Editorial—

Taxes Getting Too High

THERE is the unpleasant smell of higher taxes in the wind. Talk of increased expenditure on defence, an easing of the means test on social service benefits, and more money for water, roads and other ailing public facilities point in the one direction.

The cumulative impact of rising taxes and government charges of many kinds is already beginning to really hurt. The steeply progressive bite of Commonwealth income tax at comparatively modest levels of income is only one of many irritants. State and local taxes, whether in the form of increased registration and driving licence fees or of rising stamp duties, or higher rates by municipal authorities, and additional charges by government instrumentalities for telephone, postal, electricity and similar essential services (to finance capital extensions) are adding substantially to the burdens of the ordinary citizen.

Taxation is taking already a much greater proportion of the GNP than it did during the 1950’s. Now there is the dreary possibility of a further addition to the heavy load which the community has been carrying—without, let it be said, com-
plaining too loudly. But the people's tolerance of the mounting tax burden must be stretched pretty close to breaking point; further increases are likely to be bitterly resented.

The signs are writ large (in the clamour everywhere for higher money incomes and in the widespread industrial restiveness) that the Australian people are far from happy with the barely perceptible annual improvement in their current living standards permitted by present policies. Governments which choose to ignore the present mood of the public will not only court trouble for themselves but, much more important, run the risk of disturbing the balance of the economy and imperilling its future prospects.

Other nations, notably the United Kingdom, have seriously damaged their economies by permitting taxes to rise to the point where they discourage enterprise and virtually destroy prospects of personal advancement. Australia would not wish to travel along this road, yet the long-term trend of taxes in this country seems to be inexorably upward.

Government claims on resources are already in serious conflict with private claims (for both capital and consumption), giving rise to pronounced inflationary tendencies in the economy. It would be foolish and wrong-headed indeed to further aggravate this situation.

The rising tide of government spending is the root cause of the difficulties at present being experienced. The strong likelihood that increases in expenditures on defence and pensions will have to be made in the coming financial year will confront governments with agonising dilemmas in regard to other forms of spending. Ruthless decisions will have to be taken in regard to the right priorities.

Some people may argue that taxes in Australia still take a smaller proportion of the GNP than in other Western countries: although this is not so certain when increased charges by government instrumentalities (such as the PMG) to pay for capital extensions are brought into the reckoning. Country by country comparisons of the tax burden can be most misleading. Irrespective of its total size (in relation to GNP) there is a special feature of government spending in Australia which has largely passed unnoticed. 32 per cent goes into pub-
lic works, in other words into capital. This compares with only 19 per cent in Canada; 20 in the United Kingdom; and 18 in France and West Germany. If defence expenditure is added, the figures become Australia 45 per cent; Canada 30; the United Kingdom 35; France 29; West Germany 28. By contrast with Australia, the other countries devote a much bigger proportion of government revenues to current expenditures such as social cash benefits, educational and health services, administration and so on. Defence and capital spending compete with consumption, in other words with current living standards: social services do not. This means that government spending in Australia has a much greater inflationary bias than in other countries.

Australia has clearly reached the position where it cannot divert more resources into capital (and defence) without running smack up against the strong public desire for improved living standards in the present. Any attempt to “freeze” living standards will aggravate the already fierce competition between consumption on the one hand and capital (and defence) on the other.

If we only manage our affairs with commonsense and moderation, Australia, with its unsurpassed mineral wealth, has prospects second to no other country in the world. How foolish it would be to place these wonderful prospects in jeopardy by policies which would certainly weaken enterprise, accelerate the inflationary momentum, and intensify the difficulties of the all-important export industries.
A New Scale of Priorities

Roads, water, sewerage, education and other public facilities are failing to keep pace with the insatiable demands of rapid development. Three possible courses of action are open to governments:

First, increase taxes.

Second, cut-back the migrant intake.

Three, allocate moneys for capital projects on a new basis, "putting first things first".

The IPA rejects the first two and urges a better distribution of moneys between the major cities and the less populous country areas.

The ominous national water situation — seen at its worst in Melbourne — has focused attention on the failure of public utilities and services generally to keep pace with the insatiable demands of rapid development and population growth. In most of the major areas of government-provided facilities, there are conspicuous deficiencies. Water supply is merely the worst of a pretty bad lot.

Public transport is another good example. Melbourne, for instance, is burdened with a tramway system which has changed hardly at all in 40 years, and which, for sheer noisiness, must be almost unrivalled in the world. Its unpopularity is proved by the fact that its customers dropped from 12 million to 9 million in the last 12 months. The suburban railway system is in little better case. On some lines, 80-year-old carriages are still being used and, in spite of proliferating suburban growth, only one mile has been added to the rail network in the last 5 years. The Melbourne underground, which was thought to be essential when plans were finalised 15 years ago, still looks like a distant dream.

Roads rank with water as one of the two "crisis" areas of the Australian economy. In the hundreds of miles of unmade suburban streets, in modern arterial freeways and city ring-roads, the position is daily getting grimmer. The freeway requirements of Melbourne and Sydney are estimated at 560 miles: so far the two cities between them have only 6½ miles. The economic losses of road congestion have been calculated in frightening magnitudes.

Most people would find it hard to believe that at this point in the 20th century, over 1,000,000 people in Melbourne and Sydney are living in unsewered homes. In Sydney, the number of people, 700,000, without sewerage exceeds the population of Brisbane.

Despite heroic efforts, and some signs of improvement, educational facilities continue to fall a long way short of the national need. Antiquated school buildings, overcrowded classrooms, shortages of trained staff and stringent university quotas are the general rule. While the resources devoted to education, as a proportion of GNP, have sharply increased
in recent years, teachers claim that the money spent on school buildings is grossly inadequate, with some schools having to cater for four or five times the number of pupils they were planned to accommodate; areas intended for playgrounds are cluttered with temporary classrooms.

In the field of public health, the situation is little or no better. There is a shortage of hospital beds and also of some types of modern, expensive medical equipment. (Ray equipment for the treatment of cancer is an outstanding example).

The story is repeated in practically every aspect of community services dependent on governments. For instance, a report of the Chief Commissioner of Police indicates that Victoria should have a police force of at least 9,000; its present strength is 4,700. A catalogue of all the deficiencies in the public sector would make a long and disturbing list.

In spite of its great achievements in development and generally high living standards, the standard of public facilities in Australia compares, on the whole, unfavourably with many of the Western countries. In Canada, whose problems are similar to Australia's, the major cities of Montreal and Toronto have constructed, since the war, first-class underground railways while Melbourne's seems as far away as ever.

Of course, all economies, even the wealthiest, are battling against scarce resources; there is probably no country in the world where the standard of essential services provided by governments fulfils desirable minimum requirements. The inadequate condition of the public sector of the American economy, by contrast with the private, led J. K. Galbraith, the Harvard economist, to write his famous "Affluent Society", claimed to be the most widely read book on economics of all time. The central thesis of "The Affluent Society", "private affluence and public squalor" is, however, not applicable to the Australian situation. In spite of comparatively high living standards, Australians do not allocate an excessive proportion of national production to their personal consumption needs. Indeed, Australians devote a smaller part of their incomes to consumption than practically any other Westernised country, and are, accordingly, among the highest savers in the world. This does not mean that we are, by nature, more thrifty than peoples of other countries. Quite a high proportion of Australian savings are compulsory, extracted from the people by governments, through taxes and public utility charges, to provide finance for the huge public capital expenditures made necessary by rapid development.

The root cause of Australia's inadequate public facilities lies not in the prodigality of the consumer, but in the explosive growth of its population — outside Israel, the fastest in the world. An aggravating factor is the geographical character and vast area of the Australian continent. Essential public works are often abnormally costly and huge sums are required for opening up remote territories, some of which would be difficult to justify on a strict economic calculus. In recent years, there has been another complication: the sudden jump in defence expenditure, imposing heavy additional strains on Commonwealth finances, which provide the bulk of the moneys (around two-thirds) for all government purposes.

The present serious deficiencies in the public sector of the economy are, of course, nothing new. Ever since World War II, Australia has been struggling to keep pace with its own progress and to provide a standard in its government services in line with generally accepted concepts of what a modern community needs. What is new, however, is that in several
areas of the government sector — notably water and roads — conditions have become so grave as to suggest the need for emergency "crisis" measures.

Over recent years governments at all levels have been following the prescription of those who advocate that still more resources be diverted into the government sector through higher taxes — Commonwealth, State and Local — and through higher charges by statutory authorities. Commonwealth income tax has increased from 8 per cent of personal income in 1954/5 to 11 per cent. State Governments have been devising new taxes, the latest and most controversial example being Victoria’s turnover tax. Charges for telephone, postal, gas, electricity and other services have been rising steeply; and local councils have been busy increasing their rates. The cumulative impact of all this is starting to alarm the community. The government sector of the economy today is absorbing a greater proportion of the GNP than 5 or 6 years ago or, indeed, at any time during the 1950’s.

The most obvious means of coping with the deficiencies in government facilities is to raise taxes still further, and there are many prepared to advocate that this be done. But there are strong indications that the public is becoming increasingly opposed to higher taxes and to constantly rising charges for government services. Politicians should, as a consequence, tread warily before embarking on this course. But politics aside, there are sound economic reasons for avoiding still further tax increases. Higher taxes to provide more "forced savings" for government capital expenditures will almost certainly cut deeply into voluntary savings (rather than consumption) and thus reduce the moneys available from this source for both private and public capital expenditures. Moreover, as people found their real incomes reduced, either by less money in the pay envelope, or by higher prices, the already strong pressures through the community for increased money incomes would be intensified. Industrial unrest, already threatening, would be aggravated. The inflationary tendencies now present in the economy — and causing concern — would be strengthened. The public do not tamely submit to higher taxes — whether open or concealed — and the diversion of resources from the private to the public sector, consequently, is not the simple, uncomplicated operation that some people seem to imagine.

There are other reasons for rejecting further increases in taxation. Income taxes are already biting deeply into additional increments of income, thus constituting a threat to enterprise and productivity. If productivity in the private sector is lowered, the public sector cannot escape unscathed either, for the health of the former determines in large part the health of the latter. The Commonwealth Treasury has already revealed itself to be aware of this fundamental truth, even though some State Governments are showing themselves to be slow in learning it.

Further increases in taxation should, therefore, be rejected as a solution to the pressing problems of the public sector.

There are two other possibilities. One would be to inject a pause in our rapid population growth by reducing the intake of migrants — a cause of immense pressure on government utilities and services. This is unlikely to be contemplated. It is argued — probably rightly — that with rising living standards in Europe, migrants, particularly the skilled types most needed, will become increasingly harder to attract to Australia, and that we should therefore take as many as we can get while the going is good. Another argument advanced to support the continuation of a maximum flow of migrants...
is that migration is the catalyst of economic growth. Heavy migration creates an atmosphere conducive to expansion, encourages business to plan ahead with confidence, and provides numerous opportunities for enterprising people.

This is all true. Nevertheless, the understandable enthusiasm for a large migration programme leads many people, even highly placed people, to discount the undoubted problems and pressures to which it gives rise. Consequently when troubles occur, they are disposed to look for the causes everywhere but in the direction of the migration stream.

However, since a migration target at around 150,000 newcomers a year has become the very symbol of our confidence in our own future, only one course remains open.

The huge sums of money which Governments now handle must be directed into the channels where they are most urgently needed, and particularly into impending trouble spots of the economy such as water and roads. At present, priorities based on considerations of economic and social needs are gravely distorted by political horse-trading, by rather childish State rivalries, by the traditional clash between rural and urban interests, and by the over-rigid adherence to outdated formulae for the allocation of Commonwealth moneys between the States.

These are extravagances which the economy is no longer in a position to afford; nor should they continue to be tolerated by the Australian people. It is clearly time that the whole scale of government priorities was reviewed and drastically re-cast.

Two general areas in particular need searching re-examination — the disposition of government moneys between rural and urban interests, and the present allocation of Commonwealth moneys between the States. In addition, the States should ask themselves whether they are spending the moneys they at present command — inadequate though these funds obviously are in the case of New South Wales and Victoria — to the best advantage. Are they putting first things first? Many Victorians, for instance, must be wondering whether the outlay of some $50 million on the Tullamarine airport, and whether huge recurring deficits on country irrigation services, can be justified when requests for more funds for the provision of water for two million people in Melbourne — the great bulk of the State's population — are continually rejected. When these things can happen, many people are forced to ask themselves, whether there is something seriously amiss with our scale of values. It is no answer to say the Melbourne water crisis is just the result of bad luck. Why is it that Melbourne has only one-eighth of the water storage capacity of Sydney?

But State Governments are by no means altogether to blame for the inadequacies of the services for which they are responsible. It is highly questionable, for instance, whether Victoria and New South Wales — which between them absorb two-thirds of the migrant inflow — should be required to continue to subsidise the less populous States on the scale of recent years.

The table on the next page shows the split-up of all moneys received by the States from the proceeds of Commonwealth Taxes and Loan Funds in 1966/7.

No one would suggest that population should be the sole criterion for the allocation of Commonwealth funds. It is right that the richer States should be called upon to some extent to subsidise development in their poorer neighbours. But is there a realistic appreciation in higher circles of the tremendous problems to which, great, rapidly expanding industrial-
A New Scale of Priorities (continued)

Split up of Moneys Received by the States from the Proceeds of Commonwealth Taxes and Loan Funds in 1966/7.

<table>
<thead>
<tr>
<th></th>
<th>Actual Allocation</th>
<th>If on a Per Head Basis Split-Up Would Have Been</th>
<th>Difference Between Col. 1 &amp; 2</th>
<th>States Who Gained</th>
<th>States Who Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW.</td>
<td>$714 million</td>
<td>$822 million</td>
<td>$108 million</td>
<td>VIC.</td>
<td>$76 million</td>
</tr>
<tr>
<td>VIC.</td>
<td>$548 million</td>
<td>$624 million</td>
<td>$76 million</td>
<td>QLD.</td>
<td>$17 million</td>
</tr>
<tr>
<td>QLD.</td>
<td>$340 million</td>
<td>$323 million</td>
<td>$323 million</td>
<td>SA.</td>
<td>$27 million</td>
</tr>
<tr>
<td>SA.</td>
<td>$239 million</td>
<td>$212 million</td>
<td>$212 million</td>
<td>WA.</td>
<td>$83 million</td>
</tr>
<tr>
<td>WA.</td>
<td>$245 million</td>
<td>$162 million</td>
<td>$162 million</td>
<td>TAS.</td>
<td>$57 million</td>
</tr>
<tr>
<td>TAS.</td>
<td>$129 million</td>
<td>$72 million</td>
<td>$72 million</td>
<td></td>
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</tr>
</tbody>
</table>

urban complexes such as Melbourne and Sydney give rise and which can only be solved by huge expenditures of public moneys on water, drainage, sewerage, roads, public transport, schools, hospitals, welfare and recreation centres and a lot of other things? Sydney people, for instance, with 700,000 unsewered homes would surely not be out of order in asking whether smaller capital cities suffer from a sewerage problem of similar dimensions. And Melbourne motorists must cast envious eyes at the Brooker Highway in Hobart and the freeways of Perth.

Frustrated city motorists must also ask themselves whether the provision attaching to the Commonwealth Road Grants to the States, stipulating that 40 per cent of the moneys must be spent on back-country roads can, in any sane view, be justified. Melbourne motorists pay about three-quarters of petrol taxes levied in Victoria, but over 80 per cent of Commonwealth aid road moneys are spent in country areas. There can, in fact, be little doubt that country interests are the favoured children of both Commonwealth and State Governments, so far as expenditure of public moneys is concerned. Subsidies to primary producers and losses on country irrigation and railway services run into $200 million a year. These attitudes are dictated partly by sheer political expediency; but they also seem to be a hangover from the days when the economy of Australia “rested on the sheep’s back”.

The great urban complexes of Melbourne and Sydney have now reached such dimensions that they require a special approach and special treatment all their own — that is, if they are not to choke to death of their own congestion (or die of thirst) and if they are to play their part in modern, efficient communities providing a comfortable, reasonable existence for their huge, expanding numbers.

Australia has reached a crisis point in many of its major public facilities. Unless there is some new thinking, followed by purposeful action, the position will grow worse rather than better. No one wants to curtail the migration programme. But unless there is a more efficient and effective allocation of government funds, particularly for capital projects, sheer necessity could eventually compel a major cut-back in the migrant intake which would deal a serious blow to our national ambitions.
MR. CECIL N. MCKAY, a member of the Institute's Council, died on Friday, January 26.

Mr. McKay held a special position in the affairs of the IPA.

He was one of a small number of prominent businessmen who participated in the various steps in 1942 which eventually led to the founding of the Institute.

As one of the most influential representatives of the manufacturing industries of Australia, the Institute naturally looked to him to convey the manufacturers' viewpoint on important policy matters.

Mr. McKay quickly saw that the IPA, which drew its support from the whole spectrum of Australian business, could work effectively only by pursuing its own independent line of thinking. He was a firm, undeviating supporter of the policies which the Institute defined and adopted in its early years, and which still remain the philosophical foundation of its approach to national affairs.

Cecil McKay's father was the famous Hugh Victor McKay, who established at Sunshine, Victoria, the largest
agricultural implement works in the Southern Hemisphere. The name of H. V. McKay became a landmark in Australian industrial history because of its association with the establishment of the "basic wage". In 1907 in order to gain exemption from recently imposed excise duties on agricultural implements, H. V. McKay asked the Commonwealth Arbitration Court to declare that the wages paid in his works were "fair and reasonable". This led to what became known as the famous "Harvester Judgment" and the fixation of a minimum standard wage which was the first expression of the principle of a "living wage".

While still at Scotch College (where he became Captain of the School) Cecil McKay developed two great passions—rowing and flying. He was a mighty oarsman. He stroked Scotch College to victory in the Head of the River in 1919, after the famous dead-heat against Xavier College. He represented Victoria on three occasions in the King's Cup crew and was stroke when it defeated New South Wales by a matter of a canvas in 1930. He was a pioneer in aviation. When still at school, he enlisted in the Australian Flying Corps, but the war ended before he had completed his training at Point Cook. He became an outstanding pilot, the President of the Victorian branch of the Royal Aero Club, and competed in the Sydney-Perth East-West air race. He transmitted his great enthusiasm for flying to his wife, Marjory, who was the first Victorian woman to fly solo.

Cecil N. McKay inherited from his father considerable wealth and a unique position in the industrial life of Australia. He inherited also a strong sense of responsibility, a desire to contribute to the progress of his country and a generous disposition. His quiet, retiring, unassuming nature, concealed great inner strength of character, firm convictions and strong loyalties. On first acquaintance, Cecil sometimes gave an impression of aloofness, even of sternness. But this impression was quickly dissipated as one got to know him better. He had a dry sense of humour, which was always popping out, and a most kindly nature; those who enjoyed his friendship were fortunate also in knowing that he was absolutely steadfast in his loyalties.

Cecil McKay was uncompromisingly direct and straightforward in all his dealings, and had little patience with those
not prepared to speak their minds frankly without equivocation. If he agreed with matters under discussion he often registered it by his silence. If he disagreed, his comment was brief, blunt and straight to the point.

Cecil McKay was Managing Director of H. V. McKay-Massey Harris from 1937 to 1955, and also held directorships in a number of large companies. He clearly believed that the privileges of inherited wealth and position carried corresponding responsibilities. He was a prolific contributor to charities and other community causes, but he disliked having his name associated with his gifts. In 1940, he contributed £6000 towards the cost of a Spitfire, and agreed that the plane should bear his name. This action naturally received some publicity in the press and the President of the Victorian Aero Club at that time, Dr. Hugh Mitchell, was led to comment—"I am surprised to hear that Cecil McKay has given £6000 to buy a Spitfire". Realising that this might be misconstrued, he added, with a laugh, "I don't mean that. Cecil is the most generous of men, always giving where it is most needed. What I mean is that all his benefactions have been anonymous. This is the first time I have known his name attached to a gift".

Notwithstanding his innate reserve, even shyness, Cecil McKay accepted positions of leadership and responsibility in important community organisations. While President of the Royal Agricultural Society (from 1947 to 1957) he became President also of the Victorian Chamber of Manufactures. A newspaper editorial commented at the time that this was unique and, by emphasising the inter-dependence of rural and urban pursuits, would stand as a milestone in the consolidation of Australia's economic structure. In 1950 he led an Australian Housing Mission to overseas countries, to investigate the importation of pre-fabricated homes to help meet the housing shortage.

Cecil McKay was a man of transparent honesty in all things. People, even those who knew him only casually, sensed this and respected him for it. All at the Institute gained much from his enthusiastic association with the IPA and were fortunate indeed in having a colleague and friend of rare constancy and loyalty.
Why Growth Rates Differ

The growth rates of different countries do not provide a valid comparison of their economic performance. The conditions which make possible large yearly percentage increases in GNP in countries such as Germany, France and Italy may not be present in other countries, for instance, the United States and Britain.

During his famous television debates with Richard Nixon during the 1960 Presidential campaign, John F. Kennedy made repeated references to the slow rate of growth of the United States economy. He said that Americans could not be satisfied with the slowest rate of growth of all the industrialised countries and that it was time to get the economy moving again.

Kennedy was not alone in his concern. Many Americans, including the highly expert President's Council of Economic Advisers, were, around that time, expressing dissatisfaction with the rate at which the American economy was expanding. The root of their alarm was to be found in the very much faster rates of growth in the Gross National Product (and in GNP per person employed) of the larger countries of Western Europe — with the single exception of the United Kingdom. The altogether extraordinary growth rate of the Japanese economy (which even exceeded by a considerable margin the growth figures of Western Europe) no doubt added to the general concern.

Comparisons of the growth rates of different countries continue to be one of the most popular means of assessing a nation's economic performance. By this measure, Australia, along with the United States and Britain, comes out badly. The average yearly increase in both GNP and GNP per head is lagging well behind the figures being achieved in the major economies of Western Europe and, of course, Japan. This has led some Australians, including well-regarded economists and economic commentators, to be severely critical of Australia's rate of progress. The critics have argued that with different policies and better economic management, Australia's growth rate could be boosted to the levels being achieved in other countries.

In retrospect, it is surprising how many people who should have known better were prepared to accept the bare figures uncritically at their face value, and with so little attempt to assess their real worth. This is particularly so in view of the notoriously treacherous character of international statistical comparisons — a fact well known to students of even elementary economics.

In Australia (and no doubt in the United States) erroneous conclusions continue to be drawn from the international growth rate figures, notwithstanding a growing stream of authoritative writings throwing doubts on their validity for the
purpose of comparing the economic performances of different countries. For instance, it is over three years since the Commonwealth Treasury in an excellent White Paper on the subject (entitled “The Meaning and Measurement of Economic Growth”) emphasized “that the rate of growth achieved in one country can rarely be a useful guide to what is possible in another. Nor does the rate of growth a particular country achieves at one time indicate reliably what it should be able to achieve at another”.

* * * *

A work of truly stupendous proportions (500 large pages), “Why Growth Rates Differ” has recently been published by the Brookings Institution of the United States. The study took years to complete and was financed by a grant from the Ford Foundation. It is of a kind which could probably not have been carried out in any country other than the one of its origin. It was undertaken under the supervision of Edward F. Denison, formerly with the Committee for Economic Development and the Office of Business Economics of the U.S. Department of Commerce.

“Why Growth Rates Differ” analyses the record in economic growth, over the period 1950-1962, of eight Western European countries and the United States. The statistical detail of the study is prodigious and the statistical methodology ingenious, although more than a little alarming. It is a book not for the common man, but for the economic and statistical technician. One would need to have the strongest of intellectual digestions to tackle the full work, even in a large number of meals spread over a considerable period. But despite its fearsomeness, and perhaps because of it, the book could be a definitive work on international growth comparisons for a long time to come.

The following table (extracted from the book) summarises the main figures of comparative growth rates emerging from the Brookings study. (We have inserted at the foot, figures for Australia for comparison purposes.)

<table>
<thead>
<tr>
<th>Country</th>
<th>National Income</th>
<th>National Income per Person Employed</th>
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</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>3.36</td>
<td>2.19</td>
</tr>
<tr>
<td>North-West Europe</td>
<td>4.70</td>
<td>3.74</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.03</td>
<td>2.47</td>
</tr>
<tr>
<td>Denmark</td>
<td>3.36</td>
<td>2.41</td>
</tr>
<tr>
<td>France</td>
<td>3.70</td>
<td>4.58</td>
</tr>
<tr>
<td>Germany</td>
<td>7.26</td>
<td>5.15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.52</td>
<td>3.44</td>
</tr>
<tr>
<td>Norway</td>
<td>3.47</td>
<td>3.29</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.38</td>
<td>1.72</td>
</tr>
<tr>
<td>Italy</td>
<td>5.95</td>
<td>5.35</td>
</tr>
<tr>
<td>Australia (Unadjusted)</td>
<td>4.50</td>
<td>2.50</td>
</tr>
</tbody>
</table>

The “adjusted” growth rate figures in the table represent an attempt to iron out the effects of the business cycle and other irregularities so as to give a more accurate picture of true long-term growth rates. The author warns that figures of growth rates can be greatly influenced by the particular end-years of the period selected. For instance, if, in the commencing year a country’s economy is in a state of recession and, in the closing year, one of full employment of resources, its growth rate for the period could show as much higher than its true long-term rate. Fluctuations in agricultural output, because of climatic reasons, can also magnify (or reduce) growth rates above (or below) their real average.

The table shows that, for the period covered, the growth rate of the United States was quite substantially less than the average growth rate for North-West Europe as a whole, and very much below the growth rates for certain individual countries — notably West Germany, France and Italy. The disparity between
Why Growth Rates Differ (continued)

West Germany (7.26 and 5.15)* and the USA (3.36 and 2.19) is particularly wide. The United Kingdom (2.38 and 1.72) and Belgium (3.03 and 2.47) are the only European countries with growth rates below those of the United States. But even in Belgium the rate of increase of national income per person employed at 2.47 is greater than the corresponding figure, 2.19, for the United States.

The whole of this gargantuan study, however, is concerned to show that growth rate figures such as these cannot be used to suggest that the U.S. economy has been performing poorly; that it could possibly have matched the figures achieved in the European countries; that these countries were doing much more to obtain growth; or that there are special opportunities available to the United States for accelerating the rate of growth in the years ahead. It achieves this purpose by contriving to reduce to statistical terms the contributions to growth in the different countries of the main sources of growth, and in analysing these sources in great detail. This essay in quantification constitutes the special contribution of the Brookings study to the understanding and interpretation of international growth rate statistics.

Since probably few Australians will ever glance at, let alone study, this huge and involved work, it may be worth listing here the sources affecting growth which the book measures and analyses.

The sources are divided into two broad classifications — "Total Factor Input" and "Output per Unit of Input" — (the terminology is the author's).

"Total Factor Input" covers the contribution made to growth by additions to the factors of production, namely labour, capital and land.

“Output per Unit of Input” — covers the contribution made by improvements in efficiency in the use of the factors. These contributions may result from advances in managerial and technical knowledge, or from causes external to an industry such as a larger market making possible economies of scale, or from the transfer of resources from less efficient to more efficient industries.

The two sources of growth — "Total Factor Input" and "Output per Unit of Input" are further broken down as follows: —

TOTAL FACTOR INPUT

Labour
— change in employment
— hours of work
— age-sex composition of the workforce
— level of education

Capital
— dwellings
— international assets
— non-residential structures and equipment
— inventories

Land

OUTPUT PER UNIT OF INPUT

— Advances in Knowledge
— Improved Allocation of Resources
— contraction of agricultural inputs
— contraction of non-agricultural self-employment
— reduction of international trade barriers

— Economies of Scale
— growth of national market measured in US prices
— independent growth of product markets

The study is concerned to measure the relative statistical contribution of each of the sources to the growth rates achieved in the period under consideration. By this method the author has endeavoured to
throw light on the reasons for the varying growth rates in the countries studied.

The author emphasises that growth rate figures normally used in international comparisons are considerably affected by special influences associated with recovery from World War II, by the differing stages in the business cycle — represented by the terminal years of the period selected for comparison — and by different procedures used in various countries to measure national income. If a meaningful comparison of long-term growth rates is to be achieved, the effect of these influences must be, as far as possible, eliminated. When this has been done, the author's analysis indicates that growth rate differences are largely explained, first, by the extent to which resources of labour and capital were increased in the various countries; second, by the gains achieved in productivity through the movement of labour from farming and from self-employment to non-farm wage and salary employment; and, third, by differing gains achieved by economies of scale, especially in certain industries due to changing patterns of consumption arising from increased consumption per head. In regard to the last-mentioned factor, the author points out that as per capita consumption in Europe rose, demand for such products as consumer durables expanded rapidly, and this made possible large-scale production in the industries concerned and the application of technologies previously inapplicable, with consequent substantial gains in productivity.

The author draws the following conclusion from his analysis:

"If this generalisation of experience differs from most analyses, it is in the heavy importance attached to gains from reallocation of labour as a determinant of growth rates and to economies of scale as a factor accentuating international differences."

The book points out that the opportunities to increase national income and productivity by re-allocation of resources, and by taking advantage of modern technologies and of economies of scale, were far greater in the continental European countries than in the United States and the United Kingdom. These three factors go far to explain the differences in growth rates between the United States and most European countries.

The Brookings study is emphatic that the low past and prospective standing of the United States in the "International Growth Rate League" is not an indication of poor economic performance. "Rather it has come about because the same sort of changes produce larger percentage increases in national income in Europe than they do in the United States and, in addition, there are opportunities to increase efficiency in European countries that do not exist to the same degree in the United States. . . . Although most of the European countries have achieved higher growth rates than the United States, this was not because they were doing more to obtain growth. They were able to secure higher growth rates because they were operating in a different environment. Conditions were very different with respect to factor proportions; to mis-allocation of resources; to the existing level of technology, management and general efficiency in the use of resources; to economies of scale. Some have supposed that the United States could have matched the growth rates of European countries if only Americans had done as the Europeans did. I conclude that this is simply not so".

The great difference between the American and European economies (and in the scope for achieving rapid rates of growth) finally expresses itself in the simple fact that national income per person employed is far higher in America than in Europe. According to the book,
if measurements are made in U.S. prices, the figure for the United States in 1960 was 69 per cent larger than for Western Europe and 150 per cent larger than for Italy. If measurements are made in European prices, the American figure is 117 per cent higher than Western Europe, 317 per cent higher than Italy. While, from 1950-62, the European countries have been achieving larger percentage increases in national income per person employed than the United States, none achieved larger absolute increases. In other words, the absolute gap between American and European standards of living has not been narrowed, despite the rapid rate of improvement in most European countries.

* * * *

Finally, it may be asked whether the Brookings study throws any new light on the Australian rate of growth which is frequently criticised for lagging far behind the growth rates of the larger European countries and Japan. These criticisms may have abated, but have by no means altogether ceased. Over the period 1950-62, the yearly rate of increase in Australia's national income would not appear to be noticeably less than North-West Europe's as a whole, nor for that matter than France's. The only countries which substantially surpass Australia are Italy and Germany. However, in national income per person employed, the Australian rate of improvement is less than that of North-West Europe as a whole (2.5 per cent as against 3.74 per cent) and very substantially less than the growth rates of France, Western Germany and Italy. The Australian figures do, however, exceed those of the United States and are much above the United Kingdom's.

In relation to the larger economies of Western Europe and the United States, Australia would seem to stand in a middle position. The opportunities for rapid growth, particularly in output per person, in France, Germany and Italy have been much greater than in Australia, because Australia's living standards in the early post-war years were so much in advance of those of Western Europe. The same also applies to Australia's position vis-a-vis Japan. On the other hand, the scope for achieving rapid growth rates has probably been much greater in Australia than in the United States. We have been able to take advantage of American methods and technology and the benefits of economies of scale. In the coming years the gap between Australia's growth rate and those of, say, France, Germany and Italy may not be so wide as in the 1950-62 period.

All this does not mean that Australia has made the maximum use of its opportunities for achieving growth. In particular, there would seem to be quite substantial scope for accelerating growth in this country through policies encouraging the movement of resources from less efficient to more efficient uses. However, by and large, the Australian performance in the past certainly does not merit the condemnation of those who have drawn sweeping conclusions as a result of uncritical acceptance of growth rate statistics.
The Rural Industries in Trouble

The crux of the troubles of the rural industries lies in the year-by-year inflation of costs. Better farming methods and elimination of marginal producers will help. But costs are rising too rapidly for a majority of rural producers.

After a decade of falling export prices and rising costs, Australia's rural industries are facing serious difficulties and are posing special problems for the Commonwealth Government and other authorities concerned. Sterling devaluation and the drought have imposed additional burdens on an already harassed farming community.

In the current financial year, farm income is expected to fall to $830 million, a decline of over 40 per cent from the figure of $1455 million reached in 1963/4. This year farm income could sink to 4 per cent of the net national product, the lowest ever, even below 1930/1 when it slumped to about 5 per cent because of the collapse of world prices. The absolute level of farm income is, of course, much higher than in 1930/1, in real as well as in money terms, and the percentage fall is due in no small measure to the tremendous expansion in the secondary and tertiary industries. During the early post-war years, farmers enjoyed exceptional prosperity — because of world shortages and high export prices. (Over the 3 years 1948/9 to 1950/1, farm income averaged 22 per cent of the NNP). It seemed inconceivable that the farming community would ever again confront a situation remotely resembling the 1930's when practically every rural industry had to receive Government support.

But it is happening again. World prices for wool and wheat are now, along with sugar, dairy products and fruit, below average costs of production as assessed by the Bureau of Agricultural Economics. The only rural industry exporting at a profit appears to be beef. This extraordinary turnabout in the fortunes of the rural industries has not had the same impact on the economy as in former years when the farm sector was a much larger employer of labour and contributor to the national product. At the 1933 Census, 531,000 or 1 in every 4 males worked on the land. In the 1966 Census, only 359,000 males recorded a rural occupation — 1 in 10 of all males. This trend is, admittedly, not peculiar to Australia; in fact it is less marked here than in most other high income countries. All over the world, farm labour is drifting to the cities principally because farm products represent a progressively smaller proportion of total consumer demand. Farm mechanisation and the superior attrac-
tions of expanding city occupations have also contributed.

Despite the rapid strides now being made by manufacturing and mining in overseas markets, farming is still overwhelmingly Australia's most important source of export income. Even with serious losses of production caused by the drought and low prices for wool and sugar, rural exports in 1967/8 are still likely to constitute over 60 per cent of all exports.

Notwithstanding a great increase in farm output, there has been a remarkable decline in the relative importance of rural production in the domestic economy since 1948/9. This is illustrated by the table below.

<p>| Farm Income as Proportion of | Net National Product | (i.e. after depreciation) |</p>
<table>
<thead>
<tr>
<th>$ million</th>
<th>% of NNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average 1948/9-1950/1</td>
<td>1047</td>
</tr>
<tr>
<td>&quot; 1951/2-1953/4</td>
<td>1047</td>
</tr>
<tr>
<td>&quot; 1954/5-1956/7</td>
<td>979</td>
</tr>
<tr>
<td>&quot; 1957/8-1959/60</td>
<td>894</td>
</tr>
<tr>
<td>&quot; 1960/1-1962/3</td>
<td>1041</td>
</tr>
<tr>
<td>1963/4</td>
<td>1455</td>
</tr>
<tr>
<td>1964/5</td>
<td>1326</td>
</tr>
<tr>
<td>1965/6</td>
<td>1049</td>
</tr>
<tr>
<td>1966/7</td>
<td>1270</td>
</tr>
<tr>
<td>1967/8 estimated</td>
<td>830</td>
</tr>
</tbody>
</table>


The present condition of agriculture in Australia seems to be a typical state of "profit-less prosperity", where turnover expands, but not profit. Farm production has greatly increased but profits have fallen sharply. Without the drought, the physical volume of farm output would probably have been a record in 1967/8 — 100 per cent or more above pre-war. Until 1949/50, farm production limped along at levels little above pre-war. It really started to climb only in the mid-1950's. Output for the 3 years ending 1954/5 was still barely 20 per cent above pre-war. Then the benefits of heavy investment began to show. Depreciation and other concessions for tax purposes encouraged farmers to plough back their high profits into machinery and into soil, livestock, pasture and crop improvement. To this investment were added advances in farming methods and a breakthrough in reducing the depredations of the rabbit pest. By 1956/7, the index of rural production was 31 per cent above pre-war, by 1958/9, 49 per cent above. Then came a huge rise in acreages sown to wheat and sugar and a great increase in cattle and sheep numbers. Production soared to a new record of 174 in 1963/4 (on a pre-war base of 100) and even this was easily eclipsed in 1966/7 when the index reached 193. Between 1949 and 1965, the sheep population rose by two-thirds to a peak of 170 million, mainly through greater numbers per acre; beef production rose by over 40 per cent and wheat output soared to treble that of the 1950's. In 1966/7 wheat production reached 462 million bushels, representing a further gain of 25 per cent since 1964/5.

Over 90 per cent of wool output, 70 per cent of wheat, 60 per cent of sugar, 45 per cent of dairy produce, and nearly 30 per cent of meat are exported each year. For the most part, these products are sold at world prices, although international commodity arrangements help sustain prices for wheat, and for some sales of sugar. Wheat farmers receive a price equal to assessed cost of production for the first 150 million bushels of wheat exports — about a third of the 1966/7 crop — and dairy farmers, sugar growers and most fruit growers are also recompensed for the bulk of their export sales at higher than world prices through marketing pools heavily subsidised by the Australian taxpayer and consumer. However, falling prices abroad and rising costs at home are now taking an increasing toll. This is clearly shown by a perusal of the table below showing the trend in farm costs of production,
Farm Costs and Prices 1948/9 to 1967/8

<table>
<thead>
<tr>
<th>Farm Costs of Production (Prices Paid)</th>
<th>Export Prices</th>
<th>All Prices Received</th>
<th>Ratio of Prices Rec'd. to Prices Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948/9-1950/1 avg.</td>
<td>121</td>
<td>86</td>
<td>153</td>
</tr>
<tr>
<td>1951/2-1953/4</td>
<td>185</td>
<td>90</td>
<td>186</td>
</tr>
<tr>
<td>1954/5-1956/7</td>
<td>200</td>
<td>80</td>
<td>182</td>
</tr>
<tr>
<td>1957/8-1959/60</td>
<td>216</td>
<td>69</td>
<td>176</td>
</tr>
<tr>
<td>1960/1-1962/3</td>
<td>229</td>
<td>69</td>
<td>177</td>
</tr>
<tr>
<td>1963/4</td>
<td>232</td>
<td>81</td>
<td>187</td>
</tr>
<tr>
<td>1964/5</td>
<td>241</td>
<td>75</td>
<td>187</td>
</tr>
<tr>
<td>1965/6</td>
<td>252</td>
<td>76</td>
<td>193</td>
</tr>
<tr>
<td>1966/7</td>
<td>258</td>
<td>75</td>
<td>188</td>
</tr>
<tr>
<td>1967/8 estimated</td>
<td>268</td>
<td>71</td>
<td>186</td>
</tr>
</tbody>
</table>

— average of 5 years ended June 1950 = 100 —

SOURCE: Bureau of Agricultural Economics, Commonwealth Statistician.

Farm prices at home and on overseas markets and the ratio of costs to prices received.

This table shows that the ratio of prices received to prices paid has declined to almost half what it was at the beginning of the 1950's. Since then, unit costs have more than doubled, but export prices are down nearly 20 per cent. Even with higher home consumption prices for many farm commodities — sugar, wheat, butter and so on — farm profitability has fallen steeply. With full employment and wages rising faster than prices, other sections of the community have enjoyed a continued improvement in their positions over the past decade and a half. But farmers have barely maintained their money incomes, and, of course, in real purchasing power are far worse off. This is clearly indicated in the table below.

This table shows that since the early 1950's, the real earnings of primary products have declined by nearly a fifth. But the real incomes of male wage and salary earners have improved by at least one-third and those of business and professional people by around a sixth.

The incomes of individual farmers vary widely. A table extracted from the Tax-

Average Actual Incomes

<table>
<thead>
<tr>
<th>Primary Producers</th>
<th>Self-Employed Non-Farm</th>
<th>Male Wage &amp; Salary Earners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>1952/3-1953/4 avg</td>
<td>3044</td>
<td>2374</td>
</tr>
<tr>
<td>1954/5-1956/7</td>
<td>2803</td>
<td>2702</td>
</tr>
<tr>
<td>1957/8-1959/60</td>
<td>2608</td>
<td>2819</td>
</tr>
<tr>
<td>1964/5</td>
<td>3650</td>
<td>3600</td>
</tr>
<tr>
<td>1966/7 estimated</td>
<td>3600</td>
<td>4000</td>
</tr>
<tr>
<td>1967/8 estimated in 1951/2-1953/4 prices 2400</td>
<td>2700</td>
<td>2100</td>
</tr>
</tbody>
</table>

SOURCE: Australian National Accounts; Annual Reports of the Commonwealth Commissioner of Taxation; Commonwealth Statistician; Bureau of Agricultural Economics.
The Rural Industries in Trouble (continued)

The Commissioner’s latest Annual Report reveals the following picture:

<table>
<thead>
<tr>
<th>Annual Income Range</th>
<th>% of Farmers Paying Income</th>
<th>% Total Taxable Income of Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2000</td>
<td>32</td>
<td>12</td>
</tr>
<tr>
<td>$2000 — $4000</td>
<td>40</td>
<td>31</td>
</tr>
<tr>
<td>$4000 — $6000</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>$6000 — $10,000</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>$10,000 — $14,000</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Over $14,000</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

NOTE: These statistics are, of course, subject to qualification. About one in every four farmers paying tax in 1964/5 was a member of a family partnership and this tends to reduce the taxable income of farm properties. Farmers also enjoy greater tax benefits, e.g. use of a car, telephone etc. and lower housing and food costs, than most wage and salary earners.

Farming is a way of life and many farmers are probably prepared to remain on their properties on a cash income not greatly above the basic wage. But this leaves them with no surplus to improve the productivity of their farms. Two economists at the Bureau of Agricultural Economics recently stated that the net income of 36 per cent of wool growers in the high-rainfall areas, and 19 per cent in the wheat-sheep areas was less than $2000 a year. For these low-income farms capital improvements were becoming increasingly difficult. The banks no longer insist so much on security for a loan, but the farmer must still earn enough surplus income to be able to repay his loan.

The position is even worse in dairying and fruit growing. Over the period 1961/2 to 1963/4, without allowing anything for interest on capital, butter-fat producers in Queensland netted only $700 a year above ruling wage rates for farm workers, in South Australia $380 and in Western Australia $180. In New South Wales, the average net income of butter-fat producers was actually $120 below ruling wage rates. About the only butter producers in a satisfactory position seemed to be those in the irrigation and better rainfall areas of Victoria. But even Victorian dairy farmers earn on average only $1100 a year. Farmers supplying whole milk to the cities are, however, in a much better position than butter-fat producers.

Too many Australian primary producers are operating at well below potential efficiencies, either through lack of finance or unwillingness to buy machinery and introduce modern farming concepts and techniques. Among the younger, better educated farmers a revolution is already under way. But much more must be done to try to improve the overall position of the rural industries. The inefficient must be helped to improve or else weeded out. The problem is where to start. The Commonwealth is already pouring out over $100 million a year in subsidies to primary producers, and consumers are paying an extra $100 million in home consumption prices for products, such as wheat, butter, canned and dried fruits and sugar.

The effects of devaluation and Britain’s likely entry into the Common Market vary from industry to industry. Wheat and meat are probably least affected. With the world shortage of food, the outlook for wheat, oats, barley, sorghum and other food grains is fairly bright. American government economists calculate that the Chinese (China takes about 40% of our wheat exports) are still not getting as much grain per person as they did ten years ago. The most optimistic prognosis is that they will not reach this level of consumption, which is the accepted international minimum of 300 kilograms per person, per year until 1970. However, conditions could soon become critical for sugar, fruit and dairying.

Fruit and dairying in particular appear to be absorbing too high a proportion of the labour force, relative to their contribution to total rural production and ex-
ports. The table below shows the relative contribution by the various rural industries to production, exports and employment.

<table>
<thead>
<tr>
<th>Industry</th>
<th>% Value Production 1966/7</th>
<th>% Value Rural Exports 1966/7</th>
<th>% Male Rural Employment 1961</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wool</td>
<td>22</td>
<td>43</td>
<td>23</td>
</tr>
<tr>
<td>Mutton and Lamb</td>
<td>5</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Beef Cattle</td>
<td>14</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Butter, Cheese, etc.</td>
<td>7</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Whole-Milk</td>
<td>3</td>
<td>—</td>
<td>5</td>
</tr>
<tr>
<td>Wheat</td>
<td>18</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td>Other Cereals</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Sugar</td>
<td>4</td>
<td>—</td>
<td>5</td>
</tr>
<tr>
<td>Fruit</td>
<td>5</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Vegetables</td>
<td>9</td>
<td>—</td>
<td>4</td>
</tr>
<tr>
<td>Poultry</td>
<td>2</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>All Other</td>
<td>7</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Commonwealth Statistician, Bureau of Agricultural Economics.

Wool is Australia's greatest rural industry, employing 23 per cent of rural labour and contributing 43 per cent of all rural exports. The industry is now facing the worst crisis in its history. Wool is meeting with severe price-cutting at the marketing end by manufacturers of synthetics, particularly in cross-bred wools which can be more easily imitated in carpets and coarser textile materials. World production of acrylics (synthetic fibres most competitive with wool) has jumped from 241 million pounds in 1960 to an estimated 1400 million pounds in 1967. Estimated production capacity for 1968 is a frightening 1900 million pounds. Based on a Bureau of Agricultural Economics' index (the 5 years ended June 1950 equalling 100) wool prices slumped from 180 in 1963/4 to 150 in 1966/7 and this year could be as low as 135. On the other hand, costs of production have been rising sharply. The index figure of costs for 1963/4 (on the 1945/50 basis) was 232. By 1966/7 it had climbed to 258 and this year could reach 270.

Last October, the Australian Wool Board recommended changes in existing wool marketing methods, aimed at improving the average returns of the smaller wool grower through minimum lot sizes and control of supplies coming up for auction by a wool marketing authority. The Board proposed that the Commonwealth Government provide advances of up to $135 million to finance the scheme. It is envisaged that the marketing authority would control about 40 per cent of the total wool clip. The Wool Board's proposals have been hotly attacked by wool brokers as involving the virtual destruction of the auction system. In view of the large sums involved, the Commonwealth could be wary about getting in too deeply to support the wool growers. It seems more likely that the least efficient producers will eventually have to turn to other avenues such as meat or wheat. A leading Sydney export, Mr. J. Allerding, who has recently returned from a world tour, believes that there are still good prospects for efficient wool growers who adjust to the new and changing world manufacturing and consumer demands for high quality wool. He says that the major wool manufacturing countries are backing their faith in the future of apparel wool and plan huge capital expenditures on plant installation and modernisation.

Dairying has long been the weakest and most heavily protected sector of the rural economy. The industry earns Australia about $100 million a year in foreign exchange but, with direct and indirect subsidies, it is costing the taxpayer about $70 million a year. Despite massive assistance, over half of the dairy farmers still earn less than $2000 a year. It seems that devaluation has, at long last, forced the Commonwealth Government to implement the findings of the 1950/60 Committee of Enquiry into the Dairy Industry.

The Commonwealth proposes to allocate initially $25 million to the States to
finance reconstruction of the dairy industry over the next 4 years. Eventual cost of the scheme could be $80 million. Marginal producers will be required to sell their farms to the Government; remaining producers will be financed to purchase or lease them and will otherwise be helped to increase their efficiency and diversify their holdings. About one-third of Australia’s 62,000 dairy farmers could ultimately be assisted into other occupations.

Sugar is another rural industry in serious trouble. Its present plight stems from the collapse of world sugar prices in 1964. Increased acreage quotas allotted in the early 1960’s, when Cuba dropped out of the American sugar market, have not been withdrawn, with the result that half of all sugar production and nearly three-quarters of all sugar exports now have to be dumped on world markets for what the grower can get. Export prices have fallen from an average of $140 a ton in 1963/4 to less than $40 a ton today, a figure barely half the cost of production. The home support price for sugar is already costing the Australian consumer over $30 million a year, or about one-third of the total value of the sugar crop. Obviously cut-backs should be made in the industry. But this is difficult to achieve for political reasons. Sugar produces half of the total gross value of all rural industry in tropical Queensland, and approximately half of the 300,000 people in North Queensland are dependent on the industry.

There is still considerable scope for improvements in farm productivity and a lot depends on self-help by the farmers themselves, particularly in adopting the best methods discovered by scientific research. This would undoubtedly improve the competitive position of the weaker primary industries on world markets. However, the crux of the troubles of the rural industries still resides in the year-by-year inflation of costs. If the rot is to be stopped, and the rural industries established on a sounder economic basis, the pace of inflation will have to be slowed. Cost rises even up to 3 per cent a year could conceivably be absorbed in increased farm efficiency (through more investment, better methods, elimination of marginal producers and so on) but beyond this point, inflation becomes almost impossible to handle by a majority of rural producers.
The Hubbub of the Market

The market is the right place for realistic economic analysis. This is where people voluntarily part with their money in exchange for something they choose.

But suppose it's not apples and pears you are shopping for, but better medical care, better schooling, better roads or an improved telephone or library service.

These and many other subjects are discussed in the publications of the Institute of Economic Affairs, London. In many public services, supposedly “free”, I.E.A. authors show how neglect of pricing aggravates — or causes — shortages, poor quality, queueing, etc.

The I.P.A. now has stocks of the following I.E.A. publications, released in London during the past six months. They will be of value to companies, public servants, libraries, universities, and students of public affairs.

Planning in Britain: The Experience of the 1960’s  
pp. 120  
Price $1.75  
by George Polanyi.

The author says government economic planning in Britain has been a failure. If the National Economic Development Council has left a lasting mark, it is the crisis in the balance of payments and increased international indebtedness. Central planning having failed, the task is now to make the competitive market economy more efficient.

Exchange Rates and Liquidity  
pp. 24  
Price 60c  
by J. Enoch Powell, M.P.

The experts, says the author, are wrong in alleging that international trade is threatened by a shortage of the monetary means of exchange. Gold would be dethroned by permitting its price to be settled freely like any other product. The control of the international price of currencies, like every other suppression of market prices, leads to other controls, which make a mockery of the individual’s freedom to trade, travel or invest.

Overseas Investment or Economic Nationalism  
pp. 32  
Price 70c  
Three addresses by Lord Shawcross, Sir Sydney Caine and Mr. Val Duncan.

The Chairman of Riotinto-Zinc Corporation, Mr. Val Duncan, says the two outstanding reasons for Britain's financial crisis have been self-indulgence and mounting government expenditure overseas. Overseas investment has been a scapegoat, although the trend of British investment abroad has been down.

Consumers in the Market  
pp. 88  
Price $1.50  
by Christina Fulop.

The author analyses the laws which protect the consumer and the organisations which offer him information, advice, support and guidance. She argues that the market is more competitive, and the consumer can assert his sovereignty more effectively, than critics like J. K. Galbraith have maintained. The ultimate safeguard is the ability to reject an unsatisfactory product or service by buying a substitute elsewhere.
Taxation and Welfare
by Arthur Seldon.

The author says the public is unaware of the relationship between social welfare and its cost. British social services and benefits are predominantly universal. There is considerable public support for the replacement of social services in kind, for purchasing power in cash or coupon. This would enable people to use government provided coupons, plus their own money, to purchase the type of education or medical care of their choice.

Growth Through Industry

This volume comprises twelve essays by economists and chairmen of important companies.

There are two broad alternatives: national planning or a market economy. This volume discusses the failure of the first and the promise of the second.

Some noteworthy extracts from a first-class volume:

"Unless the basic environment is favourable to the encouragement of individual enterprise and corporate effort, no growth will be achieved."

"The most important requirement for growth is the pursuit of innovation."

"Releasing human ability productively is a prime recipe for growth."

"Competition is a great economic powerhouse"

"Competition and central economic planning make bad bedfellows."

Essays in the Theory and Practice of Pricing

This book comprises fourteen essays by young economists. They were selected for originality in research, quality and lucidity in exposition. This volume will be of wide interest to businessmen, public servants and the universities.

Among the subjects discussed are:

- Economic charges for water
- Pricing and the risk of fire
- Pricing for efficiency in electrical supply
- A free market for eggs?
- The Government's role in distorting prices and demand.

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Housing, Town Planning and the Land Commission

Pricing and Society

Discounts of 33-1/3% are offered to booksellers and 10% to schools, universities and libraries.
What Devaluation may mean to the U.K. and to the World

by

JOSSLEYN HENNESSY

Jossleyn Hennessy, British economist, who is Director General of the U.K. Foundation on Automation and Employment, explains why the success or failure of the policies of Roy Jenkins, the new Labour Chancellor of the Exchequer, is important, alike for the future of the U.K. and for the stability of the existing world monetary and credit system.

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Is Britain's devaluation the end of a prolonged series of Stop-Go crises? Has it laid the foundations for a British "miracle"? What repercussions could it have on the future stability of the existing international monetary system?

The answers depend (1) on the economic policies announced in Roy Jenkins' budget of March 19 and (2) on the political repercussions of those policies on (a) the cohesion of the Labour party, (b) the attitudes of the trade unions, (c) whether the British electors accept or reject them, and (d) not least their assessment by Britain's foreign creditors and international trading partners who, of
course, include Australia's banking, industrial, and political leaders.

As, however, this report had to be prepared three weeks before March 19, I propose to outline the basic background which, I hope, will enable you to form your own assessment of Mr. Jenkins' economic decisions and their possible political repercussions, national and international.

The belief is widespread that the U.K.'s recurrent postwar balance of payments crises arise solely from inefficiency and lack of competitiveness in Britain's export industries, but if you subtract government overseas expenditure, the balance of trade in goods and services has since 1952 been in deficit only in 1955, 1960, and 1964, and when you include net interest and dividends earned by private enterprises, it has never once been in deficit. Over the fifteen years 1952-66, private enterprise contributed a net aggregate surplus on balance of payments of £4,372 millions, whereas government spending piled up a net aggregate deficit of £3,883 millions, so that, for the whole fifteen years, the net aggregate surplus was £489 millions derived from the activities of private enterprise. What shrieks aloud is the enormous contribution that private enterprise's earnings of net interest, profits, and dividends made in 1952-66. Without those items, and adding in the government's spending deficit of £3,883 millions, the U.K. balance of payments on current account alone would have been £4,000 millions in deficit — and one shudders to think what would have happened on capital account.

Faced with the foregoing facts what has the Labour government done? Since October, 1964, it has striven — by a new tax system on corporate profits, by its discriminatory Selective Employment Tax (which hits some of our biggest export earners — service industries such as banking, finance houses, insurance, and tourism), by the revision of treaties on double taxation (which took years of negotiation to set up), by confiscation of 25 percent of the dollar premium on any sale of holdings of US investments, and by the imposition of "voluntary restraint" on overseas investment — to sink the life buoy which has carried the UK economy through these fifteen years.

I don't suggest that British exporters could not be more streamlined and competitive. Of course they could. But penal taxation to finance ever rising state expenditure at home and abroad is an incentive to stick to beaten paths, not to risk innovation and the unknown, which may cause disaster if unsuccessful, and will bring no extra reward if successful. That industry has done as well as it has under such conditions suggests what "miracles" it could achieve if given a chance.

The doom-laden atmosphere which followed the Labour government's formation in October, 1964, was of its own creation. True, the previous Tory Chancellor, Mr Reginald Maudling, had warned that a deficit of some £400 millions in the balance of payments lay ahead, but he was taking the risk with eyes open. His plan was to borrow from the Group of Ten to tide over a period of mounting imports until new levels of domestic production had been achieved, which would enable productivity and exports to rise and the borrowings then to be repaid from an expanding economy. We shall not know until the archives are opened and the spate of self-justificatory political autobiographies begins, some years hence, why Mr. Wilson did not seek to continue the Maudling policy which could have paid off. True, again, foreign creditors might have been less inclined to lend to a Labour government, but had Labour pursued realistic policies, foreigners would have supported it for the sake of international credit stability. Mr. Wilson hav-
ing, however, denounced Mr. Maudling's policy as the road to ruin, and having cracked up the deficit as £800 millions (without explaining that half was on capital investment account), could not revive it without reviving the alarm among foreign creditors which his previous cries of woe had created. As one authority commented, “After all, the international bankers have Wilson's own word for it that this way lies national bankruptcy!”

It might have made sense if the government had devalued at once. Instead, they wrung their hands in public, “revealing” to a dismayed world what a “mess” the Tories had left them. Yet at the very same time the government raised expenditure on the social services! When all this caused a flight from sterling, Mr. Callaghan went back to a deflationary “Stop” on a scale that not one of his Tory predecessors had attempted.

In July, 1966, Mr. Wilson announced tax increases, a wage freeze and cuts in government investment, killing any lingering ideas that Labour knew the secret of stable economic growth and bewildering those who had voted on the strength of the slogan “Let's go with Labour!”

By the beginning of 1967 the results of the July, 1966, measures become visible: unemployment was rising; the freeze of wages and prices had been effective. Expansion in overseas economies created hopes of a substantial surplus in the 1967 balance of payments. Mr. Callaghan hastened to initiate reflation. Hire purchase was relaxed, family allowances and social security payments increased. These and other reflationary measures led to a consumption-led recovery which was expected to carry over into 1968. The phase of “severe restraint” in incomes policy was ended. Earnings rose. But Mr. Callaghan's margin was too narrow to allow for anything unforeseen and developments overseas ended hopes of a surplus. The West German recession persisted. Economic growth in the U.S.A. slackened. The closure of the Suez Canal and war in the Middle East in June, 1967, caused freight charges to rise. Oil import costs soared. The Arabs boycotted British exports. From September, dock strikes in London and Liverpool postponed substantial shipments of exports. Protests from EFTA countries at the U.K.'s unilateral import surcharge had created indecision in the cabinet and they naively gave notice that they would remove it. So importers naturally postponed orders and heavily “bunched” inflows began as soon as the surcharge ended. All these developments combined to destroy the Chancellor's optimistic policies. The buoyancy of imports, the internal consumer-led recovery, and the adverse overseas developments put sterling under rising pressure which ended in devaluation on November 18, accompanied by new and hastily thought-up internal deflationary measures and cuts in overseas government expenditure — announced in two half-hearted steps and accompanied by Mr. Wilson's electioneering statement that devaluation would not decrease the £'s internal purchasing power when one important contribution of devaluation would be to allow home prices to rise to reduce domestic consumption of exportable goods.

WHAT DEVALUATION OFFERS THE U.K.

Devaluation offers the U.K. an export-led economic expansion which would not have to be cut short when imports of raw materials and industrial stocks rise with output and incomes, because export-led expansion stimulates a sustained increase in investment which raises productivity and maintains competitiveness.

But if devaluation offers the U.K. a tremendous opportunity, it remains true that, unlike the planned devaluation of the French franc in 1958, the devaluation of the £, forced amidst a flurry of ambiguous official statements, represents
the collapse of the policies that the Labour government had upheld throughout its first three years. This makes it more difficult for the government to exploit the opportunity. Its authority is undermined, its image tarnished. The circumstances of devaluation have had a powerful emotive effect on public opinion. Bitter differences within the Labour cabinet and the party — copiously leaked to the press — have created uncertainty in industry about future policies and the government's determination and competence to pursue them when formulated. Relations with the Confederation of British Industries have deteriorated. The nervous behaviour of the £ on foreign markets once the Bank of England ceased to hold it at the new ceiling of $2.42 showed the doubts of the Labour leaders' practical abilities were widespread not merely in the U.K. but throughout the international trading world.

Make no mistake: devaluation could fundamentally improve the U.K.'s economy. Whether it does depends on the government's political ability to restore its credibility and to replace political followership by economic leadership. The act of devaluation strengthened the government's immediate position in Parliament. The Labour party's left wing had been pressing hard for faster reflation, but devaluation lined up the moderates behind the government. Within a month this solidarity had cracked over the Chancellor's acceptance of I.M.F. insistence on supplementary measures in return for a standby credit of $1,400 millions.

THE GOVERNMENT'S BIGGEST ASSET

The government's biggest asset is Roy Jenkins, the new Chancellor. He is a youthful 48, energetic, unflappable. The son of a miner, he won a scholarship to Balliol and took a "First" in economics. He urged a planned devaluation long before the unplanned crisis occurred. Treasury officials, accustomed to Chancellors who worked far into the night, were staggered to be told that Roy Jenkins had no intention of working in his office after 7 p.m. and did not want to be disturbed over his weekends which he proposed to devote to reading and reflection. A moderate progressive, he is well-suited to regain for the government the cooperation of industry. He is the one man in the government who could pull off a British "miracle". If he does, Labour will streamline its ideology, shed its left doctrinaires and be in office for another ten years, with Roy Jenkins as Prime Minister and a force in world politics.

But he faces great odds — economic and political.

THE ECONOMIC ODDS

The Treasury, under Mr. Callaghan's Chancellorship, had obviously lost control over public expenditure. Before Mr. Jenkins' cuts, the Treasury estimated that total real public spending would rise by no less than £1,000 millions in 1968/9. Even after the axe, the estimate is a rise of £700 millions (all at constant 1967 prices). This real increase of £700 millions coincides with (a) the government's need to divert £1,000 millions of real resources into new exports, new import substitutes, and some new investment in production and (b) an expected 4 per cent real growth in calendar 1968, which implies the creation of £1,350 millions of new resources. But £1,350 millions of new resources less £700 millions additional government expenditure and £1,000 millions diverted to exports leaves an inflationary gap of £350 millions. In addition, besides some investment in the export industries (included in the £1,000 millions, there
ought to be some rise in private investment in 1968/9, and on present trends private consumption could rise by up to £400 million. In other words there could be an inflationary gap of nearly £800 million. To find the whole £800 million out of additional taxation is economically and politically impossible. The pundits agree that consumer expenditure should not be allowed to rise at all. But if higher taxation could mop up some increases in earnings, it could also raise labour costs in manufacturing, raise manufacturing prices and so erode the competitive advantage of devaluation.

Many commentators have concluded that Mr. Jenkins, while raising some taxes (probably indirect, because most authorities believe that direct have reached saturation point), will rely heavily on an incomes policy with a statutory wage freeze. This is a gamble because no country has yet succeeded in enforcing a total wage freeze. The best that can be expected from it is a much slower wage rise (inevitably followed by a wage explosion when ended). Even so, such an incomes policy will be insufficient to restrain consumers' expenditure, because even if average earnings rise more slowly, so will prices after a short lag, provoking demands for higher pay. There is, incidentally, no evidence that profits gain when incomes from employment are held down: any reduction in the rate of rise in earnings tends to be passed on in a reduction in the rate of rise in prices. What, then, to do?

Somehow, consumer expenditure must be held below what it otherwise would be in 1968/9 by £400 to £650 millions at current prices. The Economist saw only one way out: a statutory wage and salary freeze plus allowing prices to rise in a free market. This would be wildly unpopular with Labour MPs but, added the Economist, "look what they have meekly sat down under this week and look — which is more important — what they will have to sit down under next if the government's post-devaluation policies fail".

THE POLITICAL ODDS

The Labour party is now so demoralized that the possibility of a split and a return of the Tories cannot be excluded. This was the recently prominently displayed view of Nora Beloff, the authoritative political correspondent of the Observer, a radical paper sympathetic to the Labour party.

Labour's right and centre believe that the government should now go all-out to make the mixed economy work. Unless they achieve this, they see no future for the party. Against them, the left passionately support the views of Paul Johnson, the articately orthodox Socialist editor of the New Statesman, that "consensus politics" have not only failed but should never have been tried. Here are some typical Johnson nuggets: "In those heady days of spring 1966 Mr. Wilson honestly thought that he had achieved the consensus; that he had deprived the Tories of the precious middle ground which assures a party semi-permanent rule... Even now that things have gone hopelessly wrong, he is still pursuing the mirage of the consensus, pretending that Labour is not a class party, that it can be all things to all men and can operate without antagonising powerful sections of the community. But it was always fantasy to imagine that Labour could carry through meaningful reform without a desperate struggle, marked by deep and vicious antagonisms... It may be that nothing can now save the government and that the next election is lost. I don't believe so; but... Mr. Wilson and his colleagues will find no refuge in further retreat; they will be hunted down mercilessly and hurled from office long before their allotted spans. Their only course now is to stand and fight, to devote the rest of this parliament to a prolonged offensive against the forces of money and privilege.
Let them start with the budget, with some major steps to redress the grotesquely unjust distribution of wealth in this country... The object of the government during the next few weeks should be to wipe the contempt off the Tories' faces and replace it with genuine fear.

Harold Wilson, according to the Observer, is confident that if a clash between the warring Labour factions can be avoided, he is destined to preside over a British "miracle", but "He may not have grasped how unpopular he is; on the eve of the Gallup Poll, the worst ever recorded for a governing party (Tory lead 22.55 percent), he was privately predicting that this time it might be his adversaries who would be discomfited".

The long term economic trends are favourable but the government must live through what should be the toughest budget ever, with higher prices, wage controls, collisions with the unions (on which the party depends for most of its funds) and adverse chain reactions of its unpopular policies on the series of by-elections in the offing. Mr. Wilson may secretly share with his left wingers a more optimistic view of what the U.K. economy could afford, but what he himself cannot afford is to fall out with his new Chancellor, whose views on the need for statutory wage restraint are supported by Anthony Crosland (President of the Board of Trade), Ray Gunter (Labour Minister), George Brown (Deputy leader), James Callaghan (now Home Secretary) and Denis Healy (Defence). These men are acting together as a "Watch Committee" in the Cabinet to make sure that Harold Wilson does not listen to Paul Johnson and the virulent Left. If Roy Jenkins threatened to go, the Cabinet would disintegrate and Mr. Wilson therefore cannot yield to the TUC's new economic policies advocating state acquisition of privately owned assets abroad, wide extensions of public ownership and control, and expansion of government expenditure with import controls if that led to another balance of payments crisis.

Harold Wilson lets it be known that he sympathises with these ideas and that it is the Jenkins "Watch Committee" which makes them impractical "for the present". It is precisely this political ambiguity, characteristic of Mr. Wilson's whole record as Premier, which the "Watch Committee" challenge, believing that the electors would respond to courageous leadership, admitting what went wrong and offering Churchillian toil and sweat as the price of recovery. Roy Jenkins and his friends are ready for a collision with the left-wing union leaders, which they believe would win votes. Gallup Polls, highly critical of the unions, support them in this. Harold Wilson, however, continues to believe in soothing the Left by insisting (at least verbally) on the government's "Socialism", increasing state intervention, etc...
not equipped to solve persistent deficits because the countries of the world will no longer accept (as they did before 1914) that the Bank of England should be a de facto world authority controlling credit by a reserve currency based on gold.

While Europe was recovering from the devastations of war, it gratefully accepted dollar aid and recognised the services of the £ in facilitating world trade. Trouble began when (1) Europe recovered prosperity and freed itself from dependence on dollar aid, but (2) the U.K. and the U.S.A. began to run rising payments deficits. The Europeans complain that, since the dollar and the £ are reserve currencies, the U.K. and the U.S.A. can finance their deficits in their own currencies — by handing over interest bearing sterling or dollar bonds — and that there was no limit to this process until recently when sterling holders lost confidence to the point of forcing devaluation, and dollar holders have become increasingly restive. Europe now looks to Roy Jenkins to ensure that sterling devaluation enables the U.K. to achieve sufficiently large and persisting surpluses to enable sterling held as reserves to become once again first class assets facilitating the orderly expansion of world credit and trade.

The U.S.A. ran a substantial surplus on current account in goods and services until 1966 but since then the inflationary pressures of the attempt to enjoy butter and simultaneously to fire off guns have begun to make imports soar. The US deficit is essentially due to the war in Vietnam and the Europeans don't see why they should finance that. It is not my brief to discuss what the U.S.A. should do about this. I only point out that the devaluation of the £ makes it possible for one of the two reserve currencies to set its house in order. To the extent that Roy Jenkins succeeds, he will make a substantial contribution to world monetary stability and thus to world trade and will give the U.S.A. a breathing space to sort their own affairs out. If he fails, or if the U.S.A does not use its breathing space constructively, the pressure on the dollar will speedily multiply to breaking point and the existing world monetary system risks collapse into the "autarkic" disasters of the inter-war years.

Postscript Written After The Budget

I said above that with a 4 per cent growth rate, the Chancellor needed to mop up £800 millions. He has, in fact, accepted the OECD estimate of 3 per cent and his tax changes should reduce demand by £500 millions in a full year which, with £300 millions cut in public expenditure, gives him £800 millions, i.e., he has done more than I guessed that he might. This swinging rise in taxes does not mean a Stōp: it is intended to leave room for as big a Go as the level of world trade will allow. Roy Jenkins has made a substantial and courageous contribution to (1) setting the U.K. on the road back to prosperity, (2) stabilising the world's monetary system, and (3) giving Washington a lead and facilitating the President's task. Had he, as I feared above, raised only a limited amount by taxes and relied mainly on the flimsy reed of an incomes policy to restrict demand, speculation against the pound and the dollar would have exploded. It is true that a larger reduction in public expenditure would have been less painful to consumers and much more beneficial to industry, but Labour's traditional horror of cuts in public expenditure narrowed his choice as to the amount to be raised, although not his choice of the means.
In this connexion I drew the attention of a Labour minister to the comment of a leading Swiss banker who had said that while Mr. Jenkins had more than fulfilled his promises to the IMF and OECD in clamping down on consumption, he had created no incentives to exporters to go all out for big profits. The minister's reply was reassuring and significant: "Look," he said, "We've just saddled consumers with £923 millions of new taxes — the biggest increase ever made in a British budget. If, at the same time, we'd cut the higher slabs of income tax which affect executives, the masses would have cried bloody murder! Not to have increased income tax at all is — for the Labour party — an extraordinary act of faith. If this budget eventually creates rising wealth, we will reduce income tax. We are well aware of its disincentive effects. But who would dare say that in public — at this stage?" I need hardly add that this minister does not belong to the Wilson-Johnson school (see above) but to those around Roy Jenkins.

All this is heartening, but it still leaves unanswered points 2(a), (b), and (c) of my second opening paragraph and my later comments under the heading "The Political Odds".

A final word: the key to the prosperity of the U.K. and of the whole world lies in what the U.S.A. now does about its payments deficit. Gold at $35 between central banks and a free market for all other traders cannot last. At best it gives President Johnson a (short) spell to set his house, and the world monetary house, in order.

J. H. March 20.