind is often not suited to the efficient conduct of industry. The controllers of a nationalised industry may be equally as competent as those of a large public company, but the former operate in a largely non-competitive environment, and one in which there is no over-riding compulsion to make a profit or to avoid a loss. Indeed, losses or threatened losses can easily be made good or averted by the simple device of increasing charges or even by transfers of government funds. Inefficiencies are more easily covered up. Also the government board necessarily operates in a political environment, and is exposed to the hazards of political oversight and interference. It is thus disposed to play safe rather than take the risks inseparable from rapid progress and technical innovation. Writing on the British nationalised industries in "Review" some years ago, the late Sir Oscar Hobson, a greatly respected financial writer, said "The greatest difficulty of all (with the nationalised industries) has been the inability of governments to refrain from interfering with the nationalised boards when votes are involved".

While the "institutionalisation" of investment has led to a far more realistic kind of "social ownership" than could ever have been achieved through nationalisation, it has, paradoxically, resulted in a greater concentration of financial and industrial control than existed two or three decades ago. (Con-
centrations of control, let it be said, would have been even more pronounced in a system of nationalised industry.) This has not come about by any conscious or cynical grab for power. It has evolved as a kind of natural, and perhaps inescapable, concomitant of the process of institutional investment itself. While the individual who puts his savings into an institution, (whether a life company, a mutual investment trust or a pension fund) does so of his own free will, he nevertheless surrenders control over their ultimate deployment to the boards or trustees concerned.

This he is glad to do for several reasons. First, of course, by pooling his savings with tens of thousands of other people he is able to assure his and his family’s future financially to an extent not possible by “going it alone” — “the magic of averages to the salvation of the millions”. Second, he achieves a “spread of risk” for his savings — which, in most cases, are fairly modest — far wider than he could obtain by entering directly into the share market himself. And, third, he saves himself the laborious and difficult task of deciding where to invest his capital and, in effect, delegates it to people skilled in the assessment of investment prospects.

Those who direct the fortunes of the institutions are responsible and competent people whose names generally command confidence among the community. The paramount consideration in their minds must be the security of the moneys with which they are entrusted, and this is often best provided by the large companies already equipped with strong financial resources, rather than by smaller companies operating on finer margins in a more risky and competitive environment. Also, the people controlling the institutions are not infrequently the same people who sit on the boards of large, powerful public companies. It would be surprising if they did not have a predisposition toward investing the savings entrusted to their care in companies of which they have the most intimate knowledge. There is no question of personal gain in this. It is simply a matter of “playing safe” with moneys belonging to other people for which they are responsible.

There are some facets of this situation which may need to be watched. In company terms, though not in individual, it could mean that the big get bigger and the rich get richer. The
smaller companies or businesses, on the other hand, could find it increasingly difficult to acquire capital for modernisation and expansion. Thus, there could be introduced a degree of inflexibility into the financial and business structure, which all champions of true free enterprise would wish to avoid.

There are also some rather tricky questions concerned with company control inherent in the new pattern of institutional investment. An institution with an investment in a particular company is usually likely to be one of the largest, and therefore potentially among the most powerful, of the company’s shareholders. Yet, strictly speaking, the institution is in a different position to a personal shareholder, because the money it invests is not its own but belongs to the people for whom it is acting in the nature of a trustee.

Has the institution the same right to exercise the power accruing to it as a major shareholder, as an individual or group of individuals who directly own a large block of shares in a company? If the institution is not satisfied with the way the company is being run, will it be tempted to interfere in the company’s affairs? Indeed, will it regard such interference as incumbent upon it in order to protect the interests of those for whom it is acting? Or does it merely sell out blocks of shares in the companies with which it is unhappy? In the United States there has been a growing tendency for institutions to intervene directly in the administration of companies in which they have large holdings of shares. These are questions to which a brief introductory article cannot pretend to provide answers.

There is no doubt that institutional investment has come to stay. In fact, it seems certain to become even more significant and important than it is today. Large-scale institutional investment in companies is not exclusive to Australia, but is a pattern developing in all modern, economically advanced countries. The trend has manifest advantages both for the orderly conduct of investment markets and for the mass of the community itself. On the other hand, the political, social, financial, and possibly legal implications to which it gives rise seem certain to inspire increasing study and discussion in the coming years.
Competition for Scarce Resources
(The Economic Survey, 1967)

The annual economic survey of the Commonwealth Treasury (published around the end of the financial year) is the most important and, understandably, the best informed paper on the Australian economy. First published in 1956, the surveys have maintained an admirable standard. Not their least attractive feature is their undogmatic character. The surveys never pretend to have all the answers to the problems which confront the economy from time to time. (Who has?) Indeed, they offer not so much cut-and-dried conclusions as a basis for intelligent discussion of important economic issues and, through discussion, the prospect of better general understanding. That, in fact, is their prime aim.

However, notwithstanding the high quality of these Treasury papers, it must be doubted whether the aim is being achieved. It would be interesting to know the extent of their readership. Outside the ranks of professional economists, the press, the universities and possibly the schools, the surveys may not be closely studied. There is little indication that the number of economic solecisms running round the community is on the decline. In economics, more so perhaps than in most things, people continue to believe what they want to believe.

A disturbing fact about the 1967 Survey is that the daily newspapers—with one or two exceptions—gave it very little space. This could be taken to indicate either a shrewd assessment of its appeal for their readers, or an extraordinary failure on the part of the press to comprehend the significance of what is intended to be a major government document.

The Treasury surveys usually conform to a pattern. The first part considers the course of events in the economy over the past twelve months and attempts to assess the outlook for the year ahead. The second part examines some basic principles and issues bearing upon economic policy decisions. These latter sections of the surveys are written in simple, non-technical terms and can be readily understood by the reader prepared to give an hour or two of concentrated effort. The businessman these days is compelled to pick and choose among the mountain of reading matter which piles up on his desk; but if he desires to improve his understanding of the economy, he cannot afford to neglect these estimable Treasury discussions.

The 1967 Survey concerns itself with the competing claims on the resources of the economy exercised, first, by government spending as opposed to private spending and, second, expenditure on consumption as opposed to expenditure on investment.

By definition, a full employment economy is an economy in which resources are fully engaged. The neglect
of this simple truism is at the root of much loose thinking on current economic problems. If resources are applied to one use they cannot, ipso facto, be used for another; if they are used, for instance, to build an underground railway for Melbourne, they may not be available to construct freeways and ring roads. Or, if they are used for both, then the community may be left with less to spend on vintage wines, or on travel, or even on what might be regarded as essential everyday needs. The consumer, for example, may have to make do with one suit of clothes a year instead of two, or postpone the purchase of a new car, or eat sandwiches for lunch instead of Angus steaks. Or the businessman may find that he is unable to raise sufficient money to buy the expensive modern machinery needed to take advantage of new technical advances.

At full employment, if additional resources are pre-empted by governments for public works, there will necessarily be less for private enterprise. If more resources are applied to investment in capital goods, by both public and private enterprise, there will be less available for adding immediately to the supply of consumption goods and services.

The 1967 Survey draws attention to the fact that government spending (that is spending in the public sector) even if the recent rapid expansion in defence expenditure is disregarded, has been growing for some years at a faster rate than spending in the private sector. This means that governments have been taking a larger proportion of the total available resources at the expense of the private sector, which, necessarily, is getting a smaller proportion. The Survey gives the following figures of spending by public authorities on goods and services as a proportion of all national expenditure:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent</th>
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<tbody>
<tr>
<td>1954/5</td>
<td>17.7</td>
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<tr>
<td>1959/60</td>
<td>17.7</td>
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<tr>
<td>1963/4</td>
<td>18.9</td>
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<tr>
<td>1965/6</td>
<td>20.5</td>
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(These figures, it should be noted, do not include government spending on social benefits, such as pensions and child endowment, since these do not add to government demands on resources, but represent a transfer of income from one section of the community to another.)

It would be going too far to say that the Survey expresses serious concern about this trend toward the expansion of the public sector of the economy. Indeed, after pointing out that government expenditure on goods and services amounts to about one-fifth of total national expenditure, the Survey adds: "A gradual increase in the proportion of resources allocated to publicly financed services can be expected as time goes on. Some would in fact argue on social policy or other grounds for speeding up this process". Not everyone would be readily prepared to accept this view, particularly as the burden of open and "concealed" taxation (represented in the surpluses of government business undertakings) seems to be growing rather alarmingly fast. There is, however, some grain of comfort for the free enterprise sector in the Survey authors' awareness that the trend toward increasing government expenditure cannot be pushed too far without adverse effects on the public sector itself. This constitutes an especially significant section of the Survey and a few extracts are worth quoting.

"Any reduction in the proportion of resources going to the private sector must tend to slow down the growth of its productive capacity — . . . This in turn must affect . . . the community's capacity to devote additional resources to community services, national security and other public sector activities . . ."
Competition for Scarce Resources (Continued)

The diversion of resources to the public from the private sector deprives the latter of some of the capital needed, not only for extending productive facilities—capital widening, as it is sometimes called—but also for making technological improvements (or 'capital deepening'). Progress in increasing output per manhour depends a lot on continuing technological improvement and there is a risk that the diversion of resources to the public sector, especially into non-economic uses, however desirable in themselves, will slow down the growth of output that is the material foundation for most other advances in community well-being."

This amounts to a frank recognition of an important economic truth often overlooked by those who clamour for more and more government spending—that is, that governments are dependent in large part on the resources they need for public works, educational facilities and other social expenditures on the output of the free enterprise sector. The higher the efficiency and output of private industry, the greater the resources available for universities, schools, roads, water conservation and the whole host of community services.

It is thus necessary to try to achieve a proper balance between the private and public sectors of the economy. In recent years, some State Governments, unhappy with the allocations they receive from the Commonwealth, have tended to load the economy with additional taxes and to seek new forms of taxation. These taxes exclude the growing practice of increasing charges of public utilities such as electricity, gas and transport, in order to finance capital expenditures. If this tendency is persisted with, the very dangers to which the Survey draws attention could eventuate and the overall rate of progress and development be slowed down. (It is to be hoped that the Commonwealth pointed this out to the States at the Loan Council meeting last July.) The States no doubt can point to a hundred and one things within their spheres of activity which are crying out for attention. But this will always be so in a rapidly expanding economy, setting higher and higher standards of community services, where resources are not sufficient for all purposes.

There is a disposition these days to justify everything in the sacred name of development. But the advocates of more and more public spending and governments themselves should bear in mind that if the balance between private and public expenditure is disturbed, and the scales tipped too heavily towards the latter, the economy will be weakened and no one will benefit. In recent years, a large part of the additions to the price level are attributable to increasing indirect taxes and to higher charges by government utilities.

Moreover, the consumer must be allowed his crumb of comfort. For as the Survey says, "... figures certainly do not suggest that there is an excessive diversion of resources toward personal consumption and away from investment in this country". The Survey could have supported this assertion most convincingly by statistics comparing the average annual rate of increase in real consumer spending per head (i.e. in standards of living) between the advanced countries. On this assessment, Australia comes at the bottom of the consumption ladder.*

This leads in to the other aspect of the competition for resources discussed by the Survey—namely that between investment and consumption, or spending

*See article "Savings and Investment", April-June, 1967 "Review".
on capital purposes as opposed to personal spending on everyday current requirements. Money not spent on the latter is money saved and is available for spending on capital purposes. The resources released for investment by local or domestic savings are supplemented by foreign savings represented by the amount of capital inflow from abroad.

The Survey points out that the two together—domestic savings and capital inflow—impose a limit on the amount of investment which can be undertaken without disturbance to the balance of the economy. If expenditure on investment exceeds the sum of domestic savings and capital inflow, it will set up competition for resources with consumption. This will force prices up and also put strain on the external balance of payments with a possible loss of overseas reserves. Of course, as resources devoted to investment cannot be used for consumption purposes, and as resources not used for consumption are ipso facto, “saved”, investment must, in the outcome (as Keynes pointed out) equal savings. The reduction in consumption, (in other words, the increase in savings required to meet the higher level of investment) is brought about by the rise in prices which has the effect of reducing consumer spending (in real terms).

While most economists would wish to avoid inflationary consequences of this kind, some have tended to argue that additional resources can be made available for investment through compulsory savings—that is by raising taxes and thus reducing consumption. The Vernon Committee indeed, suggested higher taxes as the only realistic means of achieving increased savings and thus more money for investment.

It is a pity the Survey did not explore this aspect of the consumption-investment picture. The strong probability, however, is that where investment already takes a high proportion of the Gross National Product, and consumption consequently a relatively low proportion, an increase in taxes would not avoid competition for resources between investment and consumption. In this situation, the increase in taxes would almost certainly lead to pressure for higher incomes as people found their take-home pay reduced. If the taxes were levied in indirect forms, the resulting higher prices and charges would have a similar effect. People finding their consumption expenditure threatened would also draw down their voluntary savings and make every effort to borrow more. The higher taxes would therefore certainly give rise to inflationary tendencies. State governments who increase public utility charges, or talk blithely of raising taxes to spend on their public projects, would be well advised to move cautiously in a situation where total investment is already high and consumption spending comparatively restrained.

The Survey points out—and this may come as a surprise to many—that in 1965/6 gross fixed capital expenditure in Australia at 27.1 per cent of the GNP was exceeded only by Japan at 31 per cent. Moreover, Australia's 27.1 per cent compared with the United States' 16.5 per cent and the United Kingdom's 17.6 per cent. Even in Canada, with a huge influx of foreign capital and with similar problems to Australia, the proportion was only 24.6 per cent.

With this general context in mind, it is certain that any attempt to further restrain consumption by imposing additional compulsory savings would have undesirable inflationary consequences.

The main hope for expanding expenditures on capital purposes would seem, therefore, to be in attracting increased investment money from abroad.
The Treasury survey however, takes a rather pessimistic view of this possibility. It sees little immediate prospect of the lifting of present restraints on foreign investment in the United States and the United Kingdom. In the European countries, the organisation of capital markets and local monetary policies do not at present favour a strong external flow of investment funds. All this should please those who dislike foreign capital and who have painted nightmarish pictures of what it may involve for Australia in the future. But it will please no one else. And even the former may be a little disturbed by the Survey's conclusion that: "... overseas capital not received represents resources forgone and so much investment, with the extra growth it generates, that we have to do without. This in turn must, to a degree, affect our own living standards as well as our capacity to carry additional burdens for defence or aid to needy countries".

While, on the face of things, the present outlook is not as promising as one would wish, the flow of overseas capital is—in a sense, fortunately—the most unpredictable of all the factors affecting the Australian economy. We are of the view that present conditions are so overwhelmingly attractive to foreign investors, that Australia will continue to receive a strong flow of capital from overseas. There is, however, one important proviso—that we refrain from raising financial and psychological barriers to the receipt of this capital.
New I.E.A. Publications

The following new publications from the Institute of Economic Affairs, London, are available. They will be of value to students and teachers of economics, as well as laymen interested in public and business policy.

“Education—A Framework for Choice” pp. 101 Price $2.00

This volume comprises four essays by a historian (Prof. A. C. F. Beales), two economists (Dr. Marc Blaug and Dr. E. G. West) and a leading educator (Sir Douglas Veale).

The essays discuss in a lively way the merits of state and private education, and whether the provision of so-called “free” education by public authorities should be replaced by a system that will distribute tax-financed “education vouchers” to all parents, redeemable at any “approved” school, whether privately or publicly operated.

“Paying for Social Services” pp. 24 Price 60 cents


The author discusses the Welfare State and the inroads which heavy taxation makes on incentive to effort and efficiency.

The competing claims of personal consumption, defence, economic development and social welfare add up to more than the nation’s income. Private investment — so essential to economic growth — and public expenditure necessary for social advance, are like two hands in the same pocket.

“Overseas Investment or Economic Nationalism” pp. 32 Price 70 cents

This paper contains three distinguished speeches by Lord Shawcross, Sir Sydney Caine and Mr. Val Duncan on the subject of international investment. Each speaker has doubts about the short-term advantages of limiting British overseas investment to help the balance-of-payments. They wonder whether this may be too high a price to pay for long-run disadvantages to the developing countries as well as Britain.

“Freedom For Fuel” pp. 72 Price $1.00

by Georg Tugendhat

The abundance of world reserves of coal and oil, together with the rapid development of new sources of energy, including nuclear power, has removed grounds for anxiety about supplies in the foreseeable future. All the evidence points to lower fuel prices, increased competition and a vigorous free market in various fuels.

“Copyright and the Creative Artist” pp. 48 Price 80 cents

by Denis Thomas

The author argues strongly that the laws of copyright are urgently in need of reform.
Impressions of a Tourist

by

M. T. Williams

Research Economist of the I.P.A.

Mr. Williams spent three months touring the United States, Canada, Britain, Scandinavia, Switzerland and the Common Market Countries. He says that the increasing affluence of Western Europe has brought with it a swing against government paternalism and a desire for greater personal discretion in the spending of incomes. He believes the most urgent (and massive) domestic problem in the United States is that of urban renewal and redevelopment.

LAST May I went abroad to see as much as I could in three months' long service leave. The impressions I have brought back are primarily those of a tourist, biased by his own reading and character traits and dependent on personal observations and largely casual conversations with chance acquaintances. Although I interviewed economists and businessmen, my purpose was not to make a serious, sustained investigation of economic and political trends.

I travelled extensively by tourist bus services in North America, Britain and the European Continent. My first long road journey from San Francisco to Los Angeles gave me an introduction to America's fantastic freeway system. Los Angeles is probably the most motorised community in the world and its clover-leaf flyovers are awesome. At peak periods traffic banks up for 30 miles. Nor shall I easily forget the sight of the traffic streaming down the 14-lane McCormick Highway in Chicago.

San Francisco and the neighbouring cities of Piedmont and Oakland were among the most attractive I saw on my American tour. But this could largely be due to the fact that everywhere else I seemed to be in perpetual smog. After smog-free San Francisco—the afternoon breezes blow the smoke out to sea—the smog-laden atmosphere of Los Angeles comes as a terrible shock. It is almost entirely due to the fumes of the City's 4 million cars. Unlike San Francisco's wonderful system, public transport in Los Angeles is run-down and poorly patronised.

America's highways are financed in the main by the Federal Government, but the States contribute funds largely raised from road users by the petrol tax and strategically placed toll gates. The average price of petrol in the United States is around 36 cents (Aust. gal.), of which 11 cents comprise taxes. We pay over 40 cents for petrol in Australia, of which about 12 cents is tax.
Road standards in Australian cities seem to be far behind those of many overseas countries. In the whole of my trip through North America and Western Europe, I hardly ever travelled on a poor road. Petrol prices are high in Europe mainly because of the large tax content to finance roads. Average petrol taxes per gallon were (cents—Aust.) Italy 61, France 59, Belgium 52, Sweden, United Kingdom 45 and West Germany 39.

My statistical researches for the I.P.A. had familiarised me with the fact that Australia had one of the highest living standards in the world and this was confirmed by visual inspection. In relation to the earning power of the average worker, food is cheaper here than in any other country. I also felt that Australians were among the best housed of any people. The higher income groups in some countries may have lovelier homes and apartments than their Australian counterparts, but not the ordinary person. Space for cities to spread and liberal government encouragement to private home ownership could be part of the explanation for the high standard of housing in Australia. Huge tenement blocks are the lot of many people in other countries through economic necessity. We know little of this in Australia, although rising costs are now forcing many on low incomes to live in government multi-storey flats.

Staying at hotels in the older inner areas of the great cities of America, I came to understand the extent of the problem of urban living for the less privileged in the United States. Almost the entire white population of these areas has moved away to the suburbs leaving negro, Porto Rican, Mexican and other low income groups in huge apartment blocks in the city proper. The visitor cannot help but be deeply disturbed by these sub-standard living conditions, which are due partly to poor civic leadership. Early in my American tour I had seen what vigorous and enlightened community leadership could do in the cities of Piedmont and Oakland. Piedmont was started on the hills opposite San Francisco after the great fire of 1906. Its ratepayers willingly pay high rates for civic development and therefore Federal Government grants per capita to Piedmont are among the highest in the United States. Other cities, such as Cleveland, much more in need of assistance, get low grants because their civic leaders fail to put constructive proposals for city redevelopment to the Federal Government. The negro communities are to a large extent dependent on city administrations for housing, public services, education and the other things they need. But the tax revenues from dilapidated buildings occupied by negroes are low. Popularly-elected officials are reluctant to impose further burdens on a community already resentful at their large rate bills. Business offices are moving to the suburbs because of high rates in the inner city areas.

70 per cent of the population of the United States live in some 700 cities and their suburbs. The inner areas of some of the great cities are becoming increasingly congested and blighted through the influx of negroes from the South and of other depossessed racial groupings. It has been said that there are 7 million urban homes (or 1 in 7) unfit for habitation or badly deteriorated.

Improving the standards of urban life is clearly among the most urgent domestic problems facing the United States. The quality of urban living has failed dismally to keep pace with the nation's obvious wealth and affluence. The Johnson Administration has been alert to this issue for some time, but has been thwarted by Congress and dilatoriness at the city level. After the recent race riots, President Johnson pointed out that Congress
had rejected his Rat Control Bill which proposed to spend $40 million on rat eradication in city slums — rats are a terrible scourge in the negro ghettos — and had sliced his request for a model cities’ programme by two-thirds.

Only a long-range assault upon conditions that breed despair and violence can permanently end unrest in America’s big cities. I was concerned at the number of obviously idle negroes in the streets. Senator Robert Kennedy claims that less than 60 per cent of adult males in a typical negro quarter of a big American city have a job and only 44 per cent have full-time employment which pays more than $60 a week (the legal minimum). Only 10 per cent of American negroes reaching eighteen each year have the equivalent of a simple blue-collar high school education. Automation is slowing down employment opportunities in manufacturing in the United States by at least one million new jobs a year. Not all workers replaced by automation are retrenched, but a high proportion of those laid off are unskilled negroes. This problem is acute in cities such as Detroit and Chicago where the civic leadership is good but almost overwhelmed by the difficulties confronting it.

The Empire State Building, the Rockefeller Centre, the new Lincoln Centre for the Performing Arts, Central Park and many other areas of New York are magnificent. But not the miles of slums in Harlem and, further out, in the Bronx and Brooklyn. According to a recent survey by Columbia University, the numbers of sub-standard housing units (almost all in negro quarters) in New York increased from 420,000 in 1960 to 525,000 in 1965, but the City’s total stock of low rental housing units dropped by 260,000, still further increasing segregation.

The story is undoubtedly much the same in Detroit, Chicago, Philadelphia, Cleveland and other large cities where almost half the population are negroes or even in Washington itself where over 60 per cent are negroes. But the negro problem — large as it is — is, of course, only a small part of the American scene. Whilst in America I sent a letter home criticising American cities. The Director of the I.P.A., Mr. C. D. Kemp, wrote back to me: “I am sorry you did not get a brighter impression of the United States. I think if you had had more time you would have had a different reaction. The United States is a many-sided country. Everything is writ large. The warts on the picture stand out like mountains and if one focuses too much attention on them, they tend to obscure all the good features in the landscape. You say, that for the ordinary man, Australia is a far better country to live in than America. This may be so. But is it better for scientists, for authors, for men of enterprise, for economists even? I doubt it. Life is in some ways tougher in the United States. This may be the penalty imposed by an advanced technological society with a huge, and in many areas, congested population. But a nation which has achieved such miracles in so short a time, and which is contributing so much to the world, can’t all be based on materialism and false standards”.

All this is so true. The generosity of Americans in support of great causes is unsurpassed; the high democratic ideals of America, of Jefferson, Lincoln and the rest are still strong. In spite of the tendency to conformism, which so disturbs many of the most thoughtful Americans, there is probably more true freedom of thought and scope for individual expression in the United States than in any other country. Since the War, the democratic and underdeveloped worlds have learnt heavily on the United States and sometimes, unfortunately, tend to forget
how much they have benefited from American wealth, organising genius and good intentions. Those who prefer the social justice and the security and stability of the British and Scandinavian-type democracies may have to be prepared to suffer the consequences in lower material standards of living. After he has paid for his regular commitments, the average American has possibly about four times as much spending power left as the Australian to devote to travel, recreation, entertainment and otherwise having a good time. One only has to see the fabulous new glass opera house in Los Angeles, the miles of towering skyscraper hotels along the Miami beach front, or Las Vegas, to appreciate the enormous amount of money that Americans spend on recreation. I understand that 18 million tourists — the figure makes one gasp — mainly native Americans, flock to Miami every year.

I saw nothing to disprove a recent British study which suggested that American living standards were at least 30 per cent better than Australian, that we lagged behind Canada and Sweden, but were ahead of Britain and other European countries. The standard of living of the average person in Britain seemed surprisingly good, with plenty of expensive new motor cars, crowded pleasure resorts and well-dressed people in the streets.

I took to Edinburgh as to few cities, but possibly this was because it is so stoutly independent. Edinburgh Castle dominates the sky-line in a truly awe-inspiring way and the spacious gardens and absence of sooty factories also help to make Edinburgh a tourist’s paradise. Nor did I ignore the seamy side and I saw Liverpool, Leeds, Newcastle, Glasgow and other industrial cities. They weren’t nearly as bad as I expected, and their housing redevelopment schemes were impressive. Glasgow is endeavouring to re-house about one third of its inhabitants.

Touring Britain I gained the impression that far too much money was being spent on “unproductive” government projects — housing, roads, public transport, electricity, telephones and so on. Everywhere major works seem to be in progress. A big factor in explaining Britain’s current economic troubles must be the sharp rise in non-manufacturing investment over the past decade, whereas investment in the manufacturing export industries has barely increased. Roads, schools, houses and commercial buildings are badly needed but they add little to exports and a great deal to imports.

Whilst in Britain, I spoke to Professor Paish who has a reputation second to none among economists. He has long maintained that the nation was trying to do too much and could not possibly achieve price and wage stability, or equilibrium in the balance of payments, while unemployment was less than 2 1/2 per cent. This was the very minimum necessary to give flexibility to the economy. But the Labour Government has implemented only half of Professor Paish’s remedies for Britain’s ills. It has overlooked the other side of the coin which Professor Paish stresses: the importance of incentives to the private sector of the economy. There are now signs that Mr. Harold Wilson recognises this and I would not be surprised to see the drive for economies in government expenditure extended to the hitherto sacrosanct field of social service benefits. Charges could be increased on people able to pay and “free” benefits maintained only for people in very real need. This would enable cuts in the crushing level of personal income tax. At a salary of £15,000 a year ($37,500) British executives retain only 16 per cent of any extra earnings compared with 38 per
cent in the United States, 50 per cent in Germany and 53 per cent in France. A revision of tax policies to encourage innovation and give Britain the technological boost some industries badly need also seems likely.

The Institute of Economic Affairs in London has been hammering at this theme for nearly a decade with pamphlets written by eminent economists such as Paish, Hutton, Clark, Hennessy and Jewkes. The I.E.A. work is now attracting a great deal of interest within the Labour Party. A straw in the wind is a recent I.E.A. pamphlet "Paying for the Social Services". The author, Douglas Houghton, resigned from the Ministry early this year to become Chairman of the Parliamentary Labour Party. Mr. Houghton was a member of the General Council of the Trade Union Congress from 1952 to 1960, and was appointed Minister Without Portfolio in April, 1966, with responsibility for co-ordinating social policy on pensions, health and educational services. He is emphatic that the present competing claims of personal consumption, defence, economic development and social welfare in Britain add up to more than the nation's income. He says "how much will people here give up to compulsory rates and taxes, contributions, levies and all, for whatever worthy purposes, without loss of incentive to effort and efficiency and without pressures for higher incomes which will keep the vicious spiral turning". Mr. Houghton therefore advocates a shift away from universal social benefits to selective benefits to those in dire need. His solution is to make recipients pay more for the benefits they receive by higher direct charges and use the tax system as a means test. The existing income tax coding system (used for the assessment of tax) would be extended beyond the point of no tax liability. Code numbers could carry any permutation or combination desired of supplementary entitlement to rate rebates, school meals, welfare services, the National Health Service and so on.

Sweden has the highest standard of living in Europe with easily the most motor cars, T.V. sets and telephones per head of population. Housing, however, is a major problem and one of the few blots on the record of the Social Democrats who have been in power for over 30 years. About three-quarters of city dwellers now live in apartments. The problem of heating during the severe winter is part of the reason, but apparently Government policy is largely at the back of it. Rent Control has been in force since 1942 when rents were frozen and increases have only been allowed as interest rates and construction and maintenance costs have risen. Funds for new housing are largely allocated to municipally-owned multi-storey apartments to the detriment of private home building. Rents are kept down by interest subsidies and special rent allowances for the elderly and large families. Low rents, a high post-war birth rate, the drift to the cities and rapidly rising wages have all combined to create a serious housing shortage in Sweden and a vicious black market. Newly married couples are forced to wait up to ten years for a house. Meanwhile they must live with in-laws, pay exorbitant "key-money" to fortunate tenants of existing accommodation, or go to the suburbs where rents are twice as high on a new house as on an old house located in the centre of the City. The young people are so resentful of the wasteful use of housing by the elderly (and also the lavish old age benefits) largely at their expense, that the Government could easily be defeated at the 1968 elections. I sensed that the Swedes, particularly the younger generation, had had their fill of paternal social welfare and long for a more individualistic society where taxes
are lower and there is more freedom to spend their money as they wish. In contrast with the rest of Europe, where beneficiaries must contribute substantially to the cost of pension schemes, in Sweden, employers and the Government (through income taxes) largely foot the bill. The scale of social service benefits in Sweden is certainly the best in the western world and the means test has practically been abolished. Social service benefits and education take half of the Swedish budget—a far greater proportion than in any other country. As a consequence income tax rates in Sweden are the highest in the world.

I toured the German Rhineland from Frankfurt and was impressed by the obvious signs of prosperity. Nevertheless, one must have some misgivings about the West German economy. Unemployment has risen sharply over the last 12 months, although still only 3 per cent of the labour force. The fall of Krupp and the stumble of the great Volkswagen car company seem to have been a blow to business morale. The West German Government is cutting spending at a time when the balance of payments is in massive surplus and it ought to be reflating the economy. Apparently the Central Bank is debarred by the West German Constitution from financing a budget deficit—no doubt the aftermath of the bitter experience of two runaway inflations. The Finance Minister, Joseph Strauss, is endeavouring to borrow outside the formal institutions and also to switch from annual to multi-year budgets. International economists in Washington are waiting anxiously to see whether the German economy will revive sufficiently to pump funds into import trade and thus help relieve the deficits of Common Market trading partners with whom it has built up surpluses. German exports are highly competitive and the most buoyant element in their economy.

Apart from the wonderful scenery, Switzerland offers one of the few opportunities in the world to see a really free society at work. Swiss politics are liberal and free enterprise beyond belief, but not exportable. Over one-quarter of the Swiss labour force is comprised of voteless foreigners. Hence the male middle and upper classes mainly vote—women don’t get the vote. I was staggered to learn that one million Italians had migrated to Switzerland over the past decade. Many, of course, eventually return to their homeland, but this is a remarkable figure against a total Swiss population of barely 6 million. By comparison, Australia has absorbed 140,000 Italians over the past decade, Germany 600,000, France 400,000 and Canada and the United States 200,000 each. It is practically impossible for foreigners to become Swiss nationals—only a fifth ever get permanent resident permits. The rest may remain in the country for a year less one day, but are eligible for re-entry.

The Swiss work hard, save every cent and invest wisely, but their lower income groups are not as well off as in Scandinavia and Britain. For instance, only 1 in 3 have a car. This is well behind North America, Sweden and Australia, and also below Britain, France and Germany. Cleanliness is, of course, a Swiss trait that has to be seen to be believed. Even allowing for their greater problems, every British and American Mayor ought to go to Zurich to see how a city should be kept clean.

With a population of less than 500,000 Zurich has 120 hotels and 7000 hotel beds. Foreigners, many of them highly educated, provide the necessary extra help during the tourist season on relatively low rates of pay, apparently just for the joy of being in Switzerland. Another statistic which intrigued me was the number of millionaires living in
Switzerland—1500. Many are, of course, wealthy foreigners, encouraged to live abroad by the penal rates of taxation in their own countries. Maximum rates of personal income tax in Switzerland are about 33% and as low as 20% in some Cantons.

Reflecting on my three months of travel, I have come back to Australia with the firm conviction that people in the Western world are becoming increasingly disillusioned with their political leaders. In the United States and Britain and particularly in the advanced social democracies of Scandinavia, people seem rather fed up with the extent of government interference in their lives. They could easily sweep into power leaders who promise lower government expenditures and lower taxes. I noted with interest that Enoch Powell’s star is on the ascendant in Britain, when one would have thought his extremely conservative views were a serious handicap with the modern electorate. I found that even Labour voters in Britain were hostile towards Mr. Wilson and members of his Cabinet, for being too theoretical and not practical enough in handling Britain’s problems. The Selective Employment Tax has been bitterly criticised and I understand the former economic advisers to the Government, Kaldor and Balogh, have gone back to teaching.

The peoples of the Western world have obtained on the whole a comfortable affluence and it seems they want to be left more alone to enjoy it, without too much interference by governments.