Report on Poverty

The report of the Institute of Applied Economic and Social Research on poverty is probably the most comprehensive piece of research on an economic or social subject yet produced by a private organisation in Australia. Taking over four years to complete, it has the detailed comprehensiveness expected of a Government Royal Commission. The data on which the report bases its conclusions has been amassed and analysed with painstaking thoroughness and commendable expertise.

A work of such scope could not have been undertaken without substantial financial backing and the Director, Professor Ronald Henderson, acknowledges the Institute's debt to various private bodies, including the Myer and Ian Potter Foundations and the Howard Norman Trust. Substantial grants were also received from government sources.

At the outset it is necessary to make perfectly clear the precise meaning given to poverty in the report of the Institute. Poverty does not mean the kind of dire destitution suffered by tens, even hundreds, of millions of people in parts of the world, particularly in countries such as India; or, for that matter, by far too many people in Western countries in the under-employed, pre-war society. Poverty, emphasises the Institute, is a relative concept — that is, relative to the general standards of living enjoyed by the community. This means that as average incomes rise, and standards improve, the poverty line will be advanced. In July, 1970, for a standard family the report takes the poverty line to be an income of $43.40 a week; that is, an amount roughly equal to the lowest male wage awarded by the
Commonwealth Conciliation and Arbitration Commission, plus child endowment. Those in poverty in the community, according to this definition, are to be found in a small number of clearly defined groups:

- elderly people;
- families lacking a male bread-winner;
- families with a large number of dependent children;
- recent migrants to Australia;
- those inflicted with prolonged illness.

The most striking feature of the report is that it does not bear out impressions, which seem to have gained ground in recent years—perhaps because of advance press publicity and television documentaries—of the presence of widespread and degrading poverty in the Australian affluent society. Nevertheless, the Institute insists that the estimated poverty which does exist is a disgrace to the community. The basic conclusion reached is that 4 percent of income units in Melbourne (in 1966) were in need.* There would be no reason to suppose that the incidence of poverty would be significantly different in other Australian cities.

Whilst stressing the dangers of international comparisons, the Institute arrives at the view that the incidence of poverty in Australia is among the lowest in the world. “Only New Zealand and Scandinavia, with which countries Australia enjoys roughly comparable living standards, are likely to have as little poverty”. The report confidently asserts that poverty in Australia is much less than that in the United Kingdom where it has been estimated that 14 per cent of the people are living in poverty; or than in the United States where surveys have suggested that 20 per cent of families are below the poverty line. The first of these observations comes as a surprise in view of universal pensions, the National Health Service and other appurtenances of the British Welfare State. It could be taken as a powerful indictment of the principle of universalism in pensions and welfare services. The high figure for the United States, although the richest country in the world, is more understandable because of the depressed racial groups, particularly the large negro population.

*An income unit is defined in the report as “a maximum of a man, wife and dependent children: an independent child or an aged parent, for example, is treated as a separate income unit.”
According to the report the reasons for the low incidence of poverty in Australia are easy to identify. They are to be found largely in sustained full employment and the high average level of wages. The most significant point in this regard is that while expenditure on cash social benefits is low by international standards, the effect of the Means Test is to concentrate assistance on those demonstrably in need—the principle of selectivity as opposed to that of universalism in Britain. Those people—and there are many of them—who imagine that the solution to poverty in Australia, and particularly a better deal for the aged, lies in the abolition of the Means Test should take note. Their ideas have been, in effect, completely discredited by the Institute's investigations.

The various sections of the survey have been written by individual members of the Institute who participated in the study. Their names are appended as authors of the particular parts for which presumably they have been primarily responsible.

Perhaps the most important chapter is that contributed by Professor R. I. Downing, the Ritchie Research Professor of Economics at the University of Melbourne.

Professor Downing makes some observations on the Means Test which are of the utmost importance and which should be carefully studied. He quotes Prime Minister Chifley as saying, “I am not greatly concerned about abolishing the Means Test, so that everybody in the community above the prescribed age-limit, may receive an age pension, even though that is part of Labor's policy . . . . I am concerned about people on the lowest rung of the economic ladder who suffer great hardship under present living conditions”. The present leadership of the Labor Party in its advocacy of National Superannuation seem to have very different ideas.

Notwithstanding moderate expenditures on social security, Professor Downing attributes Australia’s success in minimizing poverty partly “to her extensive reliance, unique among advanced countries, on the Means Test as a device for concentrating social expenditures where they are needed. This effect is re-inforced by her avoidance in revenue-raising, of contributions falling relatively heavily on lower incomes, which are an important source of social security finance in most other countries”. The I.P.A. can take great satisfaction
The report gives some interesting figures of comparative expenditures on cash social benefits in different countries. The figures applied to 1966.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Gross National Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>5.6</td>
</tr>
<tr>
<td>Common Market Countries</td>
<td>14.7</td>
</tr>
<tr>
<td>Austria</td>
<td>12.6</td>
</tr>
<tr>
<td>Scandinavian Countries</td>
<td>9 – 11</td>
</tr>
<tr>
<td>Canada and the United Kingdom</td>
<td>7.5 – 8.5</td>
</tr>
</tbody>
</table>

The only countries lower than Australia were:

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Gross National Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>5.3</td>
</tr>
<tr>
<td>Israel</td>
<td>5.4</td>
</tr>
<tr>
<td>Japan</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Because the elimination of the Means Test occupies such a central place in the thinking of many Australians, particularly those with a humane interest in social welfare, even at the risk of being tedious Professor Downing's summing up must be quoted. "The arguments in favor of the Means Test are formidable. It concentrates benefits where they are most needed and so permits rates of benefit to rise more rapidly than they would if benefits were paid more indiscriminately. It offers a major instrument for redistribution of income in

*See especially April/June 1969 Review, "At the Crossroads in Social Welfare".
favour of those in need, in a situation where for many reasons — economic, social, political and administrative — the tax system alone is unable to achieve enough. And it retains an incentive to self-reliance among a large part of the population to provide at least some income for their retirement.”

In a few closing paragraphs, Professor Downing discusses, not unfavourably, the proposals of the Labor Party for a National Superannuation scheme. The introduction of such a scheme, however, would appear to conflict with what he says about the significant part played by the Means Test in reducing poverty and encouraging self-reliance.

Space does not permit us to discuss all five categories of poverty indicated in the report. However, some comments on the extent of poverty among elderly people are called for.

In view of prevailing conceptions, the conclusions of the report come as a surprise. While 15 per cent of aged income units are below the poverty line (in terms of income) this percentage was severely reduced when other considerations were brought into account. Many of the 15 per cent, for instance, owned their own homes and thus had relatively small housing costs. Some had assets of substantial value. When these factors were allowed for, 6 per cent of aged people fell below the poverty line. More than half of the poor, the report points out, are able to live more comfortably than their incomes would imply because of regular assistance received from relatives, friends and charitable organisations. After all these things were considered there remained only 2 per cent of aged income units living in chronic need. These were mostly single old people with few resources other than the pension, some pensioners who had to pay more in rent than they could afford, and a few aged migrants not eligible for pensions.

One must conclude that the extent of really serious poverty among elderly people is not nearly so great as has been commonly supposed. This does not mean that the circumstances of large numbers of old people are satisfactory. Far from it. The I.P.A. is of the view that Australians are much too indifferent to the problems of older people, indeed much more so than is the case in many other countries. But the findings of the Institute of Applied Economic and Social Research clearly indicate that the position of the elderly, in straight economic terms, is not so desperate as maudlin articles
in the press would have us believe. The real problem, for which Australia has yet to seek a solution, is to provide a tolerable life for the elderly — one which will be free from the terrible curse of loneliness and which will include a bright environment conducive to happiness and contentment. They should be made to feel that they are participating in a useful, if only limited, way in the life of the community; that they are just not “oldies”, rejects to be cast on the scrap-heap of society. Old people are entitled to enjoy a place of honour and respect in the community.

A great deal of social re-organisation will be necessary before such a happy state can be achieved; but we have yet barely made a start. The really important thing, more important than mere income, is the attitude of the community as a whole to its elderly citizens.

The report makes various recommendations for the alleviation of poverty among the groups where the Institute's investigations have disclosed its existence. An increase of $1.50 in the basic pension rate for a married couple, to bring it up to an assessed current minimum needs standard of $29 a week is proposed ($17.50 for a single person). An invalid pensioner, with dependants, now receiving $30.50, including child endowment, would receive an additional $13.00 a week in order to bring the pension up to the poverty line.

By and large the recommended increase in the Age Pension at least, is comparatively modest, and suggests that, in spite of widespread criticism, existing rates are not as niggardly as the community may have been led to believe. The total annual cost of the recommendations on increased pensions — age, invalid and widows — is $73 million.

To meet the needs of large low-income families a general increase in rates of child endowment is proposed, with emphasis on the third and subsequent children. The recommended rate for the third child is $3.50 and, for the fourth and further children, $4.50. The total annual cost of these increases would amount to $108 million which the report claims could be largely financed by abolishing concessional deductions for children in the assessment of taxable income. Only small tax increases would then be required. As the single income earner and married couple without children would not be affected by removal of the concessional deductions, this would
seem to involve a shift of the burden from small to large families.

The proposal does not seem entirely logical. If large families are to receive greater government assistance, then it should surely be at the expense of the single man or woman, or married couples without dependants, rather than at that of typical families. But, here again one wonders whether the admittedly difficult situation of low-income earners with large families could not be better met by the application of some kind of Means Test. The total cost of the recommendations is summarised below:

<table>
<thead>
<tr>
<th></th>
<th>Estd. Actual Expenditure</th>
<th>Estd. Additional Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Pensions</td>
<td>476</td>
<td>42</td>
</tr>
<tr>
<td>Invalid Pensions</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td>Widows' Pensions</td>
<td>69</td>
<td>13</td>
</tr>
<tr>
<td>Unemployment, Sickness and Special Benefits</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Child Endowment</td>
<td>193</td>
<td>19*</td>
</tr>
<tr>
<td></td>
<td><strong>837</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

* If concessional tax deductions for children were not withdrawn, the estimated cost of additional child endowment would be $108 million. The total cost of all recommendations would then rise to $189 million.

Every Western economy has its defects, but the information disclosed by the investigations of the Institute of Applied Economic and Social Research reflects, on the whole, favourably on Australian society: real need is the unfortunate lot of only a tiny minority of Australians. The most intractable problem, and the one which most affronts our conscience, is clearly not that of the economically depressed, but that of helping the original inhabitants of Australia to achieve a more meaningful way of life. However, the report does not provide cause for complacency. This does not mean that sweeping, large-scale government schemes of social welfare are required. By the report's own findings, they are not. Indeed, the great value of the principle of selectivity in social services has been vindicated by the Institute's report. This principle should not now be abandoned, but should be the basis
of the attack on the removal of the remaining pockets of poverty in our society.

We would make a grave mistake to follow the road taken by other countries such as the United Kingdom which, in any case, have been much less successful than Australia in minimising poverty. Poverty in this country can be finally eradicated more effectively by concentrating government benefits where they are most needed than by instituting a huge, costly and incredibly wasteful welfare state where benefits are dispensed for all, rich and poor alike.

The Institute of Applied Economics and Social Research is to be commended for showing us in what directions greater efforts are needed. We should not delay in making those efforts, for the noblest work to which any society can set its hand is the work of charity — to assist those in its midst who have been more cruelly dealt with by capricious Fate than the rest of us.
Mr. Hawke and Profits

The activities of the energetic and irrepressible President of the A.C.T.U., Mr. Hawke, are focusing public attention on the subject of company profits.

Mr. Hawke, while modern in many respects, has a curiously old-fashioned approach to industrial relations and to national economics. In employer-employee relations his attitudes are more appropriate to "the dark satanic mills" of the last century than the affluent 20th century society. Mr. Hawke has the academic attainments and native intelligence of an outstanding, modern union leader, but he seems to be going out of his way to create the image of an "angry young man" whose mission in life is to play St. George to the "dragon" of big business. It is hard to believe that he can persist in these tactics without in the end damaging himself more than those he is tilting at.

Mr. Hawke, in his economics, chooses to ignore a most elementary fact about today's science-based, technological world — namely that productivity is very largely the end result of industrial investment and innovation, and that, in turn, the extent of both these things is closely related to profits and profitability.

Mr. Hawke is strangely out of time in another respect. He speaks of profits as if they conflict with wages, and that the more there is for the investor the less there is for the wage and salary earner. There was no doubt truth in this 30 or 40 years ago when the majority of people did not participate in the direct financial benefits arising from profits. In those days a good part of the capital for industry was provided by a small minority of well-to-do investors. This is, of course, no longer the case. The capital needed to raise industrial productivity today is not provided, in the main, by a wealthy few, but by great institutions, such as life assurance societies, employee pension funds and investment trusts, to which millions of people have entrusted their savings. As a consequence, there are few people in the community who do not benefit financially, in some degree, from company profits. Public companies today are, in a very real sense "public" in a way which they were not before World War II or even in the early post-war years.

Mr. Hawke is no doubt motivated by a genuine desire to improve the living standards of those he represents. But his economics are so obviously faulty, and so inappropriate in our contemporary society, that they would, if pursued to any lengths, have precisely the opposite effect to that which he apparently intends. They would retard, not accelerate, the rate of improvement in the living standards of the community.

Any undue restriction of profits — for instance, by control of prices — would make it more difficult for industry to obtain the resources needed for the development, expansion and modernisation of its productive facilities. Profits must be sufficiently attractive to induce investors and financial institutions to subscribe funds for expansion. Otherwise they will invest their money in avenues where the return is guaranteed and their capital secure.

Modern large-scale investment is a sophisticated operation predominantly influenced by the assessments of skilled money managers and financial analysts, backed by the best technical opinion that can be obtained. Returns from a
Mr. Hawke and Profits (continued)

A multitude of different prospects are "fed through the computer" and the comparative merits assessed between investment in high-yielding, fixed-interest securities and real estate on the one hand, and in equity shares on the other. Not only will low-profit industries fail to attract growth capital, they will suffer the further disability of being left with less money to plough-back because of the pressure to pay adequate dividends. Low-profit industries are often those whose products and methods have become antiquated. Lower company profits, by retarding the rate of investment in industry and therefore advances in productivity, would react against the community as a whole. A slower rate of improvement in production must, of course, mean a slower rate of improvement in real living standards.

Part of Mr. Hawke's tactic is to concentrate attention on aggregate profits, particularly those of leading companies which, understandably, may run into tens of millions of dollars and which attract headlines in the financial press. But these figures in themselves tell us nothing whatever about the true size of profits. This can be measured only by relating the amount of profits to the funds invested in the industry concerned. A further obvious test is to consider the size of profit margins in relation to sales turnovers.

For many years the Reserve Bank (and its predecessor, the Commonwealth Bank) have published figures showing rates of return on shareholders' funds. And recently, the Commonwealth Tariff Board has filled a glaring gap in our statistics by publishing profit margins as a percentage of sales. The table below has been extracted from publications of the

THE COMPOSITION OF COMPANY PROFITS
1937 TO 1969

As Percentage of Shareholders' Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>Profits Before Tax</th>
<th>Profits After Tax</th>
<th>Dividends</th>
<th>Undistributed Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1937</td>
<td>9*</td>
<td>2*</td>
<td>7.1</td>
<td>5.5</td>
</tr>
<tr>
<td>1947</td>
<td>12*</td>
<td>4.5*</td>
<td>7.4</td>
<td>5.3</td>
</tr>
<tr>
<td>1950</td>
<td>15*</td>
<td>6*</td>
<td>9.1</td>
<td>5.7</td>
</tr>
<tr>
<td>1956</td>
<td>16.2</td>
<td>6.9</td>
<td>9.3</td>
<td>5.6</td>
</tr>
<tr>
<td>1960</td>
<td>15.1</td>
<td>6.0</td>
<td>9.1</td>
<td>5.2</td>
</tr>
<tr>
<td>1961</td>
<td>12.2</td>
<td>5.2</td>
<td>7.0</td>
<td>4.7</td>
</tr>
<tr>
<td>1962</td>
<td>12.1</td>
<td>5.0</td>
<td>7.0</td>
<td>4.8</td>
</tr>
<tr>
<td>1963</td>
<td>12.7</td>
<td>5.0</td>
<td>7.7</td>
<td>4.7</td>
</tr>
<tr>
<td>1964</td>
<td>13.2</td>
<td>5.5</td>
<td>7.7</td>
<td>4.6</td>
</tr>
<tr>
<td>1965</td>
<td>13.6</td>
<td>5.7</td>
<td>7.9</td>
<td>4.6</td>
</tr>
<tr>
<td>1966</td>
<td>12.7</td>
<td>5.2</td>
<td>7.5</td>
<td>4.5</td>
</tr>
<tr>
<td>1967</td>
<td>13.3</td>
<td>5.4</td>
<td>7.9</td>
<td>4.6</td>
</tr>
<tr>
<td>1968</td>
<td>13.9</td>
<td>5.9</td>
<td>8.0</td>
<td>4.5</td>
</tr>
<tr>
<td>1969</td>
<td>14.4</td>
<td>6.2</td>
<td>8.2</td>
<td>4.5</td>
</tr>
</tbody>
</table>

*Estimated.

Source: Statistical Bulletins of the Commonwealth and Reserve Banks.
two Banks showing earning rates on shareholders’ funds in Australia over the last 30 years.

Excluding the war years, company earning rates have remained remarkably stable over the past three decades. Rising from 7 per cent on shareholders’ funds (after tax) in 1937 to a peak of 10½ per cent in the mid 1950’s, profit rates have since receded to an average of 8 per cent for the past three years. Dividend rates are well below pre-war levels and even those ruling in the mid 50’s. However, undistributed profits are greater today in relation to funds invested. Retention of profits is the most economical method — especially under today’s conditions when interest rates are so high — of financing the expansion and modernisation of plant which is so important for increased productivity. Earnings before tax are, as one would expect, considerably higher today than

in 1937 when combined State and Commonwealth rates of company tax averaged the equivalent of a mere 20 cents in the dollar. Also, to avoid double taxation, shareholders were then allowed a tax rebate on dividends received. With the introduction of Uniform Taxation in 1942, the tax exemption on dividends was withdrawn and the rate of Commonwealth company tax sharply increased. At the end of the war, the various company taxes in force — ordinary, super-tax, undistributed profits and excess profits tax — averaged just under 40 cents in the $ for public companies. By the early 1950’s the complicated war-time company tax apparatus had been dismantled, leaving only ordinary income tax to be paid.

The table below summarises the changes in combined rates of taxes since 1939 on the bulk of public company profits.

<table>
<thead>
<tr>
<th>Years Ended June</th>
<th>Cents in $ of Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939</td>
<td>20</td>
</tr>
<tr>
<td>1945</td>
<td>40</td>
</tr>
<tr>
<td>1947</td>
<td>36</td>
</tr>
<tr>
<td>1954 to 1956</td>
<td>35</td>
</tr>
<tr>
<td>1957</td>
<td>40</td>
</tr>
<tr>
<td>1957 to 1959</td>
<td>37½</td>
</tr>
<tr>
<td>1960 to 1963</td>
<td>40</td>
</tr>
<tr>
<td>1964 to 1967</td>
<td>42½</td>
</tr>
<tr>
<td>1968</td>
<td>45</td>
</tr>
<tr>
<td>1971</td>
<td>47½</td>
</tr>
</tbody>
</table>

With dividends taxed at up to 68 cents in the $ in the shareholders’ hands, the Commonwealth Government is now preempting between a half and two-thirds of company profits before tax, compared with only about a fifth thirty years ago. Higher taxes, together with the constant pressure to finance rapid expansion since the war, have obliged public companies to cut the proportion being distributed to shareholders in the way of dividends from 60 per cent of all pre-tax profits in 1939 to about 30 per cent today. Taxes on company profits, which are estimated to yield $1,452m. in 1970/71, are providing a highly significant source of revenue for governments to spend on a multitude of purposes which presumably in one way or another benefit the community as a whole. It follows that
if profits were to be seriously reduced — as Mr. Hawke would have it — by price control or other means, governments would have to levy other taxes to obtain the revenues they need.

To anyone who had experience with price control during the war, Mr. Hawke's proposals in this respect would be regarded as impractical and dangerous nonsense. It is fair to say that they wouldn't be supported by one responsible economist in Australia. In any case, Mr. Hawke's argument for control of prices is based on a proposition which a moment's reflection will show to be fallacious. He says simply that wages are fixed but profits are not. But the truth, of course, is that wages are not fixed; only minimum wages are fixed. The buoyant market for labour in the full employment economy has resulted in rates of wages, for the most part far in excess of those determined by industrial tribunals. Moreover, even minimum wages are fixed not for individuals but for occupations. There is a significant distinction. There is nothing to prevent an individual from improving his earnings through the acquisition of higher skills or through promotion to a job carrying greater responsibilities.

The investigations conducted over the past three years by the Commonwealth Tariff Board are providing an invaluable insight into the profitability of various sections of Australian industry. Data published in the 1969/70 Annual Report, for instance, shows that distributed profits are only a minor element in prices. Dividends paid to shareholders in manufacturing companies in 1968/9 represented less than 3 cents in each $ of sales. Figures for particular industries are as follows:

<table>
<thead>
<tr>
<th>Industry</th>
<th>No of Cents in Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal and Vegetable Oils</td>
<td>1.5</td>
</tr>
<tr>
<td>Confectionery</td>
<td>2.1</td>
</tr>
<tr>
<td>Paint</td>
<td>2.0</td>
</tr>
<tr>
<td>Plastics</td>
<td>2.5</td>
</tr>
<tr>
<td>Yarn and Cloth</td>
<td>1.6</td>
</tr>
<tr>
<td>Footwear</td>
<td>1.7</td>
</tr>
<tr>
<td>Tyres and Rubber Products</td>
<td>2.6</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>2.3</td>
</tr>
<tr>
<td>Machinery</td>
<td>1.5</td>
</tr>
</tbody>
</table>


Price control in France over the first half of the 1960 decade has had unhappy repercussions for that country. An article in "Barclays Bank Review" states that the French are concerned about their lack of international competitiveness. One of the reasons advanced is the inadequacy of productive investment. The article says many French industrialists attribute the lack of industrial investment to inadequate profit margins resulting from the official price control policy.

Statistics published by the U.S. Department of Commerce show that over the period 1960 to 1965 earning rates of American-based companies were lower in France than in any other country.
This table also suggests that Australian profit rates are modest by comparison with other countries.

Apart from the basic facts about the size of profits and their widespread distribution, there is now an entirely different conception among most present-day boards of directors and management about the place of profits in modern industry. Once upon a time it would be no gross exaggeration to say that almost the sole purpose of business was considered to be the making of profit. Few business managements, and certainly no responsible managements, now think of business solely in this light. The conception of the public responsibilities of big companies must be a paramount consideration. A major part of these responsibilities is, admittedly, to ensure that industry is as efficient as it conceivably can be. Success in this objective can, generally speaking, only be achieved through the pursuit of profit. Profit is, in a sense, the measure of efficiency and the most efficient enterprise is, in this narrow sense, the one that serves the public best. A company making good profits is likely to be of greater benefit to the community than an inefficient company charging high prices for a low profit return. Nevertheless, there can be few top managements today who would regard profit as their only objective. They are also vitally concerned to contribute in a worthwhile way to the development of their country, to the strengthening of its economy and the improvement of living standards. They know that their activities must be dovetailed with the basic economic goals of the nation as expressed in the policies of its government.

In recent years big companies have also become increasingly aware of their responsibilities in strictly non-economic fields; in particular, with the burning issue of the whole environment in which man lives and the impact of modern technology upon it.
Address by the President
Mr. F. E. Lampe, C.B.E.

IPA Annual Meeting

A quarter of a century ago Australia stood at the parting of the ways. One way led to a free economy with a minimum of government interference; the other to socialism via the nationalisation of industry and total economic planning.

This was the political and economic setting, as you know, in which the I.P.A. was formed. The Institute's immediate objective was to oppose socialism and to gain public support for a modernised system of private enterprise, with full employment, improved industrial relations, adequate social security and equality of opportunity as its central features. The I.P.A.'s "Looking Forward" publications not only aimed at providing a blue-print of the improvements needed but also stressed the responsibilities of business leaders in making the system effective.

In the years that followed the people turned their backs on the socialist way, and Australia enjoyed the greatest sustained period of prosperity and development in its history.

However, nothing in economics and politics is ever finally settled. Times change and new trends and forces make their appearance. There are signs that Australia could be approaching a situation not unlike that which led to the formation of the I.P.A. This situation could again be described as a parting of the ways and as one in which major choices might have to be made.

All businessmen at the present time must be disturbed by the growing evidences of unrest and disorder in the community and by what look like deliberate attempts to foment sectional divisions and misunderstandings.

These things were also characteristic of the situation 25 years ago when the Institute was formed. Over-full employment, then as now, provided a fertile ground for the activities of people more concerned to promote industrial unrest, perhaps for political purposes, than industrial understanding.

Recent years have also seen an extraordinary growth in the size and authority of Government and in the claims it is making on the resources of the community. Total taxation is now approaching 40 per cent of national income. Ten years ago it was only 30 per cent. In the last Commonwealth Budget, expenditure rose by a record $800 million, nearly $300 million more than the rise in the previous year.

Year by year Government gets bigger and bigger. The question now is how big can it get without threatening individual rights and freedoms and personal self-reliance — those things which are the very essence of the free enterprise system. How much of the individual's life, from the cradle to the grave, is to be worked out and pre-determined for him by Government? How much will be left to his own personal decision and choice?

The wave of the moment is toward more Government. Too many people are complacently riding this wave without bothering to ask where it might dump them.

Unlike twenty-five years ago, the threat to economic freedom does not come from proposals to nationalise industry or to impose far-reaching government controls. The threat lies rather in the conception of Government as a kind of Father Christmas which undertakes to provide economic security for everyone and every section, regardless of whether or not they need it; or, indeed, whether or not they are entitled to it. There is a growing tendency, both among certain sections of industry and the community,
to look on Government as a Universal Provider, or as a Big Brother ever ready to rescue them from any misfortunes into which they may fall. Special assistance and subsidies to some industries are expanding alarmingly. And there is a growing acceptance of the idea that provision for Retirement, Health, and a whole range of other social benefits should be lavishly provided for everyone by the State. The central question is whether Government should, in fact, do all these things or whether it should encourage the individual to fend and provide, to a greater degree, for himself. This is a fundamental issue which we, as a nation, are facing at the present time.

It is, of course, only too true that there are many people not in a position to fend for themselves, often through no fault of their own. They need help and Governments have a responsibility on behalf of the community to look after them. Industries which run into heavy weather may also need government aid. But this doctrine, which all decent people will support, of assistance for the unfortunate, threatens to become a doctrine of universal application in which Government will provide for all. This is seen most clearly in proposals to super-impose on the existing pension arrangements (subject to a means test) a scheme of national superannuation to provide adequate retirement benefits for everyone. These ideas are commanding widespread support, but I wonder if it is fully appreciated what a serious blow they would strike at the whole foundations of personal choice and the free enterprise system. A great part of the capital for free enterprise comes from personal savings which find their way into life assurance and private pension funds. If Government were to appropriate a large part of these savings, it would control investment funds needed for private industry.

Everyone in the modern affluent society feels he is entitled to a decent standard of living. That is a fair demand, and one which the modern democracy must meet. But, it is equally true that the great majority of people do not want their lives mapped out and pre-determined for them by Government. They want to make their own decisions and choices and shape for themselves the pattern of their own lives. This is what free enterprise is really about. The I.P.A. was formed a quarter of a century ago precisely because we believed that free enterprise rather than government paternalism is best suited to serve this fundamental human need: the need for self-development and self-expression. We would not now wish to see these freedoms slowly eroded by the encroaching tides of Big Government. But this is what could happen, almost without our being aware of it, unless we are very careful.

The I.P.A. was also formed to counter efforts to promote industrial and sectional disturbances by informing people of the real facts behind economic progress and productivity, and to alert employers to their own responsibilities for industrial stability and peace. We must not think that because the economy and industry are so prosperous, and development is so rapid — we must not think that those responsibilities are not just as great today.

Under free enterprise, industry should be a partnership which involves mutual responsibilities by employers and employees toward one another. The necessity for education in the principles of free enterprise is as necessary as it ever was. Businessmen are concerned, and must be concerned, with the well-being of the whole community, and they must convince the people that they are so concerned.

I believe the task before the I.P.A. in the years immediately ahead will be as important and as vital as it was in the critical times when the Institute was formed 27 years ago.
Extracts from an Address to IPA Annual Meeting

by

Sir James Forrest

One of the original objects of the I.P.A. was the study of the means by which private business enterprise can be made to operate better in the interests of all sections of the Australian people. This involves its relationship to Government, the community generally and our environment, and while I can sympathise with those who may view with distaste the arrival of the so-called “big business era” in this country, I am wary of attempts to restrict this development arbitrarily.

One simple, but important, advantage of having large companies, but one often overlooked, is that they offer the only known way in which large numbers of individuals can share in the profits of business, either as shareholders personally or through other means such as superannuation funds or life insurance organisations. The corollary to this is that these companies have access to and are responsive to the wishes of a large section of the community.

The large company is also far more likely to view the longer-term interests of the community as bound up with its own interests and success than is the company with only a small stake in the overall scene. An industry in which companies are in some way prevented from expanding to their optimum size is likely to experience inefficiencies due to lack of adequate research, wasteful use of resources, and an inability to come to grips with the broad and fundamental issues of the community which, in the final analysis, it must serve. I believe that we should do all we can to ensure that private enterprise is given both the opportunities and the incentives to maximise its contribution to community interests, particularly consumer and employee welfare.

To say that private enterprise and government face a real challenge in this decade of the 1970’s is merely to repeat what has been said of past decades, and will undoubtedly be said of future decades. Yet I feel that the challenges have become especially fierce in this new decade. In some ways the experience of rapid technological and social change has dulled our willingness to look too far ahead. The hard, competitive facts of daily business and political life tend to delay the making of decisions concerning the future until they must be made, and then too often only in relation to the near future — the “foreseeable future” we like to call it. There may have been some improvement in this regard in recent years, but there is still a strong inclination to pass the more difficult problems on to our children.

The very pace of development is rendering it imperative that we look further than this “foreseeable future”. We are faced with the need to look at ourselves, and our environment, on a scale which would have been in the realm of fantasy a few decades ago. The great world-wide upsurge of publicity on environmental pollution is only one example of this; another is the questioning by many — especially the young — of the aims and purposes of the modern social and industrial system. Taking the example of pollution, I believe the publicity on the subject is a good thing. It has changed this problem from being long-term on which few private or public organisations felt compelled to act to one of immediate concern to individual organisations. And
this example ties in with the social responsibilities of private enterprise, the legislative framework, and governmental control. There is surely a vital role which many companies, the large company in particular, can play in meeting this challenge. Indeed, it could even become the most important factor during the coming decade which determines the extent of private enterprise participation in our economy and social way of life.

If, in fact, the stage has been reached where major steps designed to preserve, and to refurbish, much of our natural environment are essential — and a mounting volume of authoritative opinion suggests this is so — the task is clearly of such magnitude that co-operation between business and government on a scale, and in ways, not previously seen must be evolved, and quickly. It will cost a great deal in money and effort, and private enterprise faces a big problem in persuading the public to recognise this.

This provides but one example — albeit an important one — of the need for the structure of private enterprise to develop and change to meet the situation around it, and governments will have to provide the necessary framework and assistance to encourage, guide and supplement this process. Much can be done in the way of establishing the right climate for this development by education. I doubt if private enterprise as a whole has done enough in his area. I am not thinking only of the obligation of private enterprise to improve its capacity to run the business affairs of the community. On this point it is encouraging to see the co-operative effort now being made by government and business to establish higher standards of business management education in Australia.

What I have in mind, also, is the necessity to improve general education standards throughout the community, and the obligation of private enterprise to see that the things it stands for are understood and appreciated by the younger generation. I know this is a difficult matter, for a substantial and very vocal section of the younger generation is unhappy with what it sees in the world to-day, and much of the blame is laid at the door of business. The increases in public spending on education have been significant in recent years but money alone will not raise the efficiency, or appropriateness, of education in our country. The provision of effective education, at all levels, must be firmly tied in with the way of life and needs of the community.

What I wish to stress is that if private enterprise is to gain acceptance from that very important section of the community — the younger generation — it must take a much closer and more enlightened interest in education, and be prepared to pay for it.

The community is becoming increasingly aware of the costs, many of them well hidden, of economic growth, and it is likely that these problems will receive increasing attention in the future. People are certainly becoming less willing to accept many of the old "truisms" which have guided our development over the post-war period. A recent example which springs to mind is in the field of immigration, where considerable reassessment of previous attitudes is taking place. For example, if net immigration continues at recent levels of around 135,000 persons per annum, then the total population will exceed 16 million by 1980. This potential growth, and its many accompanying problems has led a number of individuals and institutions to suggest the possibility of a less ambitious programme in this field. While there is obviously some desirable limit to the rate of immigration which should be accepted, I would be reluctant to witness any major slowdown because the benefits are too valuable to be ignored.
IN this paper I will first describe briefly some urban problems which I believe are likely to be affected by economic policy. I concentrate on the problems where technical knowledge of the course of action required to achieve agreed objectives is ahead of our ability to implement what we know.

Segregation and Income Distribution

Although inequality of income is not a peculiarly urban problem some of its manifestations are. In urban areas rich and poor families tend to live in different parts of the city. The most damaging effects of this are seen in schools and in the expectation of non-achievement among children in the poor areas. Perhaps the greatest contribution that successful families can make in a community is to provide the stimulus to achievement without which children of the poor become trapped in a 'culture of poverty'. From a national point of view integration between income, racial and ethnic groups appears to me to be very important.

Poor families suffer some other particular problems when they live in large metropolitan areas. The first is housing. They cannot afford to buy as much housing as community standards 'require'. One alternative open to them is public housing — which may or may not be of the type, or in the location they want.
It may also require that they conform to ways of living that they don't like. The other alternative is to occupy sub-standard housing. That may be breaking the law and they may be subject to eviction. Their houses may be acquired for demolition to make way for redevelopment by either public or private enterprise. Our community housing standards, when they are enforced, almost invariably make those in the poorest housing worse off, by reducing the supply of such housing. Although public housing may not be everyone's choice the demand for it far exceeds the supply, as can be seen from the long waiting lists in most States. More funds for public housing would certainly improve the situation.

Segregation also has serious effects on the ability of local governments or voluntary organisations in low income areas to provide an adequate level of community services. The areas which are most in need of special welfare services are least able to afford them, and least able to organise them from their own resources. Although many welfare services are provided by State Governments in Australia, local councils could play a larger part. However, local government boundaries often seem to be drawn (e.g. the dissection of the City of Sydney) to prevent any significant cross-subsidisation from rich to poor within a local government area.

One disadvantaged group which is not all found in poor areas is the group dependent on public transport. The level of service and the demand for public transport have followed each other downward with the rise of car ownership and use. Those who cannot afford a car or, because of youth, age or disability cannot drive, are left much worse off.

Land for housing appears to be increasing in price at something like 15-20 per cent per year in many areas. The owners of existing housing are not affected, and the owners of land available for development reap handsome profits. But everyone else is made worse off as rents and house prices rise.

In large cities the situation is quite different to rural areas or country towns. The environment tends to become polluted as a result of the large scale concentration of human activities. Pollution can take the form of waste materials, noise, motor vehicles (traffic congestion) or people themselves as privacy becomes even more of a problem and recreation areas become increasingly remote and/or crowded.

I am not one of those who hold that the effects of pollution are rapidly making cities impossible to live in. However, in some particular respects cities are becoming worse and standards of living are declining. The questions that face urban communities are — how much are they prepared to suffer these consequences of urban growth? — are they inevitable consequences anyway? — and what sacrifices are we prepared to make in order to have them reduced?

Urban Services

Some of the effects of pollution can be reduced by provision of services such as sewerage collection and treatment, provision of parks and other recreation areas and increasing the capacity of roads. Unfortunately these, and most other urban services suffer from shortages of resources. Large numbers of people living in Australia's major cities do not have sewerage. Water restrictions in time of drought are generally expected. Public transport services use out of date equipment, and cannot provide for peak hour travel in comfort. Education, perhaps the most important service, is probably in the worst situation. Public libraries are rarely a significant asset and many other social and cultural services fall far below standards that are accepted overseas. Galbraith's description of the products of American capitalism as private
The Urban Problem (continued)

affluence in the midst of public squalor could apply very well to Australia. Almost all urban services are the responsibility of State and local governments. Both complain continually of shortages of both revenue and loan funds.

Urban Development

As living standards increase the poorer buildings built for earlier generations tend to become obsolete. Many are renovated but some come into the hands of those who want the cheapest accommodation — poor families, struggling firms, non-profit organisations and so on.

Often the sites become valuable as they are convenient to the city centre. Yet redevelopment may be inhibited by the difficulty of buying enough contiguous properties to make an economic redevelopment site, or because of the generally poor quality of other buildings in the vicinity. When redevelopment of small properties does occur it is often tied to an obsolete pattern of streets and subdivisions. The small blocks of flats and villa units that are springing up in Sydney's and Melbourne's suburbs are fair candidates for becoming the 'slums of tomorrow'. They are built to the minimum of today's standards and, unlike the houses that preceded them, they cannot easily be added to or significantly altered.

When public authorities do step in and redevelop large areas the results are not to everyone's liking. The worst losers may be those whose houses are pulled down. Many have bought at high prices, and high mortgages and don't get their money back. If they don't want to live in a commission flat they are either sent to the further suburbs, or compete for the declining amount of cheap housing that remains. Sometimes very valuable social networks are destroyed.

The ideal solution from many points of view would be private renovation of the majority of the old housing. A great deal of this is occurring but it is difficult to borrow to renovate an old house. And we must always recognise that there will be some who want the cheapest and most 'unrenovated', poorly maintained housing available. If the supply of such housing is deliberately reduced they are made worse off.

Income Redistribution

Some of the problems of the poor cannot be solved by simply increasing welfare payments because those who are dependent on welfare payments may be captives of the culture of poverty even when welfare payments are at a high level. A negative income tax could possibly have a quite different effect because it does not imply the same judgment — that recipients have failed.

The level of child endowments, aged pensions and various other payments, and the level of progression in the income tax scales all influence the degree of inequality between different groups. The poor may really be 'always with us' but how poor they are relative to the rest of us will have a profound effect on some of the most important urban problems.

Immigration Policy

Perhaps Australia's immigration policy should not be called an economic policy. Yet it is very frequently justified because it provides the labour that is needed for Australia to develop economically. Immigration policy quite obviously makes our population growth faster than it otherwise would be. The pressure this puts on the resources available for urban development can be seen in two related ways.

In the first instance resources have to be devoted to house the additional families and to provide the urban infrastructure necessary to give them services. They put an increasing demand on schools, water supplies and hospitals and need electricity, telephones, roads, sewers and public transport. The cost is some-
thing like $7,000 to $10,000 per person. Because the demand for labour in rural industries is growing very slowly most of the additional population settles in urban areas and, because of Australia's peculiar pattern of cities, most of it settles in the State capitals plus a very few other towns.

We have seen that many of these servicing authorities, and the public housing authorities are chronically short of funds. A spokesman for the Sydney Water Board has recently suggested that since the immigration policy is a Federal Government policy the Federal Government should accept more direct responsibility for providing funds so that they can be serviced.

On balance I believe that the problems faced by urban servicing authorities would be less severe if the migration policy was curtailed. Alternatively we should face up to the investment required to provide more adequate services for our growing population.

Second, the migration programme contributes to the demand for housing and therefore to the rapid increase in prices of land for urban development. Rising land prices mainly favour the rich at the expense of the poor. A higher proportion of migrants of more than 15 years residence than of Australian born head of households are owner-occupants.

Macro-economic Policy

The Australian Federal Government largely avoids the cycles of boom and slump that were a feature of pre-war economies. However, the particular methods used can have widely different effects on some urban problem areas. Also the particular level of unemploy-ment-inflation which is chosen as the target can greatly influence conditions in housing and service industries.

Generally houses, roads, water sewerage, power stations, etc, are long-lived assets whose costs are very sensitive to the rate of interest. When the level of economic activity is very high, unemployment low and inflation relatively rapid, investors tend to look for high rates of return, partly to compensate for inflation, and partly because high rates of return can be gained on equities. Housing and services suffer.

In depressions, and even relatively mild recessions the demand for new housing dries up. Housing and services generally do best in an economy which is kept at a relatively low level of activity without lapsing into real recession.

Inflation reduces the real cost of servicing the loans which are floated to pay for housing and urban services. The burden on the governments concerned is thereby reduced as long as low interest money is available. Currently that is a very big 'if'.

Control of inflation by monetary policy has a far more harmful effect on urban investment than fiscal policy. Monetary policy restricts the amount of lending by direct restriction on banks, or by raising interest rates and/or by reduction in government borrowing. Through the Loan Council the Federal Government can ensure that not only its own but also State and Local Government borrowing are reduced. All of these policies hit particularly hard at urban housing and services. Fiscal policy, on the other hand, acts directly on demand by reducing the after-tax income in the hands of buyers. It acts across the board on all sectors of the economy rather than mainly on those which involve long term investment. It is unfortunate that in recent years Australian governments have seldom felt able to change tax levels except at Budget time.

Federal-State-Local Finances

At present the major sources of revenue, and especially the major growth source of revenue — the income tax — are levied by the Federal Government. Yet, as we have seen, responsibility for rapidly growing urban investment de-
mand lies mainly at the State-Local level. In addition the Federal Government controls the level of general borrowing by the State-Local section of government.

The distribution of functions between the Federal and the State-Local sectors of government is broadly similar in Australia, the U.S. and Canada. Yet in the latter two countries expenditure by the State-Local sector has risen much more rapidly recently, relative to Federal expenditure, than in Australia.\(^1\) State Premiers and local aldermen would be quick to point out that they are hamstrung because they cannot raise more money with the taxes at their disposal.

One of the great dangers is that it can too easily lead to too many resources being used for functions which are a Federal responsibility, while too little go into the services — many of them urban — for which the State and Local Governments are responsible. Almost the only area in which State-Local requirements are presented by a Federal instrumentality is in roads. The work of the Commonwealth Bureau of Roads has involved the Federal Government in urban problems for the first time. It may be a pointer to a much greater future involvement.

‘Urban vs Rural’ Policies

There are many areas of economic policy at both State and Federal level which favour non-urban areas. Water resources projects for irrigation receive investment funds while water for urban areas is delayed. Agricultural extension is provided free by the States and large-scale public resources are devoted to agricultural research. Research related to urban growth and urban problems receives pin money from the public purse by comparison.

1. The percentage of G.N.P. available to the Federal Government after making grants to State and Local Governments fell by 0.28 in Australia, 0.93 in Canada and 0.92 in the U.S.A. between 1957 and 1967. Over the same period the percentage available to State and Local Governments after receiving Federal grants rose by 1.34 in Australia, 6.77 in Canada and 2.71 in U.S.A. Figures from D. A. Dixon, ‘A Comparison of the Taxation Revenues of Federal and State-Local Governments in Australia, Canada and the U.S.’, paper delivered to Section 24 ANZAAS Congress, Adelaide, 1969.

One area in which this bias has been at least partly corrected recently is in road funds. Before 1969 the Commonwealth Aids Roads Agreements specified that a minimum of 40 per cent must be spent on rural side roads. Economic analysis by the Bureau showed that the funds could be used to better effect elsewhere, and a Country Party Minister persuaded the government to substantially accept the Bureau’s recommendations.

Decentralisation policies of the States appear on the surface to be directly aimed at assisting the solution of urban problems in the most fundamental way — by diverting population growth to areas where it can be serviced more cheaply. However, instead of fostering the growth of a few selected centres they subsidise any country industry and many country services. Thus they are simply another way of diverting public funds to rural, at the expense of urban requirements, and have almost no influence on the growth of the capital cities.

Housing Policy

The Commonwealth-State Housing Agreement, assists greatly with housing those in need, despite the fact that the States appear to divert more than a fair share of this money to country towns. The Agreement does not provide special funds for rent rebates for specially poor families, nor does it permit the funds to be used for non-housing purposes such as community services. The States must provide from their own meagre resources for both of these demands.

Because the Commissions attempt to build the greatest possible numbers of
dwellings with their limited funds they either seek cheap land on the urban fringe or redevelop at high density in central areas. In either case they tend to produce segregated communities. In the fringe housing areas time seems to heal the wounds. Many Commission houses are eventually purchased by their tenants, and those whose economic status improves do not always move away. In the case of the flats less 'mellowing' seems likely. They are not for sale. Although no one is evicted because his income increases many of those who 'improve themselves' do move out to a better dwelling — usually one they can buy.

The Commonwealth also assists home buyers in a number of ways. Through Home Savings Grants, those who can afford to save at a certain rate are further assisted by a grant. Those who cannot afford it get nothing.

I do not disagree with assistance being given to home buyers. Owner-occupants are more likely to maintain their house and grounds as there are social pressures on them to do so — as well as the economic incentives which affect all owners.

My main concern is that so little is done to assist the tenant. As a result of war-time price controls most of the States imposed rent control; remnants of it still exist. It is an extremely clumsy way to assist tenants. One of its major effects was to reduce the supply of rented housing.

It is surprising that, for tax purposes, residential buildings in Australia are assumed to last for ever. In the U.S. new flat buildings can be depreciated at twice the normal allowable rate (5 instead of 2½ per cent). It has been this kind of tax shelter which has encouraged large companies to move into producing rental housing, and the flats they build contrast with the small and rather poor blocks produced by the typical small-scale Australian flat developer.

There are many gaps in housing policy. No finance is available for renovation of old housing, either by owner occupants or by landlords. The whole area of housing assistance for low income families should be revised. In my opinion a much more generous rent rebate scheme should be combined with 'rear market' rents for all of those in public housing who do not qualify for a rebate.

**Economic Growth Policy**

I want to conclude with a very general comment on the policy of Australian and most other western governments, in pursuit of economic growth. Growth of what? The usual answer is G.N.P. or national income per head. I believe that such an objective can lead us seriously astray.

Basically national income accounting measures the national well-being by how much we pay for things. Economists recognise that this does not measure welfare of the community in any meaningful way. Let me give you two examples.

First — the more money we spend on commuting and or sewage and garbage disposal the higher the national income. Yet these are part of the cost we pay for living in cities. Not only do we fail to deduct some of the costs of earning our income, such as pollution and congestion, but when we spend money to minimise such costs actually add it to the income.

Second — and much more important — national income is basically a measure of 'through-put' rather than economic welfare gained in the process. Most economic processes which handle goods also produce waste materials which have to be disposed of somehow. It has often been thought that one day we would run out of some strategic materials (food, minerals, etc.) and have to learn to become far more careful in their use, and learn to recycle them. It has turned out that the other end of productive process
The Urban Problem (continued)

has begun to pinch first — our ability to dispose of waste products.

If this becomes very serious, as it threatens to do, we may have to change our methods of economic accounting dramatically. We may have to adopt the criteria of, in Kenneth Boulding's memorable phrase, 'a space ship economy'. Because of weight limitations throughput of materials in a space ship is minimised and re-use of materials maximised. It is not good enough to let Sir Henry Bolte get away with the statement that a bit of pollution is nothing compared with the gains of a $100 million industry. Yet most economic accounting at present would support him.

Conclusions

The particularly urban aspects of the problem of rich and poor relate mainly to segregation and to other difficulties of being poor in a city predominantly oriented to serving middle-income and richer families. General income redistribution helps to alleviate these problems but some of our housing policies in particular make them worse.

The poverty of many urban services can be laid at the door of the division of revenue and authority between different levels of government. The Federal Government has control over most of the tax and loan funds but urban services are the responsibility of State and Local Governments.

Urban redevelopment seldom produces satisfactory results. Some bemoan how many slums it leaves untouched but others dislike the results where it has occurred. Yet housing policy contains nothing for those who are renovating the old buildings — in many ways the most satisfactory solution of all.

Pollution — by materials, sound and people — is a peculiarly urban problem. Economic policy has little direct effect on it. It could be alleviated by decentralised development but this is nowhere pursued seriously. Our very economic calculus of national income accounting neglects the effects it can have on economic welfare.
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Objects

The Institute of Public Affairs is a non-profit, educational organisation financed by business enterprises and people throughout Australia to study economic and industrial problems. It was launched in 1943. The basic aim of the I.P.A. is to advance the cause of free business enterprise in Australia. In pursuit of this aim it is endeavouring:—

1. To inform the Australian public of the facts of our economic system and to raise the level of economic literacy in Australia.
2. To work always for a full and friendly understanding between employers and employees and for good relations throughout industry.
3. To study the means by which private business enterprise can be made to operate better in the interests of all sections of the Australian people.

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Mr. F. E. Lampe, C.B.E.

A quarter of a century ago Australia stood at the parting of the ways. One way led to a free economy with a minimum of government interference; the other to socialism via the nationalisation of industry and total economic planning.

This was the political and economic setting, as you know, in which the I.P.A. was formed. The Institute's immediate objective was to oppose socialism and to gain public support for a modernised system of private enterprise, with full employment, improved industrial relations, adequate social security and equality of opportunity as its central features. The I.P.A.'s "Looking Forward" publications not only aimed at providing a blue-print of the improvements needed but also stressed the responsibilities of business leaders in making the system effective.

In the years that followed the people turned their backs on the socialist way and Australia enjoyed the greatest sustained period of prosperity and development in its history.

However, nothing in economics and politics is ever finally settled. Times change and new trends and forces make their appearance. There are signs that Australia could be approaching a situation not unlike that which led to the formation of the I.P.A. This situation could again be described as a parting of the ways and as one in which major choices might have to be made.

All businessmen at the present time must be disturbed by the growing evidences of unrest and disorder in the community and by what look like deliberate attempts to foment sectional divisions and misunderstandings.

These things were also characteristic of the situation 25 years ago when the Institute was formed. Over-full employment, then as now, provided a fertile ground for the activities of people more concerned to promote industrial unrest, perhaps for political purposes, than industrial understanding.

Recent years have also seen an extraordinary growth in the size and authority of Government and in the claims it is making on the resources
of the community. Total taxation is now approaching 40 per cent of national income. Ten years ago it was only 30 per cent. In the last Commonwealth Budget, expenditure rose by a record $800 million, nearly $300 million more than the rise in the previous year.

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The wave of the moment is toward more and more Government. Too many people are complacently riding this wave without bothering to ask where it might dump them.

Unlike twenty-five years ago, the threat to economic freedom does not come from proposals to nationalise industry or to impose far-reaching government controls. The threat lies rather in the conception of Government as a kind of Father Christmas which undertakes to provide economic security for everyone and every section, regardless of whether or not they need it; or, indeed, whether or not they are entitled to it. There is a growing tendency, both among certain sections of industry and the community, to look on Government as a Universal Provider, or as a Big Brother ever ready to rescue them from any misfortunes into which they may fall. Special assistance and subsidies to some industries are expanding alarmingly. And there is a growing acceptance of the idea that provision for Retirement, Health, and a whole range of other social benefits should be lavishly provided for everyone by the State. The central question is whether Government should, in fact, do all these things or whether it should encourage the individual to fend and provide, to a greater degree, for himself. This is a fundamental issue which we, as a nation, are facing at the present time.

It is, of course, only too true that there are many people not in a position to fend for themselves, often through no fault of their own. They need help and Governments have a responsibility on behalf of the community to look after them. Industries which run into heavy weather may also need government aid. But this doctrine, which all decent people will support, of assistance for the unfortunate, threatens to become a doctrine of universal application in which Government will provide for all. This is seen most clearly in proposals to super-impose on the exist-
ing pension arrangements (subject to a means test) a scheme of national superannuation to provide adequate retirement benefits for everyone. These ideas are commanding widespread support, but I wonder if it is fully appreciated what a serious blow they would strike at the whole foundations of personal choice and the free enterprise system. A great part of the capital for free enterprise comes from personal savings which find their way into life assurance and private pension funds. If Government were to appropriate a large part of these savings, it would control investment funds needed for private industry.

Everyone in the modern affluent society feels he is entitled to a decent standard of living. That is a fair demand, and one which the modern democracy must meet. But, it is equally true that the great majority of people do not want their lives mapped out and pre-determined for them by Government. They want to make their own decisions and choices and shape for themselves the pattern of their own lives. This is what free enterprise is really about. The I.P.A. was formed a quarter of a century ago precisely because we believed that free enterprise rather than government paternalism is best suited to serve this fundamental human need: the need for self-development and self-expression. We would not now wish to see these freedoms slowly eroded by the encroaching tides of Big Government. But this is what could happen, almost without our being aware of it, unless we are very careful.

The I.P.A. was also formed to counter efforts to promote industrial and sectional disturbances by informing people of the real facts behind economic progress and productivity, and to alert employers to their own responsibilities for industrial stability and peace. We must not think that because the economy and industry are so prosperous, and development is so rapid — we must not think that those responsibilities are not just as great today.

Under free enterprise industry should be a partnership which involves mutual responsibilities by employers and employees toward one another. The necessity for education in the principles of free enterprise is as necessary as it ever was. Businessmen are concerned, and must be concerned, with the well-being of the whole community, and they must convince the people that they are so concerned.

I believe the task before the I.P.A. in the years immediately ahead will be as important and as vital as it was in the critical times when the Institute was formed 27 years ago.
Report of the Chairman of the Executive Committee

Mr. E. A. Jones, C.M.G.

This year I propose to draw attention to some of the important contributions made by the I.P.A. to the Australian community. These contributions cover a wide range but I think they can all be grouped under two main heads.

The first is the direct influence which the Institute exerts on national economic thought, and on government policies which vitally affect us all in our capacities both as businessmen and as private citizens.

The second is the Institute's educational work, a good part of which is concerned with the creation of a better understanding of the free enterprise system.

Over the entire history of the Institute, which now covers more than a quarter of a century, the I.P.A. has had a strong impact on the thinking and policies of the national government. But to establish my point I need go back no further than 12 months, for the past year has provided a most impressive illustration of the influence of the Institute.

In this year's Budget the Commonwealth Government saw fit to introduce bold and sweeping reductions in personal income tax. It would be presumptuous, of course, to claim that this major change in national policy resulted, directly and solely, from the Institute's work. But at least we can point to some significant facts. For the last five years, the I.P.A. has kept the matter of income tax revision right before the attention of the Government both through Review articles and through discussions the Director has had in Canberra. The Institute, too, was the first organisation to show convincingly that rates of income tax in Australia were the most severe of any country in the Western world. This came as a surprise to most people and was soon taken up and quoted by other organisations and by the national press. The previous Treasurer, Mr. McMahon, drew attention in Parliament to the I.P.A. comparisons of tax rates. Finally our commentary in "Review" on last year's Budget urged that the overhaul of income tax should have a first priority in this
year's Budget. It is now history that this has happened. So if people ask, as they may, what direct tangible contributions the I.P.A. makes for the benefit of enterprising and hardworking employers and employees, it would have to be conceded that here is a most persuasive answer.

Let me turn to the educational impact of the Institute's work — particularly among the younger people in the community, some of whom will be tomorrow's leaders.

Most of you will be aware of the use of I.P.A. publications in senior classes in over 1000 schools throughout Australia. I wonder, though, if businessmen sufficiently appreciate what an extraordinary achievement this is and the significance it has for the future of Australia. 5000 copies of each of "Review" and about 11,000 "Facts" go to the schools whose students are thereby provided with a point of view on economics and other matters that would otherwise not be brought to their attention.

This is not an overnight achievement but the cumulative result of years of painstaking effort and of the high regard in which the Institute's publications are held by headmasters and by teachers of economics and social studies throughout the country. The correspondence we receive as well as personal contacts, leave no doubt of the prestige which the I.P.A. enjoys in these quarters.

The educational efforts of the Institute, of course, go much further than the schools. There is a very large circulation of I.P.A. publications, especially "Facts", in offices and factories throughout Australia among junior executives, office trainees, apprentices and management cadets. A growing number of companies are furnishing us with the names of selected employees for direct mailing of Institute publications to their homes.

Moreover, I am sure you would agree that the educational value of the Institute's work does not stop with the younger members of the community. It also has an important influence on the older generation — businessmen, professional people, public servants and leaders of thought in many fields.

During the year over 500 copies of each issue of the I.P.A. "Review" and "Facts" were sent regularly to press and other communications' media in many cities and towns throughout Australia. Most of the national dailies — and a good sprinkling of the suburban and country
weeklies — republished I.P.A. material during the year. We are most grateful for their co-operation.

There is just one other point to which I wish to refer. I am sure that all of you read with interest the first page of "Facts" with its inspirational pieces on a wide range of topics which are concerning people in these rather disturbing times. You would be surprised at the extent to which these editorials, if I could call them that, are reprinted in journals of all descriptions throughout Australia — from house organs of both companies and government enterprises to small journals of youth and welfare societies.

I should mention for the record, that the total circulation of "Review" and "Facts" has remained steady at 20,000 and 60,000 respectively. Had our finances permitted, we would have no trouble in boosting these circulation figures quite substantially. We have been compelled to ration the free mailing list to schools and other avenues.

At the last Annual Meeting I spoke with concern of the growing drift in the Institute's finances due to steeply rising costs and to the huge demands made on us for free educational material in the schools. Our drive for increased subscriptions has met with some response and the deficits which were causing us so much worry have, for the moment, been brought back to tolerable proportions. However, the recent sharp increases in bulk postage charges have been a severe setback. With "Facts" we face an increase in postage costs of around 300 per cent, and our total postage bill could rise by about $3000 a year.

Although our costs have been rigidly supervised, I am compelled to say that unless the Institute's annual income can be increased we will have no alternative but to prune still further the free mailing list to students and to many opinion-leaders in the community who should be made aware of the free enterprise point of view.
The I.P.A. helps Teachers, Students and Schools

One of the most significant features of the I.P.A.'s educational work is the remarkable demand by teachers and students for I.P.A. publications. These are being used in economics' and social studies' classes in schools in all States.

There are about 1000 State and private schools on our free mailing list. A few examples of the schools which have requested a substantial number of copies of each issue of the IPA Review and Facts for use in their classes are:

<table>
<thead>
<tr>
<th>State</th>
<th>School</th>
<th>No. of copies of IPA Publications</th>
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<tbody>
<tr>
<td>Victoria</td>
<td>Methodist Ladies College</td>
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<td>Melbourne High School</td>
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<td></td>
<td>Xavier College</td>
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<td></td>
<td>Scotch College</td>
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<td>Melbourne Grammar School</td>
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<tr>
<td></td>
<td>Balwyn High School</td>
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<tr>
<td>N.S.W.</td>
<td>Fort Street High School</td>
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<tr>
<td></td>
<td>Scots College</td>
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<td>Sydney C. of E. Grammar School</td>
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<td></td>
<td>Normanhurst Boys' High School</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Sydney Boys' High School</td>
<td>50</td>
</tr>
</tbody>
</table>

We regularly send free of charge to teachers and students about 5000 copies of each issue of "The I.P.A. Review", over 10,000 copies of "Facts" and, in addition, about 1,000 "Facts" Wall Charts. The fact that this important distribution has been built up entirely by requests from teachers and students is a tribute to the objective, educational character of our work.

If the I.P.A. succeeds in giving the citizens of tomorrow a better understanding of private enterprise and of the economic principles basic to Australia's welfare and progress, it is fair to say that the nation should derive great future benefit. But this kind of education is clearly a continuous task and calls for generous financial support by the business community.
“Facts”

Starting with a small initial printing of only 10,000 in 1952, “Facts” circulation has now grown to 60,000.

“Facts” is widely distributed amongst office and factory personnel — either at the employees’ place of business or by direct mail to their homes, where it is available for all family members. 2,000 copies of the “Facts” Wall Chart are distributed for display on office and factory notice-boards.

Special efforts are made in “Facts” to correct misconceptions about free enterprise. This is illustrated by the following extracts taken from articles published in “Facts” over the past 12 months.

The Share of Wages and Salaries
About three-quarters of all incomes now go to wage and salary earners. Their share has increased substantially since 1963/4.

Profits Not a Cause of Inflation
An analysis by the Tariff Board shows that dividends paid to shareholders represent only 2 cents in each dollar of sales by all manufacturing companies.

Who Owns BHP?
The bulk of BHP shares are held by 1250 investment companies, life assurance societies, employee pension funds and other institutions which pool the savings of millions of people. 123,000 or three-quarters of all shareholders own less than 500 shares.

Modern Investment
Investment in company shares has undergone a revolution over the last twenty years. In 1953/4 life assurance offices invested a mere $2 million in shares. In 1969 they invested $132 million, bringing total life office share holdings to $850 million. Millions of policyholders and their families are participating in company profits (and capital appreciation of many shares) which their savings have helped to generate.

Profits
Criticism of the profits of large companies is meaningless unless the rate of return on capital invested is considered. In 1968/9 companies paid $500 million in dividends to individuals and $300 million to company and institutional shareholders; $962 million was retained for business expansion. $1176 million was paid out in company tax.
LETTERS OF APPRECIATION

Each year the I.P.A. receives hundreds of letters from people in all walks of life. A selection of extracts from letters over the past twelve months is reproduced below.

Sir Norman Giles, Chairman, Elder Smith Goldsborough Mort Limited, S.A.

I.P.A. is an organisation which we have always aimed to support, and I know that its regular publications are read with interest and are well regarded.

Sir Douglas Cepland, Mount Macedon, Vic.

From time to time I have had fairly close contact with the Institute of Public Affairs which has contributed greatly to the study of economics for appropriate policy making in the modern economy. Would you convey to your colleagues my congratulations on the development of the Institute of Public Affairs.

M. V. W. Mason, Mt. Waverley, Vic.

Facts is a most interesting publication. For value per square inch, it must be supreme.

Mr. Paul L. Poirot, The Foundation for Economic Education Inc. U.S.A.

We do appreciate the fine job you’re doing in the development and promotion of ideas on liberty.

Mr. I. L. Dalziell, Robb College, University of New England, N.S.W.

I am most impressed with the I.P.A. Review. Too often the public is only shown the socialist economic point of view. It is good to see a balanced viewpoint expressed.

Mr. F. E. Jennings, Director, Woolworths (Vic.) Limited, Melbourne

We still find the I.P.A. Review and “Facts” of considerable interest, and wish you every success in continuing the good work as in the past.

Mr. N. F. Leggatt, Managing Director, Sterling Pharmaceuticals Pty. Ltd., N.S.W.

We are most appreciative of the type of material that the Institute is putting out, and which I feel is an important contribution to the community as a whole.

Mr. E. G. Pask, H. C. Sleigh Limited, Melbourne

This company is anxious to support the valued work of the Institute.

Mr. S. J. Andrews, John Lysaght (Australia) Ltd., Vic.

We note with pleasure that our Company’s subscription assists in the free circulation of your I.P.A. publications to the senior classes of Australian Schools.
Mr. Fred V. Kellow, H. J. Heinz Company Australia Ltd., Vic.
The Institute is to be congratulated on its achievement and we wish you every success in your plans for the future.

Mr. L. W. McGregor, Australian Rotary History Publications Committee, N.S.W.
It is always my practice to send the I.P.A. Review around our Executive staff and it is very hard to get back once it is on its way.

E. J. Donath, Faculty of Economics & Commerce, University of Melbourne
For nearly two decades I have used your highly informative and up-to-date publications in classes at the Royal Melbourne Institute of Technology, Council of Adult Education, Institute of Export and at the University.

R. J. Langman, Managing Director, Containers Limited, Melbourne
We hope that the work being so effectively carried out will continue this year and we look forward to receiving and reading the I.P.A. Review.

Sr. M. Hingston, Sacred Heart College, Mt. Clear, Victoria
Thank you for your very valuable contribution to the education of Australian citizens.

Mr. Alan Ramsay, Personnel Manager, Waltons Insurance Co. Ltd., Sydney
We hope our employees may obtain much more from training programmes than a mere technique of presenting the advantages of insurance . . . we want them to be generally knowledgeable, more particularly of current Australian business affairs and developments . . . It is my conviction that your activities can provide valuable assistance in raising the general level of economic and social competence of our younger citizens.

Sir Henry Kelliher, Managing Director, Dominion Breweries Ltd. and former Director of the Bank of New Zealand, Auckland
Each issue of your excellent Journal contains constructive articles of interest, not only to students of economics, but also all those concerned with commercial and financial problems.

Mr. R. J. S. Seddon, Cutten & Harvey, Sharebrokers, Sydney.
Congratulations on your article “Spotlight on the Share Market”. It is very good to read objective articles on a subject which is currently receiving a lot of publicity.

Mr. A. Sargent, Commonwealth Hostels Ltd., Sydney.
Congratulations on the continuing high standard of your publications.
I.P.A. Finances

The I.P.A. is financed by all sections of free business enterprise. 165 large national companies and organizations provide a substantial proportion of the Institute's income. But a further 350 subscribers contribute at the minimum company rate of $50 and over 1000 private individuals at the rate of $2.10 a year.

The table below indicates the wide range of industry from which the I.P.A. draws its finances.

<table>
<thead>
<tr>
<th>Industry</th>
<th>No. of I.P.A. Company Subscribers</th>
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<tbody>
<tr>
<td>Banking, Finance and Insurance</td>
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<tr>
<td>Wholesale and Retail Trade</td>
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<tr>
<td>Building, Transport and Other Services</td>
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<td>Metal Trades</td>
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<td>Food, Drink and Tobacco</td>
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<td>Building Materials</td>
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<td>Printing and Paper</td>
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<td>Textiles and Clothing</td>
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<td>All Other Manufacturing</td>
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<td>Mining</td>
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<td>Primary Production</td>
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</tbody>
</table>

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In spite of the regard in which the Institute is held by all sections of industry, annual revenues are not sufficient to permit the I.P.A. to carry out its work on behalf of free business enterprise with maximum effectiveness. Persistent deficits in recent years have compelled the Institute to curtail activities in a number of directions.
I.P.A. SUBSCRIPTIONS

Entitlement — No. of copies of each issue

<table>
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<tr>
<th>Companies</th>
<th>&quot;I.P.A. Review&quot;</th>
<th>&quot;Facts&quot;</th>
<th>&quot;Facts&quot; Wall Charts</th>
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<td>10</td>
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Individuals

| from $2.10 per annum | 1 | 1 | — |

The above are minimum rates. The I.P.A. relies very largely on the financial help of a number of Companies and Organizations which contribute larger amounts.