Editorial:

Inflation must be Stopped

The "Economist" of July 29th stated, "... the present rate of inflation is already on course to making the value of the pound less than the value of the penny during the average adult life-time".*

The Deputy Secretary (Economic) of the Commonwealth Treasury, Mr. John Stone, in an address delivered in the United States in 1969 when an Executive Director of the I.M.F. and World Bank, pointed out that a rate of price increase of 3 per cent a year would in an average life-time raise prices to roughly eight times their original level.

These are frightening statements. They give cause to wonder whether any sensible and stable way of life can be sustained in Western societies unless inflation is stopped.

Inflation has been so long with us that it has come to be regarded as a part of the natural order of things, or as an incurable disease we must learn to live with. All our affairs, government and private, are being conducted on the expectation of continuing inflation, more or less rapid. The expectation itself tends to make inflation self-perpetuating.

The estimates in the recent Commonwealth Budget, for instance, assume a rise in average earnings of 9 per cent during the current financial year; this could mean a price increase of around 5 per cent. This should not be attributed to any failure on the part of the architects of the Budget; it is, unhappily,
merely a hard-headed, realistic assumption. Thus fiscal policy, once regarded as the key weapon of the defences against inflation, now implicitly confesses its impotence.

In these days we are thankful for small mercies: the June cost-of-living figures which revealed some mild slowing down — temporary though it may be — in the rate of inflation were greeted joyfully by economists and others.

For years we have been talking not of eradicating inflation but of containing it to what is called "a tolerable rate". A tolerable rate seems to mean an annual price increase of about 3 per cent. But Mr. Stone's figuring should cause us to question whether such a rate is tolerable, whether in fact it can be tolerated. The only attitude which really makes sense, indeed the only one which offers any faint hope that inflation will be defeated, is that any inflation is intolerable; in other words, that inflation must be stopped.

The 1972/3 Budget Speech did not emphasise nearly strongly enough that inflation was still the central problem of the economy. So far the Commonwealth Government has failed to create a compelling sense of urgency in the community about this critical issue; it has failed to convey to the people the threat to our way of life of a continued rapid decline in the value of the monetary unit, the standard which forms the basis of all business and personal transactions.

There are two definitive arguments against inflation. The first is that it brings about an utterly capricious and unjust distribution of the national product. Inflation penalises the weak and favours the strong. Inflation rewards the man in possession as against those with little property. Inflation weights the scales in favour of the greedy speculator, businessman, or trade unionist in a privileged position against the mass of responsible, hard-working people with limited means. Inflation strikes fear in the hearts of older citizens. Indeed, an indispensable ingredient of a true Welfare State is a stable currency unit.

The second argument is that inflation subtly undermines community respect for decent moral values. In a recent impassioned speech in the House of Lords, the eminent British economist, Lionel Robbins (now Lord Robbins), said that not so long ago the advice which would have been given by an older
person to a young couple setting up a home would have been to caution them against biting off more than they could chew, against running into too much debt and against an over-optimistic anticipation of their future income. Today the advice would be almost precisely the opposite. "Borrow as much as you can and repay in depreciated currency". "Is that a happy state of affairs?" Lord Robbins asks. "Is that a state of affairs which is ultimately conducive to a stable moral society?" Lord Robbins concluded by saying that if inflation proceeds at the present rate "I fear that the very foundations of our free and liberal society will be severely shaken".

The greatest economist of the modern era, J. M. Keynes, had much the same thought in mind when he said, "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction and does it in a manner which not one man in a million is able to diagnose".

Democratic governments have so far lamentably failed to produce a solution to inflation in the conditions of the modern economy. The political compulsion of full employment has not yet proved to be compatible with a reasonably stable price level. This is not necessarily to say that it cannot be made compatible; it is to raise doubts whether it can be made compatible through the conventional instruments for dealing with inflation. The purely economic remedies confront the difficulty that the ultimate causes of inflation lie outside immediate economic phenomena. This has yet to be clearly recognised. The roots of inflation are imbedded in the soil of human greed and acquisitiveness, qualities which have become greatly magnified in our materialistic-oriented contemporary society with its tendency to reject traditional moral values and disciplines.

A community incapable of self-restraint, more concerned with so-called rights than with duties, begins to reveal ominous cracks in the foundations of its everyday life. (Inflation, along with violence, crime, drugs, pornography, is one of these cracks). Instead of giving leadership by appealing to the sense of responsibility and decent moderation inherent in British communities, governments, the public service, trade unions and the private sector, too, increasingly tend to pander to the false
values which lie at the root of the trouble. A society which disregards the virtues of self-restraint is like a wayward, spoilt child. If sensible balance and order are to be restored, then authority must step in and take firm action.

Unless there is a marked slowing down in the rate of inflation in the coming 12 months, the Commonwealth Government could be forced to use its authority to impose unorthodox measures for dealing with a situation which should not and cannot be allowed to continue. If reasonably full employment cannot be reconciled with a stable monetary unit by the so far acceptable means, then governments may be compelled to apply some direct supervision over incomes and prices. In a free society this could clearly be no more than a temporary measure. It could not provide a final or lasting solution. But it would give evidence of an official determination to fight inflation much more resolutely. It would gain us a breathing space in which everyone concerned, political parties, employers, trade unionists, could re-think their attitudes and join forces in finding a cure for a disease which is eating away at the foundations of our society. This at least would be better than meek submission to the onward march of the forces of inflation.

★ ★ ★
Norman E. Jones, C.M.G.

Mr. Norman E. Jones, the Treasurer of the I.P.A., died on the 10th August at the age of 68.

Norman Jones joined the Council of the Institute in 1960 and in 1965 accepted an invitation to become Treasurer.

A great enthusiast for the work of the I.P.A., he was dedicated to its objectives and methods. He seldom missed an I.P.A. meeting or function. As Treasurer he helped greatly with the Institute's finances.

Norman Jones had a business career of remarkable distinction. For 14 years, from 1952 to 1966, he was Managing Director of Australia's largest enterprise, the Broken Hill Pty. Co., during a period of great expansion. But his arduous responsibilities with the Company did not prevent him from taking a close interest in numerous other activities. After his retirement he retained his seat on the B.H.P. Board, and in the years that followed accepted directorships in other large organizations—notably the National Bank of Australasia, Australian Paper Manufacturers and the Colonial Mutual Life Association.

Norman Jones was thus one of the leading figures of Australian business. Besides outstanding ability, he had certain distinctive personal qualities — an invariably cheerful and buoyant disposition, a keen sense of humor, a fine courteousness and exceptional reasonableness in discussion. As a consequence he was not merely respected but universally liked and admired; men always spoke of Norman in terms of affection.

By his many business friends and associates he will be greatly missed and long remembered.
The Bold Budget

The 1972/3 Budget is one of the most enterprising introduced by a Commonwealth Government. We are not likely to see a budget comparable to this every year; perhaps not again for some years. There appear to be two main reasons for the unusual character of the present Budget.

First, this is one of the rare occasions when the needs of the economy and the exigencies of politics — which affect every budget — point in the same direction.

The second is that there has clearly been some new and refreshing thinking at the Treasury; the fiscal weapon is to be wielded much more aggressively for purposes of economic and social management. For many years Commonwealth budgets have conveyed the impression that the Treasury mind leant to over-caution with a strong disaste for innovations of any kind, particularly when it came to relinquishing any revenue. It seemed reluctant to break away from long-established patterns.

The current Budget heralds a striking change in Government and Treasury thinking on economic policy. Since World War II the almost invariable Treasury response to conditions of subdued demand in the economy has been to increase government spending; tax concessions have been in the back seat. On the other side, the Treasury remedy for mounting inflation has been to increase taxes: government expenditure has been regarded as sacrosanct. The inevitable result has been a progressive encroachment by the public sector, at the expense of the private sector, on the resources of the economy: a trend about which the Treasury itself expressed concern a few years ago.

The 1972/3 Budget reverses these policies. Faced with a situation in which the economy is clearly in need of stimulation, the Budget rules in favour of the private sector by providing for unprecedentedly large reductions in personal taxation. While there has been no reduction in the rate of increase of government spending, at least there has been no acceleration, and there are even signs of a slight effort at restraint.

It is over 10 years since the I.P.A. first claimed that the level of taxes was a major underlying cause of persistent inflat-
ionary pressures. This argument applied especially to personal income tax which, under conditions of P.A.Y.E., was biting voraciously into the weekly take-home pay of comparatively modest income-earners. The argument, simply, was that the steep progression of income tax (allied to rising taxes and charges at State and local government levels) was giving rise to pressure for more money in the pay envelope by way of compensation.

While everyone expected the Budget would provide for substantial reductions in personal income tax, the cuts exceeded the most optimistic anticipations. The total tax concessions in a full year amount to nearly $600 million the great bulk of which are in the personal income tax field. (Two years ago the Commonwealth Budget caused something of a sensation when it reduced personal income tax by some $200 million). Nevertheless, total tax collections will be around $400 million greater than in 1971/2 because of higher money incomes and the growth of the economy. The changes in estate duty, which are most sensible and welcome, will cost the Government about $20 million in a full year. While the Treasury has produced sound reasons for refraining from an across-the-board cut in sales tax and excise duties, strong arguments could be adduced for some reduction in company tax which at 47½ cents in the $ is among the highest in the world. A small reduction to 45 per cent would have cost the Government only $80 million in 1972/3 — not an impossible figure in the context of total tax cuts approaching $600 million. Investment, particularly in sections of manufacturing, is depressed and this concession would have helped to fan the flickering flame of business confidence.

The Treasury is banking on the expectation that increases in take-home pay resulting from the tax changes will take some of the steam out of the pressure for higher wages and salaries. This would seem a reasonable hope. It would certainly be quite irresponsible for the unions, in framing future demands, to neglect to take into account the significant addition to incomes stemming from the Budget. Wage-fixing tribunals could also fairly be expected to weigh the effects of the unprecedented tax cuts when they come to consider their awards.

The central economic purpose of the Budget is to step up growth and increase employment by stimulating consumer
demand. Statement 1 attached to the Budget Speech suggests that in the absence of "unforeseen major new developments", GNP in the current year should increase by about 5 per cent in constant prices (made up of a 2 per cent rise in employment and around 3 per cent in productivity). This compares with 3 per cent in 1971/2. The Statement however, indicates that growth in GNP, employment and productivity measured from the June quarter of 1972 to the corresponding quarter of 1973 will be even higher than the above figures. The stimulation to the economy will be provided through a domestic deficit of $60 million as against a domestic surplus last year of $387 million — a total change of $447 million. The deficit results from the continuing increase in government spending and from the reductions in taxation — government receipts are expected to rise by only 6.8 per cent, compared with 10.2 per cent in 1971/2. In a total government outlay of $10,078 million, the rate of increase in expenditure of 11.6 per cent is much the same as in the previous year. Expenditures on defence and on payments to the States will, however, rise at a substantially greater rate than in 1971/2. Against this, total payments to industry will be reduced by an estimated $35 million (largely because of the improvement in wool prices) compared with an increase of $85 million in 1971/2. Appropriations for Commonwealth works and services are also appreciably lower than the preceding year.

It is to imply no criticism of the Treasurer to say that the Budget is courageous and carries with it some slight degree of risk. There is just a possibility that the Budget could over-activate the economy, perhaps some time next year. Whether this will occur may depend on the reaction of consumers to the additional moneys which they will now have in their pay envelopes. The Government is obviously counting on a fairly rapid increase in consumer spending to achieve the Budget purposes of higher employment and growth. It is unlikely that the public will be carried away by its new largesse, but if it is, this, combined with the fact that government spending will continue at a very high level, could tip the economy over into a state of excess demand. This must be avoided at all costs.

The Treasury experts must be aware of this risk and it is therefore a little surprising to find in the Budget Speech the categorical assertion that the Budget "will not bring about a
resurgence of demand inflation in the year ahead”. Should, however, the economy show signs of over-stimulation — the main indicator in this regard being the state of the market for skilled labour rather than the total percentage of unemployed — the Government can act quickly and decisively through monetary and mini-budget measures to assert control over the situation.

It should not be forgotten for a moment that the genesis of the powerful cost-push pressures of the past 12 months is to be found in the failure to prevent the emergence of excess demand in the previous two years. Despite everything that has been said to the contrary the root causes of inflationary pressures lie on the demand side. Once excess demand grips the economy, cost and price rises tend to persist long after the condition is corrected.

With one notable exception and perhaps two or three minor ones, the Budget makes good economics. Whether it also makes good politics — from the Government standpoint — will be revealed within the next two months. In light of the fact that the Prime Minister and the Treasurer have on many occasions in the past emphasised their strong preference for the selective approach to social welfare benefits, the announcement of the Government’s intention to abolish the Means Test came as a stunning surprise. The abandonment of the Means Test in today’s increasingly affluent society is a departure from established liberal principles. And from the severely logical standpoint, where is the sense in paying close to half a million people pensions which they do not really need at a cost exceeding $300 million after tax?* Surely it would have been wiser, and for that matter more humane, to direct additional assistance to the 600,000 people at present receiving the full pension, a fair proportion of whom are probably not far removed from the poverty line. The Henderson Report on Poverty pointed out that Australia had less poverty than practically any other country in the world quite largely because of the existence of the Means Test.

A further question relates to the effect of the possible introduction of National Superannuation on the most vital goal of all, namely the prevention of inflation. The subtraction of

* At present disqualified by the tapered means test under which the pension now cuts out at $103.50 for a married couple.
additional sums from the pockets of the people to finance a national scheme is of particular significance in the Australian setting, where heavy taxes and charges are already imposed at all levels of government to meet infrastructure expenditures arising from large-scale immigration. It is not generally appreciated that one of the reasons why pensions have not been the subject of more generous increases in past years is traceable to the scale of the migration intake and the heavy demands it has made on tax revenues.

The wisdom of dispensing with the Means Test may even be questionable from the standpoint of political long-headedness. If the 600,000 full pensioners come to realise that this would in all probability mean less money in their pockets, they are hardly likely to be over-joyed. Younger people, to whom retirement is so far distant as to be of little current consequence, may also not be delighted at the prospect of having to shell out extra money now for benefits in the remote future.

Thus, on all grounds — social justice, economic need, and political judgment — the wisdom of this sudden and unexpected dash by the Government for the Welfare State is to be doubted.

The statement on immigration in the Budget Speech was unnecessary, indeed bordering on the foolhardy. The Treasurer said, “Our economic development and growth as a nation for 25 years has owed very much to our success in attracting migrants. We must continue those active migration policies which have been serving us so well. Accordingly, the Government has decided, on the basis of the economy’s likely needs and the availability of suitable settlers that the immigration programme for 1972/3 should be 140,000”. (Of these assisted passages are intended to provide 90,000).

Who would want to dispute the immense value of large-scale immigration in the past? But times and circumstances change, and have changed, and policies should change too. There is no longer need for Australia to take huge numbers of European migrants on compassionate grounds. The defence argument for mass immigration, which was held so strongly in earlier days, has been exploded by the defence experts themselves. Australia is virtually at the bottom of the productivity ladder of the Western nations — in spite of huge capital inflow — because so much of our investment resources have been necessarily
devoted to the absorption of increased numbers of people. We now face a growing urban crisis with soaring land values, particularly in Sydney and Melbourne which take the bulk of the migrants. "The quality of life", a phrase first heard 10 or so years ago, has come to assume real and pressing personal significance for all city dwellers. It no longer makes sense to keep pumping people at an excessive rate into the major Australian cities, adding to urban ugliness, congestion, pollution, over-crowded schools and the general discomforts of those who have to live there. The target of 140,000 is clearly not consistent with the alleviation of these problems.

The general purposes and philosophy behind the Budget are to be commended. There is no doubt that the economy was in need of an anti-depressant and the best way was to put more money in the peoples’ pockets. This also has the desirable, and apparently paradoxical, effect of countering inflation by reducing the explosive pressures for higher wages and salaries which have been threatening to blow the economy through the ceiling. In addition, the decision to activate the economy through tax reductions, rather than through the expansion of government spending, helps to reverse the inflationary tendencies inherent in the growth of the public sector at the expense of the private sector. Furthermore, the reduction of the burden of personal income tax has long been a crying need in order to restore adequate incentives for the ordinary wage or salary earner and to give him a bigger say in the spending of his hard-earned money.

The increases in pensions, along with the emphasis of the tax reductions on the lower income groups, are to be applauded for helping to promote greater social welfare and social equity.

All these steps are broadly in line with policies advocated over some years now by the I.P.A. It is a thousand pities that such fiscal good sense and initiative should have been marred by three decisions inconsistent with the basic philosophy of the Budget. These are the intention to abandon the selective approach to social welfare benefits; the persistent refusal to tailor the immigration intake to the economic, environmental and social imperatives of Australia in the 1970’s; and the failure to reduce the rate of tax on company incomes, a measure which would have helped to dissipate the pockets of gloom in business board-rooms.
New Council Appointments

During the year I.P.A. Council lost, through death, two of its valued and respected members — Mr. Norman Jones and Mr. Frank Fitzpatrick. Mr. Jones had held the office of Treasurer since 1964, while Mr. Fitzpatrick had been a member of the Executive and Editorial Committee for 15 years. Both these gentlemen gave outstanding service to the Institute and will be greatly missed.

Mr. W. D. McPherson has accepted an invitation to succeed Mr. Jones as Treasurer.

Mr. J. C. McNeill, the Managing Director of the Broken Hill Proprietary Co. Ltd., has accepted an invitation to join the I.P.A. Council.

Mr. J. Arnold Hancock, a member of the Executive and Editorial Committee, has resigned from the Committee owing to pressure of other duties. He will remain a member of the Council.

Mr. Norman Robertson has kindly agreed to become a member of the Executive and Editorial Committee.
The Treasury Survey of The Economy—1972

The 1972 Survey is not the liveliest of the annual reviews of the economy which the Treasury has been publishing since 1956. From the technical and descriptive standpoints it more than stands comparison with its predecessors; but, apart from a passage here and there, it lacks the homely simplicity of style and the penetrating general observations which enhanced the readability and interest of previous surveys. There is too much material of a near-theoretical kind which could better have been left with the back-room analysts. Even some of the purely descriptive matter might have been abbreviated—for instance, an over-lengthy severely statistical section on economic conditions abroad.

It is not perfectly clear what the Treasury is attempting to achieve with these papers. Are they directed chiefly at a small esoteric band of economists? Or are they intended for a wide audience, to provide information, to stimulate discussion and promote better understanding of the main issues disturbing the economy? We believe the latter is, or at least should be, the main purpose. If so, all peripheral matter should be ruthlessly excluded and the picture painted in bolder, sharper outlines*. The manner and approach most appropriate for the trained economist are hardly likely to suit the needs and understanding of the intelligent general reader. The survey has a lot of important and valuable things to say, but they tend to be lost in the thickets.

Economics, to the ordinary person, can be a dreary, spiritless thing. Modern economics too often is.** But it doesn't have to be this way. Even lengthy factual description or analysis can be rescued from dullness by the occasional flash of lightning, the luminous generalisation, or the almost casual but wise aside which serves to catch the reader's attention and deepen his understanding. The 1972 Survey has a purple passage here and there, but too few in number to maintain interest.

The two things that the reader most wishes to get from the Treasury Survey are, first, an indication of what lies ahead for the economy; and, second, some discussion of the trouble spots, their causes and possible cures.

The following pointers to the immediate economic prospect can be gleaned from the Survey.

* In the major industrial countries, the growth in output is expected to accelerate during the current year: the main stimulus should come from the pick-up in the American and Canadian economies with expected yearly growth rates of around 6 per cent per annum.

World trade is expected to grow more strongly over the next 12 months.

*1 Perhaps this could be published in appendices.

*2 The Treasury, it must be said, is seldom guilty of this fault.
Rapid inflation is likely to continue in most of the major industrial countries.

Favourable world markets should assist growth in Australian rural exports, especially wool, beef and sugar; manufacturing exports should also continue to expand.

Imports are not likely to grow as fast as exports.

Capital inflow will probably continue at a higher level in 1972/3.

The outlook for 1972/3 is thus for a large balance-of-payments surplus and a consequent large addition to Australia's international reserves.

In 1971/2, GNP at constant prices appears to have increased by about 3 per cent. Prospects for a higher rate of growth in 1972/3 are good.

Manufacturing investment should respond gradually to prospects of improved demand, particularly consumer demand.

The slow-down in mining investment may not yet have run its course.

Costs and prices seem likely to rise fairly rapidly.

As to the longer future, there is an important general observation in the final paragraph of the Survey: “Whatever the outcome, the prospects of an early return to the conditions of the sixties, when strong growth, exceptionally full employment and relative stability in the price level were all achieved with what seems in retrospect remarkable ease, seem remote”. This is hardly a prognostication likely to bring cheer to the heart. Unhappily, as things stand at present, it appears to be justified. There seems little doubt that the main reason behind the Treasury's rather gloomy view is a touch of despair over inflation.

The two crucial problems of the economy, which the Survey rightly spotlights, are the continuance of steep inflation and of subdued demand, particularly for consumption goods. Notwithstanding the incessant howls from the communications' media about serious unemployment (a situation which their activities only serve to exacerbate) inflation is much the more important problem. After all, despite the sluggishness in consumer demand, GNP grew by about 3 per cent in constant prices over 1971/2. While this fell below expectations at the beginning of the year, it hardly assumes the proportions of a major economic setback. "There was", as the Treasury report curtly (and rightly) says, "no recession". With a touch of justified bitterness, the Survey criticises the over-dramatised analysis of the monthly economic indicators by the media, and the lack of a sense of perspective in the interpretation of economic developments.

No one wants to see people without jobs, but almost every country in the world would be envious of Australia's low rate of unemployment. It would need the wisdom of Solomon to maintain the economy in a position where there was always an exact equation between those seeking work and the number of suitable jobs offering. Indeed, this could never be done in a free economy and probably not even in a rigidly controlled one in which workers are directed into tasks by the authorities. Of course, when the balance, which is super-sensitive, tips over on the side of over-full employment — more jobs than job-seekers — inflation will be set in motion, and once in motion will take some time to arrest.

The most important section of the Survey is that dealing with the causes of inflation. Since the rate of increase in costs and prices has accelerated alarmingly over the last year or two, inflation has become the most menacing problem afflicting the economy. The Treasury is well aware of this and its strong concern
is voiced frequently throughout the Survey.

If a strong public resistance to inflation is to be created — and this is essential if victory in the battle against inflation is to be achieved — the appeal must however be made with force and passion as well as with the voice of reason. This is obviously not the function of the Treasury; it is the responsibility of the political leaders.

The Treasury deplores the serious social and economic costs of continued price rises. It refers to the arbitrary and inequitable re-distribution of wealth to which inflation leads; the harsh penalties it imposes on the weak — pensioners, unorganised wage-earners, primary producers and so on. The Survey points out how inflation gives rise to uncertainty over the whole field of business, how it misallocates resources and leads to inefficiencies and erodes economic growth. All this, admirable in itself, would have had more impact on the reader if the Treasury had spelt it out in some concrete detail.

The analysis of the causes of inflation is carried out in rather severely academic and theoretical terms. A long piece examining the notion that inflation may be transmitted between nations is inconclusive and adds little to our understanding of the Australian inflation.

The main contribution of the Survey — although not entirely novel — is its emphasis on the fact that once inflation is proceeding rapidly it tends to be self-perpetuating and also to accelerate. “Expectations” says the Survey, “of continued increases (in prices) rapidly become entrenched”. Inflation has been going on for so long that its continuance year after year is taken for granted by all sections of the community and affects their attitudes accordingly — particularly those of the parties to wage negotiations who come to accept the inevitability of frequent and large wage adjustments. If inflation is to be defeated then somehow or other these expectations must be destroyed.

The Treasury analysis of the domestic causes of inflation is confusing, at least for the non-expert reader. It starts by suggesting that cost influences are paramount and excess demand quite subsidiary. “Empirical studies suggest that these demand influences tend to be subordinate to cost influences. By far the major direct influence on prices has been found to come from cost influences particularly changes in unit labour costs”, (It would have been interesting to have had some information about the source and content of these “empirical studies”).

Later on the Survey appears to veer to the other side by allotting the major responsibility to excess demand. “It has long been generally accepted that high levels of demand relative to resource availability . . . will bring about high rates of wage increases . . .” “Excess demand must be removed before policies of any sort can become effective in combating the ensuing inflation”.

While there can be no doubt that exorbitant wage increases have played a major part, in their own right, over the past 12 months in generating price rises, it is surely true that until 1971 at least inflation had its roots in excess demand. In 1969 and 1970 it was acute shortages of labour that set in motion a spiral of over-award payments. As the Judgment of the Commonwealth Arbitration Commission in the 1970 National Wage Case made clear, the 6 per cent increase granted stemmed directly from the widening wage disparities between different classes of labour, caused by these above-award payments. Yet the Treasury Survey seems to suggest — wrongly in our view — that the 1970 wage award was a case of cost rather than demand inflation.
Until quite recently, and even through a good part of 1971 (when skilled labour was still in short supply despite growing unemployment among less skilled workers) inflation was sparked off by demand rather than cost influences. Indeed, it could be argued that had excess demand conditions, at least from 1969 onwards, not been allowed to develop, the steep inflationary wage rises of recent experience might have been much less pronounced. That conclusion might be supported from the Treasury's own analysis in the current Survey "... once there is an initial surge of prices under sustained tight labour market conditions, expectations of continued increases rapidly become entrenched".

The Treasury has never conceded much, if anything, to high and rising taxes, to heavy public expenditures on capital works (financed partly by almost annual increases in public utility charges) or to the rate of population growth as exacerbating causes of inflation. There is no mention of any of these factors in the latest Survey. The most notable omission is the rapid rate of population expansion, which distinguishes the Australian from all other Western economies.

The three are all inter-connected. Population growth affects the size of public expenditure and this in turn affects taxes at all levels of Government — State and local as well as Commonwealth — and the charges public utilities make for their services. The extra taxes and charges required to finance extraordinary government outlays on capital works hit the income-earner at both ends — through higher taxes and higher charges for water, electricity, gas, postal services and the rest. He would be more than human if he did not respond by demanding a higher wage or salary. The cost inflation on which the Treasury lays so much emphasis may thus be greatly aggravated not only by the phenomenon of excess demand but by the structure or make-up of demand.

These criticisms having been made, it would be churlish not to acknowledge that the Survey maintains the high standards one has come to expect from Treasury papers. It is not the technical competence which is at fault, so much as the presentation. On this latter score there is, we feel, much scope for improvement if these important Surveys are to exert a more salutary influence on public thinking.

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The remedy for inflation is not really in the Treasury's own hands. Indeed, it is in a position akin to that of a skilled doctor dealing with an intractable patient. Knowing for the most part what should be done, the Treasury is yet virtually helpless if the patient (the community) persists in acting irresponsibly and ignores its advice. By and large, the harsh truth is that the cure for inflation now lies as much with the community itself as with the economic physicians.

The battle against inflation must start with the national government. Here the need is for much stronger, more definite leadership than has so far been forthcoming. The I.P.A. said earlier in the year that the Commonwealth Government must prepare the ground for a successful assault by alerting the community to the perils inherent in continuing rapid cost and price increases. The Prime Minister, as head of the Government, must create a sense of emergency in the minds of the people, a psychological climate in which the economic measures will stand a chance of being able to work. As we then suggested, the Prime Minister should call upon the different sections of the community to accept their responsibilities in the fight against inflation, stating specifically what these responsibilities are, and make it clear that unless this is done the Government on its own will be unable to cope with the menace of rising prices. The particular groups of the community to which this appeal
should be addressed are the employers, trade unions, wage-fixing tribunals, State Governments, major public instrumentalities, and the communications’ media. The last-named have clearly a vital part to play (a role they are not fulfilling at the moment) in educating the people on the true nature of the inflation problem and what must be done if it is to be overcome.

Thus, what is needed is, first, strong, firm leadership from the summit and, then, an acceptance by the key sections of the community of their responsibilities. Without this, rapid inflation will in all likelihood continue.

One thing is certain: we can’t go on the way we are going, sliding year after year down a path that can lead only to a morass. Unless inflation shows strong signs of easing off in the coming months, the Commonwealth Government may have to contemplate something quite unorthodox to shock the public into a realization of the seriousness of the situation and to make clear its determination that the present mad course must be stopped.

We need a breathing-space, time in which the community can gather its resources together and consider calmly what must be done if the economy is to be purged of the pernicious disease with which it is afflicted.

In Australian Rules football, when one team gets a run on with goal rapidly following goal, the wise ones of the game are accustomed to say there is only one way to stop the avalanche: its opponents must create a diversion. The usual tactic is to start a more or less harmless skirmish in a remote part of the ground. By the time the umpires have sorted things out, the momentum of the “run” has been lost. There may be a thought in this for the national Government.
Better Living—The Key is Productivity

The I.P.A. and the Australian Productivity Promotion Council recently published a 16-page illustrated booklet stressing the need for increased productivity —
* to combat inflation,
* to raise living standards,
* improve schools, hospitals and other public facilities,
* make Australian industry more competitive on home and overseas markets.

The booklet quotes disturbing statistics of productivity performance. Australia ranked only 22nd in the rate of increase in output per employee in Western countries.

The booklet emphasises that higher productivity is a job for everyone.
* governments and their advisers
* management in industry and government enterprise,
* employees — tradesmen, salesmen, machinists, clerks, indeed everyone with a job.

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“LORD KEYNES AND PREVENTION OF DEPRESSION”

by Professor Dudley Dillard

This article first appeared in “The I.P.A. Review”, September/October 1950. “The Economic Digest”, London, said it was “as near as we are likely to get to a statement of Keynes’ doctrine in terms that may be understood by the ordinary voter”.

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The Changing Business Environment

by Daniel Yankelovich

The author is President of Daniel Yankelovich of Madison Avenue, New York, a leading public relations firm. The firm conducts the well-known surveys of opinion among American executives for the business journal "Fortune".

Mr. Yankelovich is also Professor of Psychology at New York University. He is the author of two books recently published, "Changing Values on Campus" and "Ego and Instinct".

In this article, published with the permission of the National Association of Manufacturers, the author analyses the changing environment for business and the new demands the larger corporations are being called upon to meet.

NINETEEN-SEVENTY marked the beginning of what we believe will be the most fateful decade in the history of American business. In 1970, we saw the first clear warning signs that more than two decades of harmony between business and the public were coming to an end.

There is overwhelming evidence that at the present time the public feels business is badly out of step with its expectations and demands. Many political leaders today sense this mood, which they interpret as a mandate for restrictive and even punitive measures against business.

We would like to emphasize the sharp contrast between the present skeptical and mistrustful social environment for business and that of the previous two decades. From the end of World War II until the late 1960's business grew and prospered in a warmly supportive social/political environment. In the 1950's and 1960's business gave the country what it wanted — a huge GNP, a booming economy, full employment, and for the first time in history, affluence for the majority of the people.

Indeed, so harmonious was the bond between the corporation and the social environment that their mutually supportive relationship was assumed to be the natural order of things, and was largely taken for granted. Small wonder, then, that occasional warning signs in the late 1960's that the business environment was changing were ignored or misinterpreted. And yet, from the late 1960's to the early 1970's, in the short span of
a few years, the business environment has been transformed.

Much of the change in the United States these days is created by various social movements. There is the youth movement and the consumer protection movement and the ecology movement and the civil rights movement and the women's liberation movement and many others. All of them serve as vehicles for social change, but not all of them are equally important to business. The social movements that have the greatest impact on the business environment are the youth movement and the consumer protection/ecology movement.

As everyone realizes by now, campuses are quieter this year. The riots, sit-ins, destruction of property, occupation of buildings and demonstrations on campus have virtually disappeared. By and large, college students have withdrawn much of their emotional involvement from politics and public affairs, and are concentrating instead on their own private lives.

Some observers have interpreted the current mood on campus as a return to the status quo and to the privatism that dominated the campuses in the 1950's. Nothing could be further from the truth. Since the mid-1960's the campuses have served as incubators for two types of social changes: colleges are our main source of new social values on marriage, sexual morality, religion, work, relationship to authority, to nature, etc.

Over and above these changing social values, the campus also has served as a source of scathing criticism of our institutions and deep-rooted skepticism about how the society functions. In this past year, students have taken a step back from political activism. There has been a massive revulsion against violence. Many students feel far less dogmatic and certain of their political views. But students continue to look at the larger society with weary skepticism, interpreting what they see within a framework of Marxian ideology.

In the minds of the public, the consumer protection issue and the pollution/ecology issue have merged into a single whole. In the public mind the consumer-ist issues of product health, product safety, and truth in advertising are closely linked with pollution. Although these two burning issues — consumerism and ecology — are different from a technical point of view, they form a single whole in the mind of the public.

The consumer/ecology movement has had an enormous impact on the public:

★ Recent research shows that 9 out of 10 people believe that consumer protection advocates can help them improve the value they get for their money. And a two-thirds majority of the public is perfectly willing to support this movement, either by active participation or through money, votes, and moral support.

★ An 8 out of 10 majority are strongly in favor of rigorous anti-pollution controls, particularly of air and water pollution.

★ People's chief complaint is that products are overpriced for what they give and that manufacturers put their profits ahead of product quality, long life and service. There is a pervasive feeling that advertising is misleading, promising more than the manufacturers actually deliver, and that products which involve the public's safety and health can stand a great deal of improvement.

★ The public favors severe penalties for companies that do not live up to high standards — fines for polluters, prohibition of advertising if it proves to be false and misleading, suspending the sale of products altogether if necessary, and even personal liability for executives.

★ At the present time, the public singles out certain industries, notably the automobile industry, the oil industry, the chemical industry and several others as the chief culprits.

★ Rumors of a public tax revolt are well founded. The public is extremely
resistant to the idea of having business and government pass along higher costs for fighting pollution in the form of higher prices for products or increased local taxes.

We sometimes use the word “mainstream” to refer to the majority view in the country. The analogy is a good one. The mainstream view can be pictured as a broad, deep, stable river, capable of absorbing all of the small, sometimes agitated tributaries and eddies that flow into it. Under most circumstances, the various social movements that represent tiny proportions of our population hardly affect the mainstream. They become absorbed in it and lose their distinct coloration. College students are a small minority of the total public. They are even a minority of young people. Consumer activists, women’s lib activists, civil right activists are even smaller minorities. But today, they have a disproportionate influence. They agitate the mainstream, swelling it to floodtide.

There is a malaise, a quality of uneasiness, a sense that people are off-balance, that may well be unprecedented in American history. Public distress in the 1930’s was as great or greater, but it was far more specific. In the 1930’s people were distressed by the economic condition of the country and the ravages of the depression.

Then, World War II came and after it an era of prosperity. The distress gave way to a mood of satisfaction and national accomplishment. But now a different form of uneasiness runs through our society — only partly economic in character, far more diffuse, less specific, and more disturbing.

In our research, we ask people to distinguish between how they feel things are going for them personally, and how they feel about the state of the country. It is vitally important to underscore the contrast between the two. By and large, people feel that their own personal situation is not too bad: it is the country they are worried about.

What accounts for this all-pervasive uneasiness about the state of the nation? When you ask people why they are distressed, they mention Vietnam and crime and drugs and the economy and racial tension and the lack of leadership. But these are, at least in part, symptoms of a deeper underlying crisis. There is a moral uneasiness among the public that we have never detected before. Over many years of doing psychological and attitude studies among the public, we have been impressed with the need people have to find moral justification for their own actions and especially, for what is done in their name by their country, by their company, their church, their unions, and the other institutions which hold their allegiance.

Most people are realistic and down-to-earth. They feel about themselves. “Well, maybe it’s all right for me to cheat a little bit. I’m just an individual and I accept a little bit of cheating in myself. But not my country. Not my company. Not the army. Not the police. Not the government”.

People project their own intense needs for moral justification — the moral rightness of what they are doing — onto the country and the other institutions with which they identify. Thus projected, the morality assumes an absolute cast.

The events of these past few years — Vietnam, pollution, corruption, crime, drugs, race riots, campus unrest, pornography — have created a terrible uneasiness in people about the moral direction our institutions are taking.

The impact of the college youth movement and the consumer/ecology movement on the public would not have taken such a harsh and critical turn, leading to withdrawal of confidence from business,
were it not for the mood of anxiousness that dominates public thinking today. Business actions over the past few years are not the major cause of the public’s new uneasiness.

These causes lie elsewhere. But the youth movement and the consumer/ ecology movement have had the effect of channeling much of the public’s free-floating uneasiness onto business. Consumer Advocates have served as a crystallizing force, focusing the public’s general discontent onto business. To be sure, business is not the only focal point of the public’s withdrawal of confidence, but it is an important one. Paradoxically, then, business has become a scapegoat.

There are two requirements for becoming a scapegoat. There must exist a pool of general discontent for which you are not responsible. Someone must channel that dissatisfaction in your direction. Business, today, fits both requirements.

Certain leadership groups in the country have a long history of adversary relationships in business. Their hostility is not surprising. What is more surprising is the public’s sudden lack of confidence. Much of the discontent and frustration that the public vents on business today draws its emotional power from sources of dissatisfaction that have nothing to do with business. And yet, this negative emotion is a dangerous and volatile force that must be reckoned with.

Being a scapegoat does not imply that business should treat lightly its new responsibilities to the environment, to its customers, to its employees and to the public. On the contrary, these responsibilities must become central in their importance to management. But to the extent that the country accompanies its new demands on business with anger, mistrust and lack of confidence, to that extent business is being unfairly scapegoated. It is one thing to ask, “What have you done for me lately?” It is quite another to accuse business of dereliction when, in truth, business has achieved outstanding results in giving the country what it wanted during the 1950’s and 1960’s.

If the country now wants something else, business should have the opportunity to adapt to the change. There is no reason to assume that once business understands the changing requirements of the country it will not do an equally outstanding job in meeting them.

It is useful to distinguish the impact of the consumer/ecology movement on the public from that of the student youth movement.

The consumer/ecology movement has the following effects:

★ It crystallizes the public’s mood of general dissatisfaction and channels it on to business.
★ It provides the public and the country with a tangible set of problems they can do something about. People feel frustrated and impotent in their inability to cope with drugs, crime, Vietnam, race and other intractable social problems. Compared to these, the fight against pollution and the effort to improve product quality and value for the money are clean, clear-cut and achievable goals. Furthermore, people are convinced that business can accomplish them and make a profit as well. Beneath the public frustration there lies an immense reservoir of confidence in business’s capabilities. It is its priorities and its good faith that are being called into question, not its abilities.
★ The third effect of the consumer/ecology movement is to provide legislators and regulatory agencies with a huge base of public support. Political leaders are busy testing the depth of that support by sending up various trial balloons. The growth of consumerism and ecology as future political issues is almost a certainty.
The fourth and most enduring effect of the consumer/ecology movement lies in its introduction of new social mechanisms such as those of Ralph Nader and his group.

The effects of Naderism will be with us for a long time to come, irrespective of the vicissitudes of Nader's own personal career.

To get anything done on a large scale in this huge country of ours, you need to meet three preconditions: you need public support (active or passive), you need leadership, and you need a mechanism for implementation. The consumer/ecology movement has put all three preconditions into place — a fact that accounts for the growing power of these pressures on business.

The effects of the student youth movement on the business environment are more general, but equally weighty. Let me underscore just three of them:

★ The first is that college students are the foot soldiers for the consumer/ecology movement, accounting for much of its energy and forward thrust.

★ Secondly, the new values incubating on campus have an influence on the mood of the country. They lead to continuing confrontations between traditional and new values; they challenge traditional morality and the work ethic; and they exert a profound influence on the country's leadership. Our organization conducts the Fortune 500/ Yankelovich Survey among a panel of more than 300 chief executive officers on the Fortune 500 list. Several months ago, we performed a simple analysis. We divided the interviews with our Fortune 500 panel into two groups — executives who currently have a son or daughter in college, and those who have not. We then compared the outlook values and points of view of the two groups. The results were startling.

In every instance, those executives with sons or daughters now in college showed a different pattern of values and a different outlook than the executives who did not have a college age child. Those with children in college moved closer to the new campus values: the children had educated their parents. This influence of college students on their Establishment parents is one of the most important sources of social change impacting business today.

Significantly, it is the opposite of the generation gap theory, with its despairing cry of an unbridgeable chasm between the generations.

★ The third effect of the student youth movement relates to its premise that business is the major source of power in the country today. There is a syllogism, explicit among students and implicit among the general public, that goes something like this:

There is something fundamentally wrong in the country today.
Business is the most powerful institution in the country.
Therefore, business must be responsible for what is wrong.

This syllogism is not as pronounced in the country as a whole as it is on campus. But it lies just beneath the surface of public consciousness and it is very widespread.

What is the significance for business of this changed and threatening social environment? We are confronted, quite abruptly, with a new public policy process. The combination of vigorous leadership plus massive public support, plus a new responsiveness on the part of the old regulatory agencies, plus new laws, new regulatory agencies, new forms of penalties, and new legal mechanisms — all of these forces added together form a "critical mass" fraught with danger for business.
In effect, business is engaged on two battle fronts simultaneously. One is the familiar competitive marketplace, the focus of most corporate policies and decisions. The other is represented by the new process described above. Let us call it the public sector, where by public sector we mean the pressures on business that emanate from government, the general public, the consumer/ecology movement, the youth movement and similar sources. The great flood of demands directed at the corporation from the public sector have one common denominator: they all call upon business to make decisions which do not have the profit maximization of the company as their objective.

So numerous are these demands and so sharp is the conflict between them and traditional demands on the corporation for profit, growth, jobs and products that it is impossible for the corporation to meet all of them. Yet, so powerful are the pressures that come from the public domain that they place business squarely on the horns of a dilemma: no major corporation can fail to respond to many of the demands of the public sector and survive, and yet no corporation can meet all of the demands directed at it by the public sector and survive.

Business history in the 1970's will, I submit, be largely written in terms of how business resolves this awesome dilemma. The dangers for business are compounded by a widespread misinterpretation of the public sector on the part of many business executives.

It was probably unfortunate that the debate over business' social responsibilities started with the urban crisis.

Out of their early experiences with the urban problem businessmen formed a series of judgments:

★ First, they came to regard the demands of the public sector as a moral issue of what business ought to do to be a good citizen rather than as a practical issue of what business had to do to survive and prosper in our society.

★ Secondly, business executives, with some notable exceptions, came to regard activities with a social responsibility label as marginal to the day-to-day operation of the business.

★ And third, they came to regard the question of what and how much to do as largely optional.

These conclusions are incorrect on all three counts. The claims of the public sector are practical as well as moral. They have everything to do with the day-to-day operations of any company that pollutes, uses natural resources, sells to the public, employs large numbers of people, is subsidized or regulated or in competition with the government, is affected by the national budget, trades or manufactures or invests abroad, and has power and resources that can contribute to solving social problems. Above all, the decision of whether or not to heed the demands of the public sector is becoming less optional all of the time.

Business is concentrating on the competitive marketplace because that's where the light is best, and it is underestimating the force of the new demands made by the public sector. Business must function within the constraints set by the larger society. Out of the current climate of public dissatisfaction has come a set of demands that are, in many ways, different from any business has ever had to deal with before.

The American public is in the early stages of writing an entirely new contract with business. Clearly, every major corporation must understand what these new terms are, and how they can be met without sacrificing traditional responsibilities.