The Forthcoming Budget

The forthcoming Commonwealth Budget has been heralded by the Treasurer as "a tough Budget". "A tough budget" can mean either increases in taxation or hurtful cuts in government spending, or both together. If Commonwealth budgeting over the great part of the post-war years is taken as a guide, increased taxes seem much the more likely. This would be a mistake. The emphasis of the Budget should be on decisively cutting back the rate of increase of public expenditure throughout the economy.

No matter what the Budget does, the sharp upward trend of costs and prices will not be arrested overnight. Apart from the fact that inflation creates its own momentum, inflation is "in-built" in the present structural pattern of the Australian economy, with its unique emphasis on government spending on long-range capital projects. This pattern cannot be drastically altered by a single Budget. It will take time; but the next Budget should be judged on whether it makes a serious start toward effecting the structural changes which are a pre-condition of rendering inflation more manageable.

Should the rate of inflation slow perceptibly in late 1971 and early 1972, the Budget will no doubt be hailed as a success. But unless it attacks the deep-seated, and consequently not readily discernible, causes of inflation, any success is likely to be short-lived. What is needed is not a superficially brilliant tactical manoeuvre against inflation, but a solid, well-thought-out, long-range financial and economic strategy which will hold out a reasonable hope of containing price and cost rises to an average annual rate of no more than 2 per cent. This strategy should be defined in the Budget Speech.

The argument against raising taxes further — including Commonwealth, State and Local taxes and surpluses of government undertakings — is that the present level of taxation is itself one of the inbuilt factors making for continued inflationary pressure. The high level of taxes is an inevitable corollary of a rate of government expenditure on capital projects unapproached in any other of the
Western economies. (Heavy public sector developmental and infrastructure spending is also the reason why it is virtually impossible to substantially increase expenditures in social welfare fields.) The size of public capital expenditure is, in turn, an inevitable corollary of a rate of population growth greater than any other Western country. The populations of Melbourne and Sydney, for instance, are expanding at rates three times those of many major world cities.

The structural pattern of expenditure of the Australian economy is unique in several respects:

- a very high level of total investment, with the exception of Japan the highest of any advanced Western country;
- within the investment complex, an exceptionally high proportion of "non-productive" investment, largely because of rapid population growth;
- within the government sector, unusually high outlays on capital works and infra-structure expenditure, and consequently unusually low transfer or social service expenditure;
- as a consequence of high capital expenditure, exceptionally low consumption expenditure.

The question economists should be asking themselves is whether, in this context, traditional monetary and fiscal weapons against inflation can be effective, other than temporarily.

The Australian expenditure pattern has two undeniable consequences, both of which make inflation difficult to subdue. The first is a slow rate of productivity growth. This follows because so much of the available capital resources must be devoted to "non-productive" community and social investment to meet the needs of the rapidly expanding population. The second consequence, which follows from the first, is a slow improvement in personal consumption and living standards. But, in this age of rising expectations, the demands for improved living standards are virtually irresistible. As a result, incomes in all forms are pushed up at rates far in excess of the modest productivity gains.

This phenomenon leads many people to the superficial view that our inflation is primarily of the cost-push type rather than the demand-pull. But, in fact, the seeds of long-continued persistent inflation in the Australian setting lie in the peculiar deployment of resources with its emphasis not merely on investment as opposed to consumption, but on non-productive investment as opposed to productive. In this situation the customary monetary and fiscal restraints which, in the main, operate on the total of demand (accepting the structure of demand as given) can have only limited or temporary success.

In view of the inflation-prone structure of the economy, it is a tribute both to economic management in Australia and to the self-restraint of the people that over the last decade inflation has been kept to comparatively modest proportions. The signs now suggest that the self-discipline is breaking down and that the conventional approaches in economic management are becoming increasingly ineffect-ive. The wisdom of increasing taxes, for instance, is clearly open to grave doubt. Taxes have been pushed up over the years, bit by bit, to levels that the public feels less and less disposed to tolerate. Thus further increases, far from being disinflationary, end up by being inflation-ary. In recent years the most significant increases in prices have occurred in public sector charges (another form of taxes) and in areas affected by government policies. If the taxes are indirect, they, of course, add immediately to costs and prices. If the taxes are on corporate incomes they do likewise. Both inevitably lead to increased money incomes. If the taxes are levied on personal incomes, and
people find their take-home pay reduced, again they react by demanding more money.

In a climate of rapid economic expansion, boosted by population growth, and where there is a general expectation that long-term inflation will continue, monetary policy has at most, a marginal effectiveness. For instance, raising interest rates seems to have little effect in damping down the demand for investment funds. Borrowers are still prepared to pay a high price for money when they know that market opportunities are growing rapidly and when they can expect to make their repayments in depreciated currency. Many businesses are not deterred from expanding their operations because they are able to treat a high rate of interest as a cost which can be passed on in prices. Moreover, local government and other authorities, forced to pay through the nose for loan funds, respond by raising their prices and charges. Indeed it is a moot point whether, in this context, high interest rates do not aggravate inflation rather than moderate it.

The experience of other countries in recent years suggests that the conventional antibiotics of monetary restraints and budget surpluses, despite their vigorous application, have apparently failed to stay the course of the inflationary disease. Indeed, so much so, that the public prestige of economics has suffered a blow and economists themselves show signs of declining self-confidence. Faced with the near-failure of their customary remedies economists are tending to argue that the fault lies not with the remedies themselves but with the inability of governments and wage-fixing bodies to contain the pressure for higher incomes which are being pushed up at a much faster rate than improvements in productivity. This pressure is, of course, aggravated by the expectation in the minds of most people that living costs will continue to rise and that therefore they should stake their claims early. One of the most important things the Government has to do is to destroy the psychology of continuing inflation, the more or less cynical assumption, not without justification on past experience, that inflation will persist. This expectation leads people to act in a way which makes further inflation inevitable. If costs and prices are to go on rising it becomes smart to buy now rather than later. If the internal value of the currency is expected to decline further, then it is good business to borrow up to the hilt because the loan can be repaid in depreciated money.

It is therefore all-important for governments to convince the people that they have a firm, unwavering intention to crush inflation and that they have the means of doing so. This is why it is so essential that the Commonwealth Government in this year's Budget should define a long-range coherent strategy to bring inflation under control and eventually to defeat it. This will necessitate a radically different approach from that taken in the budgets of recent years.

The first imperative is to make a substantial reduction in the rate of increase of government expenditure on capital projects, and to indicate that this course will be pursued progressively in the coming years. To enable this to be done the annual migration target should be cut to 100,000. The current target of 140,000 is still much too high to permit an effective anti-inflationary strategy.

We do not pretend that such a course will produce immediate results or achieve spectacular success. Indeed, no government policy can be successful unless the community is prepared to impose on itself a greater measure of self-discipline than has been evident over the last 12
months. But restraint in the demands for higher money incomes is much more likely if the whole structure of government taxes and charges can be lowered, and the people are left with a greater say in the use to which their earnings are put.

GROWTH IN PUBLIC SECTOR SPENDING RELATIVE TO GROSS NATIONAL PRODUCT 1960/1 TO 1970/1

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Govt. Expenditure $m.</th>
<th>% Increase</th>
<th>% Incr. in GNP</th>
<th>Govt. Expend. as % G.N.P.</th>
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<td>10,600</td>
<td>11</td>
<td>9</td>
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*Source: Australian National Accounts, published by Commonwealth Statistician.*
Growth Under Fire

"The time has come for a new quest, a quest not for a greater quantity of what we have, but for a new quality of life.... In the year 1980 will the President, standing in this place, look back on the decade in which 70 per cent of our people lived in areas choked by traffic, suffocated by smog, poisoned by water, deafened by noise and terrorised by crime?"

President Nixon's State of the Union Message, 1970.

The basic assumptions of "the affluent society" are being increasingly questioned. The critics are to be found mainly among the young, the growing army of conservationists, many scientists, and top-level thinkers such as John Kenneth Galbraith, the noted world economist and former adviser to President Kennedy.

The central pillar of mid-20th century industrial society is the concept of economic growth. For the last twenty years, the performance of Western economies has been assessed and compared by their rates of growth measured by the yearly increase in Gross National Product. The growth objective is now coming under fire. GNP, say the critics, has become a kind of graven image in the advanced industrial economies at whose shrine all are expected to worship. Until recently, only a few heretics have refused to pay unthinking allegiance. Now their numbers seem to be swelling rapidly.

The critics, it must be conceded, have something on their side. The philosophy of growth — almost for the sake of growth — is hardly one which commends itself as a wholly satisfying interpretation even of economic purposes, let alone broader human aspirations. Man is surely more than a pig at a trough, gorging himself to satiation at the swelling stream of
consumption goods. But, assert the critics, the pursuit of higher and higher living standards proceeds regardless of its effect on human values and the real quality of life. Indeed, far from becoming happier in the modern growth economy, people are becoming more disturbed and frustrated, and the deeper yearnings of the human heart, the nobler values, are being suffocated in the unrestrained chase after materialist goals. The standard of living may be rising, but the standard of human life is deteriorating.

Moreover, argue the critics, people do not really need all the things they are being enticed to purchase. Wants are being artificially created by “the hidden persuaders”, the mass advertisers, to provide an outlet for the almost limitless productive capabilities of modern technology. People are being conditioned to desire not merely one motor car but two or even more, not just one radio or television set but one for every room, not just one kind of breakfast cereal in the kitchen cupboard but half-a-dozen. Ever-expanding consumption must surely have a limit. The capacity of the human stomach is not unbounded; people can wear only one suit of clothes or one pair of shoes at a time; and when every family has achieved the goal of two or three cars, traffic on the already over-burdened roads will be brought to a virtual standstill.

But, apart from all this, the maximisation of economic growth, point out the unbelievers, is having grave, even terrifying side-effects. Man’s great heritage, his natural environment, is being desecrated and this process, if not arrested, will undermine the very foundations of growth itself. Unrestrained growth contains the seeds of its own ultimate collapse. The soil, air and water are being polluted by the waste products of huge industrial plants, the excessive use of poisonous chemicals, and the exhausts of innumerable motor vehicles. Escaping oil from wrecked tankers, faulty pipelines or off-shore drills is fouling the oceans and beaches.

The world’s limited supply of mineral resources, continue the critics, is being exploited and used up at a terrifying rate in the interests of current generations with no thought for the needs of their descendants. So vast is the flood of consumption goods that Western societies are finding it in-
creasingly difficult to dispose of those that have served their purpose or even the over-elaborate containers in which many are packaged. Unsightly dumps of rusting, discarded cars mar the beauty of the country-side, and the efficient disposal of mounting household wastes is taxing the ingenuity of local municipalities. Trees are being hacked down to make way for land development projects, more factories, or more freeways to cater for the ever-rising motor vehicle population. Beautiful landscapes are being demolished and precious plants and animals exterminated.

The whole balance of Nature on which man depends for his very existence is thus being disturbed and subtly undermined. Moreover the inexorable processes of modern industrialisation are sucking people into huge, almost endless, urban conglomerations, with all their attendant human discomforts. Man is becoming increasingly isolated from his natural habitat. Housed in massive high-rise apartment blocks, modern man bears an uncomfortable resemblance to his tree-dwelling ancestors. Divorced from and thus increasingly unaware of natural beauties, a prisoner in an ugliness of his own creation, an unwilling participant in the competitive rat-race, his individuality stunted by mass pressures to conform and by invasions of his privacy, man feels uneasy, insecure, prone to serious nervous disorders and unresolved tensions. Instead of being liberated and his personality enlarged by his material achievements, he is becoming the unwitting slave of his own technologies and consumption appetites.

This is the nightmarish prospect painted by the expanding army of critics of "growth economics".

Though no doubt a "scare picture", it is hard to deny that it serves a useful purpose in drawing attention to grave and urgent problems facing modern industrial society. Indeed, one must feel more than a little impatient with those who refuse to concede the elements of truth in the ideas of the conservationists and critics of growth, and brush them aside as the impracticable nonsense of mistaken idealists.

The more extreme of the critics, however, who argue that the only way to avert the dangers and excesses attributable
to rapid economic growth is to drastically slow down or even stop growth altogether, are surely on unsound ground. Perhaps they have been led astray by Galbraith’s phrase “the affluent society” which has become part of current economic jargon. Taken in its strict literal sense, the phrase is clearly a misnomer. It is true that by comparison with any previous state in history, the advanced industrial countries of today, with their abundance and variety of goods and their high average living standards, might fairly be described as affluent. But if the phrase “the affluent society” is taken to mean, as it could be taken to mean, that the great majority of people in Western countries have achieved a position of personal affluence, then it is clearly misleading.

Even in a high standard-of-living country such as Australia, perhaps only about 10 per cent or less of the people could rightly be called “affluent”. This fortunate 10 per cent may be said to be in a position to command enough of the world’s goods to feel economically secure, to satisfy not merely the basic creature comforts but to indulge their tastes for artistic homes and interior appointments, travel and culture. But the material aspirations of the remaining 90 per cent, are as yet far from being satisfied, although most enjoy a standard of life infinitely superior to that of their grandparents.

Whether the additional comforts and luxuries which most people would like to have are necessary to their happiness, or to a fuller and richer kind of life, raises large philosophical issues concerned with the purpose of human existence. The writer has vivid recollections of one of Australia’s greatest economists, Professor L. F. Giblin, demonstrating to a university class of the 1930’s during the depression how it was feasible to live on a few shillings a week. Giblin, being what he was, could no doubt have existed quite happily on this meagre amount. But there are few Giblins. Most of us believe, possibly mistakenly, that our prospects of happiness and joy in this life would be improved if we had access to more of the world’s goods.

This is where the advocates of a sharp slow-down in the pace of economic growth, or even of a growth moratorium, go astray. Their point of view is utterly lacking in political realism
because it would command no popular support. While the majority do not feel themselves to be particularly affluent, while they continue to seek and to strive after much better standards of life than they currently enjoy, the rate of economic growth will continue to occupy an important place in the political and economic aims of Western society.

By contrast with the ideas of the growth addicts, those of the conservationists appear, on the surface at any rate, to have the backing of logic. Rapid growth, they say, causes environmental decay: solution, slow down growth. On the other side, the growth school, forced to concede that economic growth is giving rise to grave environmental problems, nevertheless contend that the solution is to be found in more growth. This appears like saying too much alcohol equals drunkenness: solution, more alcohol.

Who is right? The answer is probably neither. The extreme conservationist view must be rejected because it is politically quite unrealistic. A movement to drastically slow down or halt growth, would mean, in effect, the virtual freezing of living standards and would be opposed by an overwhelming weight of opinion. On the other hand, the arguments of those who claim that only out of growth will it be possible to provide the resources needed for a successful assault on environmental problems are rather too glib and leave many questions unanswered. While the case for reasonable balanced growth in most Western societies is still irresistible, there is no case for immoderate and ill-balanced growth. It is clear that unless more resources are diverted to the correction and prevention of environmental ills, rapid growth would certainly compound the fearsome problems we are now facing.

The philosophy of “growth for growth’s sake”, however, affords a much too restricted, too ignoble a basis for the ordering of human affairs. Looking squarely at the Western economies today, few could deny that some reassessment of our goals and values is required. This will demand statesmanship of the highest order from political and business leaders and new concepts in mass education. The threat to our modern economies, indeed to the total world environment and our Western way of life, is so grave that, in a sense, we must all become conservationists. We must all begin to seek higher goals for
our society than the indefinite multiplication of goods and services. So long as GNP remains the God of the advanced economies, so long as technology and science tend to be our masters and not our servants, so long will our industrial society be imperilled.

In the future we should certainly expect to see increasing concern by governments with environmental issues, reflected in bold and intelligent legislation. But concern by governments will not be enough. Big industrial corporations have special responsibilities and will be expected to turn their attention increasingly to the effect of their operations on society, on the whole of man’s life and not just a part of it. An encouraging sign is that industries are now investing large sums of money in pollution control and in the study of the effects of their activities on the environment.

The industrial leaders of the future will need to be trained in the broader humanities; managerial expertise is necessary to growth, but society will demand more than mere efficiency from its business leaders. They will be required to make an increasing contribution to the solution of problems for which modern industrialisation has itself been largely responsible. In fact it is difficult to see how the business man can be a leader in the world today, and even more so in the coming years, unless he can bring to bear on the problems of industry much more than a knowledge of technology or sophisticated organizational methods. His first concern must be people, not merely the people who work for him, but all people.

If the modern industrial system, “the affluent society”, is ultimately to survive, a deep-rooted change in attitudes of mind would seem to be imperative.

Some industrial leaders are already becoming aware of this. A few years ago the President of one of America’s greatest corporations, E. I. du Pont de Nemours, Charles B. McCoy, said, “In the last analysis, industry’s ability to perform society’s crucial tasks will depend most heavily upon the vision and the will of men who staff our organizations. We need men who combine knowledge of the techniques of science with a
deep understanding of the needs of the society in which they live. Only such men can invent solutions that are technically sound and socially, economically and politically feasible. It will take nothing less to solve our massive problems in such areas as health, transportation and housing. Well-rounded men capable of tackling such problems are emerging from our colleges, but many of them are turning away from industry because they feel we have no place for them.”
NEW BOOKLET

Better Living—the Key is Productivity

A 16-page booklet, entitled "Better Living — The Key is Productivity", is now in the course of preparation for widespread distribution among managers, employees, schools, and the general community. Copies should be available towards the end of July.

The improvement of productivity and the reduction of costs is of crucial importance. Improved living standards and a better quality of life for all depend on it. This message should be conveyed to the men and women who work in factories, offices and shops and, indeed, to all Australians.

For some years vigorous campaigns to educate their peoples in the importance of productivity have been conducted with striking success in countries such as Japan and the United States.

On the 6th April the Minister for Labour and National Service, the Hon. Phillip Lynch, M.P., stated:

"Productivity growth is the ultimate determinant of the quality of life we can lead. It determines what the community can afford by way of urban amenities, our education facilities, the amount of leisure we have, the extent to which we conserve and protect our environment, and other critical aspects of our standard of living. If we could achieve higher productivity growth, we would be able to deal more effectively with current inflationary pressures in the community”.

In an effort to inform the people of the high importance of maximum productivity, the Institute of Public Affairs and the Productivity Promotion Council of Australia have produced this new booklet. The booklet, which is intended to be of a down-to-earth educational character, has been produced in a form that we believe to be suitable for distribution in industry, schools and the home.

The success of this campaign will depend on the co-operation of business in effecting a large circulation among employees.
The price of the booklet to businesses will be 20 cents a copy. This gives the following schedule of charges:—

- 50 copies ........................................ $10.00
- 100 copies .......................................... $20.00
- 500 copies ......................................... $100.00
- 1000 copies ........................................ $200.00

The Productivity Promotion Council of Australia has agreed to make available the booklet on a free basis to schools and other educational organizations and will provide single copies to individual students on request.

We request the full co-operation of companies and businesses in order to ensure the success of this important educational campaign.

Companies and Other Employers

All orders from companies and employers to be addressed to:—

The Secretary,
Institute of Public Affairs,
289 Flinders Lane,
MELBOURNE, 3000 Telephone: 63-6558

Schools, Teachers and Students

Copies will be posted free of charge to schools, teachers and students on application to:—

Executive Director,
Productivity Promotion Council of Australia,
G.P.O. Box 475D,
MELBOURNE, 3000. Telephone: 63-8024.
AN impression seems to be gaining ground that the way to fight inflation is to make business more price competitive. The Commonwealth Government has outlawed resale price maintenance unless “public interest” can be proved. The Tariff Board and the Trade Practices Tribunal are also to be thrown into the battle against inflation by trying to make it more difficult for business to raise prices. There have even been suggestions that the Commonwealth Government might create a special authority whose function it would be to act as a watch-dog on price increases and to bark loudly against those of which it did not approve.

Underlying the Government’s thinking is the assumption that the harder it is for businessmen to raise prices, the stronger will be their resistance to over-award wage demands. But it is far from certain that tariffs and trade practices exert a significant influence on the general level of prices over the whole economy. For example, less than 5 per cent of the total labour force is engaged in highly protected manufacturing activities.

The policy of controlling prices is commanding strong support from union circles led by the President of the A.C.T.U., Mr. R. J. Hawke. While the Commonwealth Government’s reasoning may have some basis in economic theory, that of the unions has none. The unions’ attitude clearly derives from the notion that profits are there to be squeezed to get more for the wage and salary earner. This view is, however, based on the unrealistic and outmoded assumption that wages and profits are directly in conflict. A little reflection will show this to be false. It over-looks the fact that the prime function of profits in the economic process is to promote progress. This is to the benefit not only of business but ultimately of the whole community.

The great mining developments of recent years have been the main factor behind rapid economic growth, the provision of increased employment opportunities throughout the economy and improving living standards. These projects certainly would not have been undertaken had the companies concerned not been able to foresee substantial profits to compensate them for the enormous risks and problems which they had to surmount.

This essential incentive function of profits tends to be confused in the public mind with the narrower aspect of monetary benefits to shareholders.

Profits promote progress by encouraging the search for more efficient methods, stimulating new enterprise and inducing people to make available their savings to entrepreneurs. Denied adequate savings, enterprise would be unable to seize the opportunities offering. For those who put up the money there is an element of risk; their prospective reward must, therefore, be greater than if they were to invest their savings in directions where there is little or no possibility of loss. If profits were savagely mauled, enterprise would be discouraged, and, even if not discouraged, entrepreneurs would be unable to put their ideas into effect because they would be denied the indispensable sinews of progress.

Mr. Hawke has repeatedly argued that whereas wages are fixed by industrial

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tribunals, businessmen are free to charge whatever prices they wish. This contention is so palpably wrong, that it is hard to understand why anyone of Mr. Hawke's intelligence persists with it. Wages are not fixed; only minimum rates are fixed. Above the minimum, the wage or salary earner can obtain what the market will pay. Indeed, the average level of money wages (including overtime) is at present about 50 per cent above the awards of wage authorities. Moreover, the individual wage or salary earner can increase his reward by bettering his skills, or by gaining promotion to a job carrying greater responsibilities. Minimum rates of wages are fixed for the job, not for the individual man or woman.

Much current thinking appears to incline to the belief that by and large profits are too great and that their benefits go to a favoured few. Admittedly, in particular instances, profits may be excessive, but there is no evidence to suggest that they are unreasonable when considered over the whole economy. It has been shown on numerous occasions in past years that company profits, as a percentage of shareholders' funds, are generally lower in Australia than practically any other Western economy. Also, figures published in the last Annual Report of the Commonwealth Tariff Board indicate that dividends paid to shareholders by most manufacturing companies represent less than 2½ cents in each dollar of sales. This suggests that even if profits were cut-back by government intervention of one kind or another, the effect on selling prices would hardly be significant.

Moreover, while it was once true that the financial benefits of profits were confined to a comparatively small minority, this situation has been radically altered over the last two decades. Not only have the numbers of direct shareholders in industry multiplied (a result of growing affluence) but also the great majority now have an interest in life assurance or in superannuation or pension schemes, through which they stand to share indirectly in company profits. This arises from the fact that life companies and pension funds have in recent years greatly extended their interests in equity investments. In 1968/9 the life offices and pension funds purchased 60 per cent of all shares sold to Australian investors.

There may be good reason for the abolition of resale price maintenance, but this does not mean that it will usher in an era of lower prices over the whole range of consumer goods, as some seem to assume. On what basis could it be claimed that profits of Australian retailers are excessive? Department stores in Australia work at a mark-up of 28 per cent of selling price, compared with 40 per cent in the United States and Britain (despite legislation restricting resale price maintenance).

This being so, it is difficult to imagine that the retail trade in Australia will tamely submit to a whittling away of its profits. Indeed, it is highly likely that retailers as a whole will strive to maintain their customary profit levels by pushing up prices of goods unaffected by resale price maintenance. The public could, of course, have the advantage of lower prices if it were satisfied to do its shopping in cut-price discount houses or in barn-like stores with little affinity to modern sophisticated retail shops offering high standards of personal convenience and service to the customer. This is merely an example of the fact that the function of profits in our free economy is to promote progress and through progress to serve the consumer. If profits were savagely reduced, progress would suffer and the community with it.

Trade union agitation against profits seems to arise from the belief that profits are taking a continually larger share of output and thereby restricting the share going to wages and thus the living standards of employees. But statistics published by the Commonwealth Statistician do not support this view.
The table below shows the share of manufacturing output (at factory cost, i.e. excluding indirect taxes — customs, excise, sales tax etc.) going to profits and to wages and salaries.

The cardinal point that emerges from this table is that wages and profits maintain an astonishingly stable relationship from year to year to the added value of premiums arising from market conditions — businessmen merely recoup themselves by adjusting prices to maintain their traditional cost-price ratio.

The pricing policy of businessmen therefore seems to be the key element in explaining the stability of wage shares. Businessmen strive to maintain a fairly constant profit margin. Thus if wage

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<th>Year</th>
<th>Profits (before tax)</th>
<th>Wages and Salaries</th>
<th>Value Added-Factory Production</th>
<th>Profits as % of Value Added</th>
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Source: Australian National Accounts.
But over the past decade neither of these things has happened. The shares of both capital and labour have remained constant, with a consequent three-way sharing of the gains of productivity between employer, employee and consumer.

Since 1958/9 productivity in factories has increased by about 50 per cent, or an average of 4 per cent a year, compared with a rise of about 30 per cent in "real" earnings per factory employee, (i.e. after adjustment for price increases). Part of the productivity gains in manufacturing is obviously going to employees in the service industries where productivity is growing at barely 2 per cent a year.

Because wage rises far exceed productivity gains in the service industries, charges for government and other services have been increasing at a much faster rate than prices of manufactured goods. Since 1963 clothing and drapery prices have risen by 18 per cent and manufactured household supplies and equipment by 11 per cent. But local government rates have risen by 62 per cent, motoring services (registration, repairs, etc.) 57 per cent, rail and tram fares 57 per cent, PMG charges 48 per cent, health and other personal services 43 per cent, and Housing Commission rents by 34 per cent.

**ACTION** against restrictive trade practices, resale price maintenance, excess tariffs and the like may be desirable for other reasons, but they are unlikely to have at best more than a minimal effect on prices. It is wishful thinking to regard them as potent weapons in the battle against inflation. Countries suffering from faster rates of inflation, such as Britain and the United States, abolished resale price maintenance years ago and have also had supposedly effective machinery to deal with private pricing arrangements and similar practices.

Measures to cope effectively with inflation cannot be other than unpleasant and are not likely to be popular with the mass of the electorate. This is why governments all over the world are so reluctant to come to grips with the problem and prefer to give the impression of doing something when in fact they are doing little or nothing.

No section of the community will accept any part of the responsibility for a disease which has been chronic for many years and now shows signs of worsening. In spite of protestations trade union officials must know in their hearts that wage rises of the order of nearly 10 per cent a year must inevitably lead to increased prices. The Commonwealth Government must know that in a climate of over-full employment the Arbitration Commission, faced with industrial unrest and glaring disparities in wage levels, can hardly avoid wage awards of an inflationary character. Employers must know that in pressing for policies of over-rapid expansion they are contributing to an economic climate strongly loaded towards inflation because demands on resources, including labour, become excessive. The community must know, what common sense tells it, that stability of prices is only possible if wages and salary increases do not exceed productivity increases.

Thus the real failure to solve inflation is traceable to the proverbial practice of passing the buck. Nobody will take their share of responsibility. Action is something for the other fellow. Attacks on profits won't solve inflation. Inflation will be cured only by the right remedies and the right remedies cannot be applied unless all sections of the community, including governments, are prepared to take the medicine. Medicines are usually bitter, but they are eventually less unpleasant than the ills they are designed to correct.
The Continuous Challenges of Democracy

A Discussion of the American Experience

by

SAUL K. PADOVER

(This article is based on the Latham-Blair Memorial Lecture given at the University of Melbourne on October 28, 1970, under the auspices of the Australian-American Association.)

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His major field of specialisation includes United States political ideas, Government and international affairs. He has had a distinguished academic career and is the author of numerous books, later ones being "The Genius of America" 1960; "The Meaning of Democracy" 1964; "Foreign Affairs" 1964; "Thomas Jefferson and American Freedom" 1965.

THE United States is not only one of the oldest but also the biggest and, by and large, the most successful political democracy in the world.

The American democracy was favoured — one might also say, flavoured — by certain special conditions. Of these at least two were crucial; and, interestingly enough, they are seen also in Australia. One of these conditions was immigration; the other, availability of land and, in modern times, jobs.

The motives behind immigration have not varied essentially from generation to generation. They may be described in two words: freedom and opportunity. In the early period, the idea of freedom centred around religion, dissenters from the Church of England seeking a haven where they could worship without dictation by central authority. Subsequently the concept of freedom became increasingly political, moving from Church to Commonwealth. Immigrants from authoritarian and class-dominated countries evinced strong antipathy to governmental restraints. Contemporary Americans still share this feeling.

The other motive — opportunity — has also been ever-present. From the earliest days, immigrants were impelled by the need of and desire for material betterment. They were attracted to America — as today people are attracted to Australia — because it held out the hope of a better future for themselves and their children.

Democracy, embodying intense popular aspirations, grew with particular vigor in the United States. Its unique features,
pressures, and aspirations were illuminated with great insight by Alexis de Tocqueville's classic work, *Democracy in America* (1835). So keen and far-ranging were de Tocqueville's observations that his book can still be read with pleasure and profit today.

Democracy has continuously widened its horizons both as to meaning and as to goals, but it would be a mistake to assume that this growth has been either automatic or guaranteed by some special historic fate. In truth, it took effort, struggle, thought, dedication, and intelligent leadership to create and sustain free government in the United States. It still does, and probably always will — in America, as everywhere else. For this is one of the essential truths about democracy: it requires constant effort and renewal.

I shall discuss five stages in the development of democracy in America. Each of them is essential, and all of them together help to explain the meaning, the philosophy, and the problems of democracy in general.

The first stage was, of course, the establishment of political institutions for the purpose of maintaining individual freedom and self-government. This was entirely the creation and indispensable contribution of the British settlers of America. Without them, and the ideas of parliamentary government and the rule of law that they brought with them to the New World, it is hard to see how democracy would have been possible in America. One need only look at Spanish America to see the fundamental difference between the two halves of the Western Hemisphere.

The British founders of free government in America established and perpetuated political institutions based on a philosophy of politics that still generally prevails. This may be characterized as a distrust of centralized power. James Madison, known as the "Father of the American Constitution" and an archetype republican, was in the habit of saying: "All power in human hands is liable to be abused." His countrymen today still share this view.

The second stage in the development of the American democracy was the widening of the suffrage.

Originally, voting was limited to a minority of the people, perhaps a mere 10%. For a long time there were restrictions on voting: property ownership, tax paying, literacy, religion. Many localities required that a voter possess a certain amount of property. Others restricted voting to believers in God and to Protestants. In addition, women and Negroes were altogether excluded from the suffrage.

Gradually the limitations were done away with. By the third or fourth decade after the American republic was established, restrictions on voting and office-holding were eliminated and so-called "universal suffrage" came into being. "Universal suffrage" was really not universal until about half a century ago. It was actually restricted to white males. Women and Negroes continued to be mostly excluded until the Twentieth Century. Women have been voting since the Nineteenth Amendment went into effect in 1920. Blacks are eligible to vote — and now vote in increasingly larger numbers — everywhere, although it has required an intense struggle to assert their rights in certain areas, notably in the rural U.S. South. Today the suffrage may be said to be really universal — and it is in the process of being extended to eighteen-year olds, which may or may not be a blessing.

The third stage in the growth of the American democracy was educational opportunity. This developed more or less simultaneously with the widening of suffrage, and it is still continuing.

At the time the American republic
was founded, at the end of the Eighteenth Century, education was confined to a relatively small group of people. The majority of the population — farmers, artisans, workers — could not read or write. This was, of course, true also of the rest of the world. For until recent times, virtually universal illiteracy was the rule, not the exception. Education was expensive and was mostly confined to what the Eighteenth Century American statesman, Alexander Hamilton, called the “rich and the wellborn”. Common people were not only not expected to have an education, but it was considered dangerous that they should have it.

But the founders of the American republic felt that a self-governing country, depending upon the support of the citizenry in general, and not on an hereditary ruling class, could not possibly function or survive if most people remained illiterate. As Thomas Jefferson put it: “If a nation expects to be ignorant and free, in a state of civilization, it expects what never was and never will be.”

Guided by this viewpoint, the Americans proceeded to establish tax-supported public schools at the end of the Eighteenth Century. Elementary schools, with compulsory attendance, came first. Then came high schools, where attendance was also made compulsory, up to the age of about 16. Finally, and this was perhaps the greatest intellectual triumph of the American democracy, tax-supported colleges and universities were established in virtually every State of the Union. They were open to every boy — and later every girl — who graduated from high school.

There are nearly 9,000,000 college and university students in the United States today. This astonishing number is expected to increase and may well create serious problems, financial, educational and psychological, which could become insoluble. Higher education has become a kind of “status symbol,” which means that numerous young people attend college not because they are eager for scholarship or learning or even for serious study, but because their parents or their milieu expect them to do so. Many critics feel that if this continues, institutions of learning will be flooded to the point of paralysis and desuetude. It is a challenge that democracy has not yet met realistically.

The fourth stage in the development of the American democracy was governmental assumption of responsibility for the social and economic welfare of the people.

Up to recent times, American governments — national and state — have been reluctant to adopt positive social and economic programs on an extensive scale. They did not want to enter such areas as labor regulation, or social security, or medical care, or public housing. The American political and social philosophy dictated that the individual should be responsible for his own well-being, his own labor, his own welfare and health, his own housing. Government was expected to stay out of activities that were considered not strictly political. It was left to the individual to make his way in the world — to become a billionaire or a beach-comber — without governmental meddling. This aspect of the democratic philosophy held that government should remain weak — that is, non-interfering — so that the individual could remain strong, if he had it in him, and independent of public control.

But in the Twentieth Century this extreme individualism, defended in the name of democracy, came increasingly under attack, also in the name of democracy. Two sharply opposing views of the role of government in modern democratic society confronted each other. One side insisted that government existed for the citizen and his personal freedom,
and that it must not, therefore, meddle in the social and economic activities of individuals. The other side argued that in a complex, urbanized, industrial and interdependent society, the ordinary individual — the "common man" — was helpless when confronted by the powerful individual: the big banker and the gigantic industrialist. Such an unbalanced confrontation — with one side holding all the economic and social power and the other side having none — was morally wrong and politically perilous. This vast economic imbalance led to uncontrolled depressions and bitter labor clashes. Only government could assert and maintain a balance that would be fair to everybody concerned.

Woodrow Wilson, who became President in 1913, inaugurated the age of democratic responsibility for social and economic welfare. His activities, however were cut short by the United States involvement in World War I. A generation later they were resumed by Wilson's admirer and Democratic Party successor in the White House, Franklin D. Roosevelt, and his New Deal, which began in 1933.

At a time of unprecedented economic depression and crisis, President Roosevelt, backed by popular and Congressional majorities, emphatically rejected the long-held idea of "do-nothing" government and asserted the philosophy of "do-much" government in the name of democracy. Roosevelt's New Deal took American government into every sphere of national life. It legislated in favor of farmers, workers, bankers, investors, businessmen, Indians, writers and even artists. It created agencies for public housing, for rural electrification, for mortgages, for savings banks, for hydroelectric dams, for irrigation, for loans—for practically everything.

This assumption of governmental responsibility for the national welfare has never been reversed, even by Roosevelt's conservative Republican Party successors in the White House. It is accepted as national policy. Social and economic problems are no longer left to the goodwill or caprice of individuals. The American democracy is becoming, in fact if not in name, a social democracy. It attempts to provide large-scale national welfare-benefits — health care, housing for the poor, insurance against unemployment, for example — without sacrificing individual liberty. The limits of this type of legislation have not yet been reached, and nobody, in fact, knows whether there are any limits.

We can now begin to ask ourselves the question: What is Democracy?

Let us start by looking at its philosophical and psychological underpinnings.

Political theory makes certain implicit or explicit assumptions about human nature. One of them is that the human being is irrational, guided by passions, moved by subconscious impulses of what the Freudians call the id, and, as such, potentially wicked and, if uncontrolled, dangerous. The other is that man is rational and capable of goodness and decency. The first viewpoint, which may be labelled historically Hobbesian-Machiavellian, explains, and, indeed, may encourage, authoritarian government. The second one, which may be called historically Lockean-Jeffersonian, explains and leads to democracy.

Here we come to a fascinating paradox that occurred in America. The founders of the American republic were thoroughly familiar with Hobbes' thought. But they did not embrace his whole philosophy. What they actually did was to split it in two: they accepted Hobbes' diagnosis, but rejected his prescription. What they said, in effect, was: Hobbes is quite right; man is potentially wicked, but for precisely this reason you must not entrust him with too much power. The very wickedness of human nature would always lead to an abuse of power. Hence government
itself must always be checked and controlled, so that no person or group should be in a position to tyrannize over others.

In contrast, John Locke's philosophy, particularly as expressed in his Two Treatises of Government (1689) and An Essay Concerning Human Understanding (1690), had a direct bearing on democracy. Locke provided the essential ingredients that stimulated democratic development. He rejected the Hobbesian view of man's innate brutishness, arguing that men were not innately good or innately wicked, but only what environment, experience, and practice made them. The human being did not come into the world a ready-made beast or a ready-made saint, but merely a species of clay to be shaped by life. "We are born," Locke wrote, "with faculties and powers capable of almost anything."

Philosophically, two elements are crucial in democracy. One is equality and the other, liberty.

In speaking of equality, defenders of democracy do not mean to say, or even to suggest, that men are actually equal or that they are equal in all respects. They mean only that men are equal in one essential respect — namely, the political one. They mean that all human beings have a "natural" claim to political rights ("life," "pursuit of happiness," etc.) on a level of equality with their fellow-men. Such a claim to equality does not depend on inherent talents, character or income. If talent were the measure of political rights, then logically, supreme power should be in the hands of only an Isaac Newton or an Albert Einstein or similar geniuses. If character were the measure of political rights, then only certifiable saints should be the rulers. If wealth were the measure of political rights, then power should be entrusted solely to men like J. P. Getty or J. D. Rockefeller or other such billionaires. This would be both politically impracticable, leading to perpetual jealousy, discontent and rebellion, and socially absurd, since neither intellectual genius nor character nor money-making skill is a guarantee of morality or urge for justice.

In practice, equality means the affirmation of the right of every citizen to participate in public affairs, which always have a direct or indirect bearing on his own welfare. It gives the citizen the right to vote, to speak his opinion, to organize, to own property, to hold a job of his choice, to claim impartial justice under the law. It rejects the principle, and, if carried out honestly, the practice, of special privilege for, or favorable consideration of, the rich and the well-connected. Equality binds men together as citizens.

The idea of freedom, like that of equality, is likewise a political one. In essence, it means a guarantee of the individual's rights as a citizen. It is based on the assumption that man has rights against unrestrained governmental power. It means that government is not free — as it is in communist and fascist dictatorships — to do whatever it likes to the body, the mind, the possessions, and the spirit of the human beings living under it.

Political freedom gives the citizen the right to claim protection against governmental arbitrariness or police brutality. Freedom's laws are designed to protect man in his capacity as a human being and as a citizen. Freedom not only involves the idea that a citizen may act and express himself politically without fear of governmental intimidation or coercion, but that he also has the right — and even the moral duty — to criticize public men and measures, without dread of punishment or reprisals.

Operationally, there are at least half a dozen irreducible ingredients that make up a democracy.

1. Periodic election of legislative representatives, such as members of Con-
gress, and executive, such as Presidents, Governors or Mayors.

2. Fixed terms of office for elected officials.

3. Guaranteed protection of political minorities.

4. Independent political parties, free from governmental coercion, control or intimidation.

5. A free press and other media of communication.

6. An independent judiciary.

Regular elections for fixed terms of office are necessary to prevent perpetuation of power without limit. Political minorities must be protected in their rights; otherwise, the existing majority would make itself permanent and, being unopposed and uncriticized, would become dictatorial. Independent political parties, like an uncensored press and unintimidated media, are essential mechanisms for the maintenance of democratic institutions. Where parties are not free and where the media of communication are controlled or censored by government, democracy cannot exist. Similarly, if judges are not free from governmental dictation or pressure, they cannot mete out true justice; they are then merely servants of power and not of justice.

One thing more needs to be said. Democracy is not a mechanical process. Institutionalized contrivances are extremely important, but no matter how ingenious they may be, by themselves they will not guarantee the proper functioning and survival of democracy. In the last analysis, democracy is rooted in moral and humane values — moderation, reason, justice, fairness, honesty, compassion, human dignity. No monolithic state that is uncontrolled by law and the freely expressed will of the citizens, can possibly be humane or just. For in such an unrestrained state, the people exist for the government, and not vice versa. Hence the totalitarian (unchecked) state can—and does—commit any crime and any cruelty, in the name of itself; the people are never consulted, because only the rulers have a monopoly of power.

Finally: Democracy is a system that attempts to ensure civilized living without creating too many victims in the process. It minimizes cruelty. It holds out realistic hopes for betterment and humaneness. It is not utopia, to be sure. Probably no political system is, or ever has been. Democracy has not solved all or even most social or human problems, but it does not delude and corrupt and degrade the citizen with calculated lies; it does not fill the jails with political prisoners; it does not torture opponents. It strives to maintain a tolerant, and hence tolerable, world. Perhaps one might say, in the words of Winston Churchill: Democracy is the worst of all forms of government — except all the others.
Inflation Postscript—The Premiers’ Conference

(The two articles in this “Review” on different aspects of inflation were in print before the Premiers’ Conference on June 16th.)

The Premiers’ Conference suggests that Australian Governments have once again found their old adversary of inflation rather too fearsome to engage in decisive combat.

The only way Governments can contribute in a realistic fashion to containing inflation is to make a start on sharply cutting back the rate of increase in their own expenditures. But they continue to baulk at this admittedly formidable task.

Indeed, State taxes and charges are to be increased almost “across the board” and, if press reports are to be believed, Commonwealth taxes also. No sooner had Payroll Tax been handed over to the States than the Premiers agreed to raise their new tax by 40 per cent to produce an extra $100 million of revenue a year. The Premier of Victoria was right in saying that “the man in the street” won’t have to pay a “red cent”; he will pay in real cents instead.

In 1970-71 Commonwealth grants to the States rose by $419,000,000 or 17%. This year the grants plus the surrendered Payroll Tax will boost State revenues by over $450,000,000 or an increase of 16% on 1970-71. This will be far in excess of any conceivable increase in the Gross National Product.

Faced with huge rises in wage, salary and other costs the desperate need of the States for substantially increased revenues has to be conceded. Nevertheless, the Premiers, by their decision to increase Payroll Tax seem to have virtually nullified the intentions of the Commonwealth to cut the rate of increase in government spending. Steep rises in State Taxes and public utility charges will also add to living costs and make it difficult to hold the wage and salary line of a non-inflationary level.

Inflation cannot, of course, be halted overnight. The best that could be hoped for was that Governments, by adopting the correct anti-inflationary strategy, would get a grip of the situation over the next 12 months. The decisions at and subsequent to the Premiers’ Conference, however, have made this happy outcome unlikely. Indeed, while Governments persist in their present line of thinking the inflationary disease will continue unchecked. The steep cost-of-living increases, certain to occur in any case in the coming months, will be aggravated by the actions of the Premiers which are embarrassing the Commonwealth; these increases will almost certainly incite strong additional demands for increased incomes.

Inflation will not be curbed until the States accept their full share of the responsibility by restraining their development ambitions and the scale of their spending on capital projects.

The Premiers’ Conference and its aftermath have failed to give leadership to the community in coming to grips with inflation. The decisions made do not match up with the gravity of the Prime Minister’s warnings. The last remaining hope now lies with the coming Commonwealth Budget. Unless the Budget keeps tax increases to a bare minimum by imposing brutal restraints on expenditures, the opportunity for seriously doing battle with the inflation beast will be lost.

Australian Governments have yet to exhibit evidence of a convincing determination to break the vicious chain-reaction of inflation which is so unfair to large sections of the community. But much more serious, if inflation is allowed to go on unchecked, it must eventually undermine the soundness and stability of the economy.