Editorial

Toward Chaos

By far the most important domestic task of the new Commonwealth Government is to confront inflation with all the forces at its command. Yet in its first hundred days the hated word has been barely mentioned. Indeed, one would be justified in thinking that inflation is near the bottom of the list of Government priorities.

This impression is reinforced by the Government's support, in the National Wage Case, for a large increase in wages (particularly in the minimum wage) and for the restoration of quarterly cost-of-living adjustments. No one would argue against the desirability of some improvement in the position of the lowest paid members of the community. But it would seem to be at least debatable whether, in these days of threatening cost inflation, the right way to achieve this improvement is through a substantial wage increase which could seriously disturb the whole structure of wage relativities.

Over the last two or three years, wages and salaries have been racing so far ahead of productivity that Australia stands in clear danger of drifting into the kind of chaos which has overtaken the British economy. The gravity of the British
situation has been emphasised by so responsible an authority as “The Economist” in an editorial in its issue of February 24th. The editorial suggests that if the wave of strikes in Britain in pursuit of huge increases in wages and salaries continues, “Britain will have proved to be ungovernable under its present democratic system. Amid a Latin American rate of inflation and increasingly unacceptable industrial disruption over the whole country . . . Britain would be bound to move towards a more extremist government of either right or left”.

Australia is now strongly infected with the disease of “cost-push” inflation which is playing havoc with Britain’s economic and social system and is causing alarm in the United States and in most European countries. Trade unions of both blue and white collar workers are, almost as a matter of habit, making extravagant, irresponsible demands for higher incomes, many verging on a figure of something like 20 per cent or more in a single claim. Under those pressures, and faced with the actuality and threat of widespread direct action, wage authorities, not surprisingly, have shown signs of wilting. They now seem disposed to grant much bigger increments than they would have contemplated for most of the 1960’s and to ratify, without adequate regard to the public interest, collective bargaining arrangements in lieu of, or in addition to, customary conciliation and arbitration procedures.

In the Governor General’s speech at the opening of Parliament in February, the Whitlam Government indicated that its approach to the curbing of inflation was to exert pressure on prices through its proposed Prices Justification Tribunal, trade practices legislation and tariffs. The speech made no reference to the small matter of soaring wage and salary costs. The Government seems to be banking on the hope that the Prices Justification Tribunal will cause the trade unions to moderate their wage and salary claims. (This hope appears to be strangely inconsistent with its representations in the national wage inquiry.)

Practically all efforts at controlling incomes and prices in Western economies have been notably unsuccessful. Indeed, most of these countries have an even poorer record in curbing inflation than Australia. While the price-wage freeze introduced in the U.S. in October 1971, may, on the face of it, seem
to have been partly effective, it remains to be seen whether this success, now that the controls have been relaxed, will prove to be other than short-lived.

Those who had experience of price controls during and after World War II would find it hard to view the proposed Prices Justification Tribunal with enthusiasm. They would have vivid memories of the interminable, frustrating delays and their effects on business planning, the inconsistencies and injustices between producers, and the unavoidable distortions of the market leading to gross mis-allocation of resources.

Many people seem to imagine that the introduction of the Tribunal will represent a major step toward the curbing of inflation and toward a new era of "fair" prices and profits in industry. Their argument proceeds from the premise that the control of prices by a prices authority is the logical corollary of the control of wages exerted through the arbitration mechanism. That this untenable assumption has gained so much credence is largely due to the aggressive advocacy of the President of the ACTU, Mr. Hawke. Mr. Hawke has been so successful that not only the media, but many economists as well, have now come to accept the proposition that since wages are controlled, prices should be likewise.

A palpable flaw in the argument is that wage levels are themselves determined finally by the market rather than by wage-fixing authorities. Arbitration tribunals establish minimum wages, not maximum. What Mr. Hawke and others are proposing is that a prices authority should set not minimum prices but maximum.

An even much more fundamental weakness in the argument, however, lies in its unstated assumption that wages go to one section of the community and profits to an entirely different section. This assumption is becoming increasingly unreal in the modern economy.

Profits are the reward for efficiency and successful risk-taking. They are dependent largely on the quality of the management. But the management, except in small privately owned business, do not get the profits; the profits go to the owners, the shareholders. Who are the shareholders? For the
most part they are the same people who receive wages and salaries. If it be argued that only a tiny proportion of wage-earners hold shares in industry, there is an obvious answer. The large shareholders in modern industry are, for the most part, not individuals but institutions — life assurance companies, pension funds, investment companies, unit trusts, and the like. Thus all those with a life policy, all participants in pension funds, must gain some financial benefit from company profits. How many salary or wage earners today would not have an interest in an insurance policy or a retirement fund?

Out-dated notions and misapprehensions by which the community is still plagued in its attitude to profits are clearly a major obstacle in the control of inflation. These attitudes have been perpetuated not merely by trade union activists but because of the extraordinary failure on the part of the economics profession (which should be educating the community in these things) to make clear the changed nature and distribution of profits in the modern economy. In today’s society the truth is that only a tiny minority really become rich, or maintain their riches, out of income which has its source in company profits — and company profits are those mainly at issue in the wage-profit conflict. The traditional picture of a society divided between a small minority of greedy shareholders and a huge majority of struggling wage and salary earners has little relation to the world of the nineteen-seventies.

The chief function of company profits today is not the making of fortunes for a few favoured shareholders, but to serve as a measure of industrial performance, to reward those businesses which accept the risks of enterprise, to provide part of the funds needed if companies are to grow with the community and to undertake new ventures, and to indicate, in some measure, the ever-changing pattern of consumer demand so that resources will be channelled into the fields where they are most needed.

The victim, for the most part, of exorbitant wage and salary rises is, in any case, not company profits. It is largely people in retirement, people without jobs and less tightly organized workers. If it were possible to “take it out” of profits, to any large extent, then those penalised most would, ironically,
be the great mass of wage and salary earners themselves — a group to which most of us belong. If profit margins were severely cut — say, as a consequence of punitive price controls — expansion plans will be curtailed, businesses will struggle along with outdated equipment, the rate of productivity improvement will be slowed, and the living standards of the community — including the quality of government services in education, social benefits and the rest — will be that much worse.

A great part of the difficulty in getting to grips with inflation is that these truths about the modern economy are simply not understood.
A Kind of Madness

THE steady attrition of the purchasing power of the Australian dollar throughout the 1960's was attributable, in the main, to the major economic policy objectives which the Commonwealth Government was pursuing. In brief, the growth targets were too ambitious and population expansion too rapid. These policies gave the economy a pronounced bias toward capital expenditures, particularly in the public sector, with consequential restraints on the growth of consumer spending. The restraints were exerted through the medium of heavy taxes and public utility charges, thus diverting resources from consumption to capital purposes. These taxes and charges, in themselves, not only added directly to prices, but caused income earners (under p.a.y.e. taxation) to press for higher incomes in compensation for the heavy deductions from their pay envelopes. Inflationary rises in incomes were further stimulated by the emergence, from time to time, of a marked shortage of labour, with market rates, particularly for skilled workers, moving far in advance of legal minimums set by wage-fixing authorities.

The inflation of the 1960's did not fit comfortably into either of the popular economic categories. Strictly speaking, it was not “cost-push” as the rise in incomes (which led to the rise in prices) was itself generated by secondary causes. Neither was the inflation wholly of the “demand-pull” variety, although excess demand became a critically important influence in recurring bouts of labour scarcity. The underlying basic cause of the inflation was a persistent imbalance between investment and consumption. Capital expenditures were absorbing so much of the nation's resources that the people found their current living standards were rising too tardily to satisfy their expectations.

Nevertheless, for most of this period, the Australian people exercised commendable restraint in their ambitions for higher living standards. This moderation no doubt communicated itself to wage-fixing authorities, who were able to make what, in retrospect, appear to be reasonably modest annual wage adjustments. Wage and salary earners in most other Western countries, it should be noted, were not nearly so restrained in their wage claims; this accounted for the fact that the Australian inflation rate over the 1960 decade was one of the lowest in the world — an average of around 2 per cent a year. (Some might claim that this was a small price to pay for a decade of exceptional development and greatly increased industrial strength and sophistication.)

In the last year or two this restraint has been breaking down, and recently there have been signs that it has been thrown to the four winds.

Thus a new and highly explosive factor has entered into the inflationary mixture. The inflation of the early 1970's has clearly become a very dangerous strain of the “cost-push” virus.

The catalyst of this ominous change can be traced back to the Metal Trades Judgment of December, 1967. The Judgment granted large increases of $7.40
to a fitter and $10 to tradesmen at the top of the scale. The magnitude of these increases were sufficient to strike dismay into the hearts of many employers and of the Commonwealth Government and Treasury officials already deeply concerned about continuing cost and price rises.

The Arbitration Commission was clearly worried about the effects of its decision for it included in the Judgment two provisions, the unreality and futility of which it was very soon forced to admit. The Judgment stipulated, first, that the increases should not “flow on” to other industries and, second, that they should be absorbed as far as possible in over-award payments. Only two months later the President of the Commission, Sir Richard Kirby, felt compelled to state that the absorption of over-award payments was not practicable in the context of a full employment economy. The stipulation that there should be no “flow on” amounted to an even greater departure from reality. The whole pattern of “relativities” between industries had been over-turned and a torrent of demands for wage increases, backed by widespread industrial stoppages, was precipitated.

In the 1970 National Wage Case the Commonwealth Arbitration Commission, disturbed by the widening gulf between its own awards and market rates, awarded an inexplicably large increase, averaging something over 6 per cent. In preceding Judgments it had been content to think in terms of around 3 per cent. Prior to the 1970 Judgment, very substantial increases had been granted in various State and Commonwealth awards, for example, to salaried officers in the PMG’s Department and the Melbourne and Metropolitan Board of Works averaging around 21 per cent.

The quickening pace of wage increases is graphically illustrated in the following figures of average earnings.

<table>
<thead>
<tr>
<th>Period</th>
<th>Per cent a year</th>
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<tbody>
<tr>
<td>10 years to 1963/4</td>
<td>4.5 (yearly av.)</td>
</tr>
<tr>
<td>5 years to 1968/9</td>
<td>6.1 (yearly av.)</td>
</tr>
<tr>
<td>1 year to 1968/9</td>
<td>7.5</td>
</tr>
<tr>
<td>1969/70</td>
<td>8.4</td>
</tr>
<tr>
<td>1970/71</td>
<td>11.3</td>
</tr>
<tr>
<td>1971/72</td>
<td>10.4</td>
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</table>

In August, 1971, a further increase of $6 was granted by the Commission to the metal trades and this was followed by a consent award in September, 1972, of $3 with a further $3 to come in June this year.

A significant lesson that emerged from this period was that a major breakthrough in wages or salaries has only to be achieved by one section of the community, and, as sure as night follows day, it will rapidly spread throughout pretty well the entire range of wage and salary earners. The attitude of everyone, quite naturally enough, is summed up in the words, “They are getting it, why shouldn’t we?” Thus, if a disastrous chain-reaction of inflation is to be avoided, it is clear that the initial breaching of the dam must somehow or other be prevented.

In 1971, big increases in salaries, around 15 per cent, were granted to senior public servants by the Commonwealth Public Service Board. Heads of departments, whose salaries are the subject of Cabinet decision, were excluded. However, it has been decided to raise their salaries by around $6,000 per annum. Also, Parliament has provided for a $5,000 a year addition to the salaries of back-bench members, along with substantial increases in Ministerial salaries. Members' expense allowances have been adjusted proportionately.

On strict relativity principles these increases may be justified but one must view with apprehension their possible effects on the attitudes of wage and salary
 earners throughout the community. Members of Parliament and top public servants are the people primarily responsible for controlling inflation. Moreover, they are in a highly exposed position. If the nation's leaders do not set an example of self-restraint — even to the point where its hurts — they can hardly expect the mass of income earners to do what they themselves have failed to do.

There is an undoubted danger that the recent substantial salary increases for Commonwealth members of parliament and department heads could open the floodgates to a spate of irresponsible demands.

Unless this madness is stopped there is no prospect whatever of overcoming inflation let alone of curbing it to a reasonably moderate (although not necessarily acceptable) pace.

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In a recently published analysis of inflation, the Chairman of the now defunct Prices and Incomes Board in the United Kingdom, Mr. Aubrey Jones, draws attention to what he calls "the impotence of Government". It is certainly true that no Government in the Western world, notwithstanding all our modern economic sophistication, has been able to stem the tide of inflation. Not only that, but despite the most strenuous efforts and the use of direct controls, inflation in recent years has become much more rapid — and consequently more frightening. It is quite clear that, whatever the forces at work, the traditional budgetary and monetary policies for curbing price rises have been singularly ineffective in the modern economy. One is reluctantly forced to the conclusion that the remedy for inflation is no longer within the direct control of governments. If inflation is to be overcome only the people themselves can do it, and this will require a measure of responsibility and self-discipline which they are not at present revealing.

Where responsibility is lacking, where self-restraint is lacking, the Government should do everything possible to arouse them. It must give strong, fearless, intelligent leadership. If this leadership fails to evoke a response, if, in spite of what the Government says and does, the community continues a free-for-all, irresponsible scramble after higher incomes, then we are faced virtually with a collapse of the democratic process. In that case, if the Government is determined that inflation must be stopped, it has no alternative but to impose the most severe and direct far-reaching controls on the community. This, regrettably, is what the Heath Government has had to do: an almost complete rejection of the market economy. What has happened in Britain is a sorry commentary on democracy, and even sorrier because it has occurred in the very birth-place of the free economy and parliamentary government.

Unless the Commonwealth Government quickly comes to grips with the situation now developing, there is a frightening possibility that this could happen here. The first step is for the Government to make clear, by word and deed, that the defeat of inflation ranks first among its economic priorities. In other words, the Government must leave no doubt in the minds of the people of the supreme importance it attaches to cost and price stability. (In the election campaign the references of both major parties to this objective were lukewarm, to say the least). To succeed in the battle against inflation, the Government must create a sense of crisis or emergency in the minds of the people. That having been done, the Prime Minister must then make clear that the Government itself cannot do the job without the co-operation and full support of all major sections of the nation — employers, unions, professional groups, the press, radio and T.V. media, and the rest. He must emphasise that financial and economic measures will be
powerless to restrain the cost and price escalation unless the people play their part with understanding and responsibility. The Government should state in clear, unmistakable terms the responsibilities which must be accepted by everyone in the community, and particularly by the key groups, if success is to be achieved. Only on this basis of public understanding and acceptance can the economic and financial anti-inflationary devices be effective. The break-down, not only in Australia but perhaps in most other countries, is traceable to the lack of community understanding, and consequently support, of government objectives. For this, governments themselves, certainly in Australia, are partly responsible.

The people dislike inflation, but they do not dislike it enough either to accept their personal share of responsibility for its prevention or to support their governments in the not painless policy measures which are necessary if it is to be defeated. Nor do they really understand its complex root causes. How could they when governments throughout the world are themselves so confused over the whole intricate business?

However, regardless of causes and remedies, the first task is to create the appropriate psychological climate so that the medicines dispensed at Canberra will be swallowed by the people. Not until the people not merely want inflation stopped, but virtually insist that it should be stopped, will there be any hope of stabilising the purchasing power of the dollar.

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Charge to Graduates

by ERIC A. WALKER

Speech by the President of the Pennsylvania State University U.S.A. at the Conferring of Degrees.

LADIES and gentlemen of the graduating class and those who got advanced degrees, let me extend to each of you my personal congratulations and those of the entire University on the degree you have earned today.

This ceremony marks the completion of an important phase of your life. It is an occasion in which all who know you can share in your sense of pride and accomplishment. But no one has more pride in your accomplishment than the older generation. But I am not going to tell that older generation how bright you are. Nor am I going to say we have made a mess of things and you — the younger ones — are the hope of mankind. I would like to reverse that process. For if you of the graduating class will look over into the bleachers to your left or right, I will re-introduce you to representatives of some of the most remarkable people ever to walk the earth. People you might want to thank on this graduation day. These are people you already know — your parents and grandparents. And, if you will bear with me for five minutes, I think you will agree that a remarkable people they are indeed. Let me tell you about them.

Not long ago an educator from Northwestern University by the name of Bergen Evans, a radio performer known to your parents, got together some facts about these two generations — your parents and grandparents. I'd like to share some of these facts with you.

These — your parents and grandparents — are the people who within just five decades — 1919-1969 — have by their work increased your life expectancy by approximately 50 per cent — who while cutting the working day by a third, have more than doubled per capita output.
These are the people who have given you a healthier world than they found. And because of this you no longer have to fear epidemics of flu, typhus, diphtheria, smallpox, scarlet fever, measles or mumps that they knew in their youth. And the dreaded polio is no longer a medical factor, while TB is almost unheard of.

Let me remind you that these remarkable people lived through history's greatest depression. Many of these people know what it is to be poor, what it is to be hungry and cold. And because of this, they determined that it would not happen to you, that you would have a better life, you would have food to eat, milk to drink, vitamins to nourish you, a warm home, better schools and greater opportunities to succeed than they had.

Because they gave you the best, you are the tallest, healthiest, brightest, and probably best looking generation to inhabit the land.

And because they were materialistic, you will work fewer hours, learn more, have more leisure time, travel to more distant places, and have more of a chance to follow your life's ambition.

These are also the people who fought man's grisliest war. They are the people who defeated the tyranny of Hitler, and who when it was all over, had the compassion to spend billions of dollars to help their former enemies rebuild their homelands. And these are the people who had the sense to begin the United Nations.

It was representatives of these two generations, who through the highest court of the land, fought racial discrimination at every turn to begin a new era in civil rights.

They built thousands of high schools, trained and hired tens of thousands of better teachers, and at the same time made higher education a very real possibility for millions of youngsters — where once it was only the dream of a wealthy few.

And they made a start — although a late one — in healing the scars of the earth and in fighting pollution and the destruction of our natural environment. They set into motion new laws giving conservation new meaning, and setting aside land for you and your children to enjoy for generations to come.
They also hold the dubious record for paying taxes — although you will probably exceed them in this.

While they have done all these things, they have had some failures. They have not yet found an alternative for war, nor for racial hatred. Perhaps you, the members of this graduating class, will perfect the social mechanisms by which all men may follow their ambitions without the threat of force — so that the earth will no longer need police to enforce the laws, nor armies to prevent some men from trespassing against others. But they — those generations — made more progress by the sweat of their brows than in any previous era, and don't you forget it. And, if your generation can make as much progress in as many areas as these two generations have, you should be able to solve a good many of the world's remaining ills.

It is my hope, and I know the hope of these two generations, that you find the answers to many of these problems that plague mankind.

But it won't be easy. And you won't do it by negative thoughts, nor by tearing down or belittling. You may and can do it by hard work, humility, hope, and faith in mankind. Try it.
Common Sense about Unemployment

SOONER or later the Commonwealth Government will have to be perfectly frank with the people and make clear that full employment, in the sense of an unvarying 1 per cent or even 1.5 per cent unemployment, is just not feasible in a democratic economy.

It must also make clear (why the previous Government failed to do so is a mystery known only to itself) that unemployment at the levels of the last 12 months or so, contrary to widespread popular impression, imposes no desperate hardship on the vast majority of those unemployed. An aggregate figure of, say, 100,000 people registered for employment does not mean that all these people, or even a major proportion, are in dire economic straits.

Unemployment has assumed the proportions of a grave and critical issue in the minds of the community because of the activities of the media — particularly television and the main daily newspapers. Scare, front-page headlines in the daily press of the monthly unemployment figures appear with predictable regularity, and the same evening are invariably followed up by doleful discussions on T.V. and radio current affairs' programmes. A year or so ago when unemployment soared to around 2 per cent, one station backed its commentary with pictures of the soup queues in the Great Depression when unemployment was near 30 per cent. The major political parties, by their inexplicable failure to explain the truths about unemployment, have got themselves into a corner where they now feel they must pander to the misapprehensions which the media have created in the public mind.

Perfection is seldom if ever realisable in any field of human endeavour, let alone in the infinitely complex and intractable area of economic policy. The level of employment from time to time is influenced by far too many forces — some of which change quite unpredictably — over which governments have little or no control: for example, sudden shifts in international trade.

No government, even if it were gifted with the wisdom of Solomon or had the advantage of a treasury and central bank staffed with people of the mental calibre of J. M. Keynes, could maintain full employment (if this is defined as an unemployment percentage around 1 per cent) in a free economy, all the time — month in month out, year in year out. Indeed, full employment in this sense is not even achieved in authoritarian economies where people can be directed into jobs, no matter of what kind or where their location.

Governments, admittedly, can expand expenditures to offset a recession caused
by, say, a sudden decline in investment activity in a key industry — for instance, the mining industry in 1972. But it is improbable that these measures will compensate precisely for the fall in employment arising, directly and indirectly, from the difficulties of the industry in question. That would require a degree of prescience, a perfection of judgment and a sense of timing beyond human capacity. The media is certainly right to urge governments to do everything possible to reduce the impact of a fall in economic activity, and to minimise any personal hardships it may cause; but the media is wrong, and is misleading the people, when it assails governments for failing to achieve the palpably impossible.

By international standards, Australia's record in minimising unemployment is, in truth, quite outstanding. Indeed, since 1955, only two economies — Japan and Germany — have a better performance; and this might be partly explained by the fact that these countries have had a much slower rate of growth of population and of the labour force. The table below illustrates the employment record of some of the leading Western economies.

In Australia unemployment reached a peak of 2.4 per cent in the first quarter of 1972. But, as the table shows, this was less than the unemployment percentage in all other countries, with the exception of Japan and West Germany where a boom was occurring.

Notwithstanding the lamentations of the press and TV media, those responsible for economic management in Australia have, on the whole, little to be ashamed of so far as employment policies are concerned. In pursuit of the ideal of full employment, we have been notably more successful than most countries.

It is clearly of great importance to try to ascertain the actual hardship arising from unemployment. In this regard the aggregate figures of the numbers of people seeking jobs can be gravely misleading, although this is the criterion applied by the media and often, indeed, by economists who should know better.

The number of persons registered for employment with the Commonwealth Employment Service in February, 1973, was 103,845, representing 1.8 per cent of the labour force. (Adjusted for seasonal influences, the figure is 87,973 or 1.5 per cent of the labour force). For a start it should be noted that the unadjusted figure includes 39,440 teenagers — that

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<th>UNEMPLOYMENT AS A PERCENTAGE OF THE TOTAL WORK-FORCE</th>
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<tr>
<td><strong>Average Yearly Rates 1955-1971</strong></td>
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<tr>
<td><strong>Country</strong></td>
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<tr>
<td>West Germany</td>
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<tr>
<td>Japan</td>
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<td>Australia</td>
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<td>Great Britain</td>
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<td>Italy</td>
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<td>U.S.A.</td>
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<td>Canada</td>
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Department of Labour — Labour Market Studies No. 2
is, more than one-third of the total. Many of these have just left school and for fairly obvious reasons, are not immediately absorbed into industry. In any event, as teenagers are mostly supported by their parents, few would be suffering serious hardship. There are some who claim that there are a sizeable number of young people who are content to draw unemployment benefits and who are not concerned to find early employment. After all the stigma that once attached to the "dole" does not apply to the same extent in today's society.

Another significant point to be borne in mind in assessing hardship is that nearly one-third of those registered for employment are women — about half of these are under 21 years of age. Surveys by the Commonwealth Statistician suggest also that about half of the total female unemployed are married women — most of whom would be supported by their husbands.

In any economy there will always be a number of people in the process of changing their jobs. They may be in search of better wages or conditions or for work closer to their homes. This section, which the Department of Labour classify as "frictional", constitute about one-fifth of those registered for employment. They are usually out of work for less than one month. Hardship in their case is clearly minimal.

A further fact relevant to the "hardship" criterion is that of those registered for employment, about one-third are, for various reasons, difficult to employ. These are classified in the official figures of the Department of Labour as the "hard core" unemployed. They are difficult to place in jobs because of physical or mental handicaps, age disability, or personal defects of character which make employers reluctant to engage them. Even in times of so-called over-full employment, this "hard core" section are difficult to place.

In assessing the degree of hardship caused by unemployment, the most vital factor of all is the length of time people are actually out of work. A special survey conducted by the Department of Labour last July showed that of those on the books of the Commonwealth Employment Service more than half were registered for less than one month and nearly three-quarters for less than two months. (See appendix on page 17). Only 12 per cent had failed to find work within three months of registering. It is clear that unemployment for the great majority is of short duration; most applicants, and particularly family men, are able to obtain jobs fairly quickly. It tends to be overlooked that the unemployment figures are composed of a constantly changing, not a static, population and that prolonged hardship arising from unemployment is rare.

A still further consideration to be taken into account is that a large proportion of those unemployed could obtain jobs if they were prepared to move to a new locality or take on work of a different kind from that preferred. A study of the labour market by the Department of Labour ("An Analysis of Full Employment in Australia") states, "They could have entered employment without delay if they had been able or willing to change their place of residence, or acquire skills which were in local demand". It was a former Labor Prime Minister, Mr. J. B. Chifley, who once warned his colleagues that full employment would not be possible if everyone insisted on living in sight or sound of the town hall clock.

In view of all the considerations just outlined it must fairly be concluded that the amount of personal hardship arising out of unemployment is far less than is generally assumed. This does not of course absolve governments from the
responsibility of minimising personal misfortunes arising from genuine unemployment, to the greatest extent practicable.

* * * *

AN analysis of the composition of the unemployed throws grave doubts on the wisdom of so-called macro-economic measures to cope with the problem. A cure based on increasing the total of spending in the economy through normal fiscal or monetary policies is likely to be only partly effective, and could seriously aggravate inflationary tendencies. These policies tend to increase the demand for those already in jobs, such as various types of skilled labour, more than the demand for the majority of those making up the main categories of the unemployment pool. For instance, merely expanding total spending is likely to have little impact on the hard-core unemployed who constitute about one-third of the total. It is clear that these require special measures such as, various types of assistance for industries employing physically and mentally handicapped people.

In many cases extensive re-training is the only sensible answer. Despite the highly commendable training schemes introduced by the Department of Labour, from 1970, less than 3000 people have completed re-training courses.

As far as those seeking a change in employment are concerned (i.e. the “frictional” unemployed) an increase in the tempo of economic activity may, contrarily, increase rather than reduce the numbers in this section. As the labour market becomes more buoyant more people may be encouraged to try their luck at obtaining better paid and more congenial work.

A major problem is the lack of job opportunities in localities in reasonable proximity to the homes of those seeking work. There is no question that if unemployed people were prepared to move to areas often remote from their customary place of living, the numbers of unemployed could be substantially reduced. The $72 million allocated for the relief of localised unemployment in the country areas may have kept some 15,000 people out of the unemployment statistics but does not provide a satisfactory solution of the long-term unemployment problem. It is a stop-gap measure and the money might be better spent in other directions — for example, assisting people to move to areas where jobs are available.

A situation in which large numbers of people willing to work are unemployed for extensive periods should not be tolerated by a modern community. Businessmen, in particular, naturally wish to see the greatest possible employment, if only on the self-interested grounds that this provides the maximum demand for their products. However, it is time we saw an end to the practice of the media of vastly exaggerating, no doubt through ignorance, the extent of human suffering involved in an unemployment percentage which seldom rises above 2 per cent.

It is time, too, that political leaders were quite frank with the people about the practicality of maintaining employment all the time at around a mark of 1 per cent unemployed. If our economic managers can prevent unemployment from ever rising above 2 per cent, they will be doing a remarkably fine job. The comprehensive information provided by the Department of Labour should also be made much more use of by politicians, economists and the media in explaining to the public the extent of the hardship suffered by the unemployed. Why they have not done so in the past is one of the incomprehensible mysteries of the conduct of public affairs in Australia.
<table>
<thead>
<tr>
<th>Principal Factor Delaying Placement</th>
<th>% Male</th>
<th>% Female</th>
<th>% of Total</th>
<th>1 Month</th>
<th>1-3 Months</th>
<th>More than 3 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frictional (Temporarily Unemployed*)</td>
<td>20.8</td>
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<td>19.8</td>
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* People registered for less than 1 month at the time of the Survey and were expected to be placed within 3 months.

SOURCE OF TABLE: Department of Labour—Labour Market Studies No. 2—An Analysis of Full Employment in Australia.
The World's Burden of Poverty

The following article comprises extracts from an address given in Washington on 25 September, 1972, by Robert S. McNamara, President of the World Bank Group, to the Board of Governors of the Bank. The address deals with one of the most challenging problems of our time: how to improve the lot of hundreds of millions of human beings in the developing countries. The address is so important that we regret space does not permit the full length to be published.

The current five-year lending programme of the World Bank for the period 1969-73 will surpass the total amount lent during the previous 23 years of the Bank's operations.

What does that mean in practice? — In a developing world in which hunger is chronic, it means intensifying our efforts in agriculture. We have quadrupled our operations in that sector.

— In a developing world darkened by functional illiteracy, it means expanding our efforts in education. We have tripled our operations in that sector.

— In a developing world caught up in the threat of unmanageable population pressures, it means facing up to that complex and controversial problem. We have established a Population Projects Department, and we have launched important initiatives in that sector.

The damaging effect of run-away population growth on a developing economy cannot be stressed too strongly. Over-rapid population growth simply erodes and dissipates development gains in every sector: savings evaporate, scarcities multiply, resources are stretched so thin that in the end they cannot cover the most essential needs. While the population problem is clearly one which cannot be solved within the confines of a five-year plan, or a development decade, or indeed even during what is left of our century, it is by its very nature a problem that can grow only worse with procrastination and delay. That is why the entire international community must assign it the highest priority.

The size of India's population problem, and the magnitude of its effort to solve it, can be grasped by the statistics. India's total population now stands at over half a billion. It is growing by an additional million each month.

Like India, Indonesia is serious in its determination to provide its people with effective family planning assistance. With a population of more than 120 million, currently growing at an annual rate of 2.5%, it ranks fifth among the world's most heavily populated countries. Some two-thirds of its people live in Java and Bali, where the average density is nearly 1,600 persons per square mile.

Should the overall objectives of the Family Planning Programme, in which
The World Bank

There is a glaring gap between the standards of living of Western countries and those of the under-developed countries where two-thirds of the world's population live. This is regarded as one of the most explosive sources of international tension and friction today. Moreover the gap continues to widen year by year. Immense numbers of people are living in conditions of stark poverty; over 500 million alone are suffering from malnutrition.

The International Bank for Reconstruction and Development, popularly known as the World Bank, was formed in 1946 mainly to promote European post-war reconstruction, but now sees its major role as assistance to the under-developed world. Australia is one of the 122 member countries of the Bank.

Over the past 27 years the World Bank Group has lent nearly $20 billion, the great proportion of which has gone to under-developed countries in Africa, Asia and Latin America.

The Bank obtains most of its funds by floating loans and borrowing on the world capital markets. Member nations also contribute capital.

The main emphasis of Bank lending has traditionally been on basic infrastructure, especially in the sectors of transportation — roads, railways, ports and pipelines — and public utilities — electricity, telecommunications, water supply and sewerage. Lending for agriculture and industry is growing rapidly.

The Bank lends to governments and to guaranteed private borrowers in member countries. It also lends to development banks which re-lend to local industrial and commercial borrowers. All projects must be technically and economically sound and of high priority for the economic development of the borrowing countries.

The Bank exercises detailed supervision over all projects to protect both borrower and lender against inefficiency and misuse of funds. The Bank only lends when financing is unavailable on reasonable terms from alternative sources.
the U.N. is co-operating with the World
Bank, be reached, Indonesia’s population
by the end of the century, even though
it will be twice as large as it is today,
will be 50 million less than it would
otherwise be.

The Bank’s Five-year Programme has
shifted the emphasis towards these sec-
tors which in today’s conditions require
intensified effort: agriculture, education,
and population, among a number of
others.

In its strategy for the Second Develop-
ment Decade, the United Nations set as
a target that the average annual rate of
growth in Gross National Product for
the developing countries should be at
least 6%. To make that possible, the
developed countries were to increase
their concessionary aid — known as Offi-
cial Development Assistance — to .7%
of their GNPs by 1975.

It is now clear that the objective of
.7% will not be reached. There seems
little likelihood that during the first half
of the decade, Official Development
Assistance will exceed .37% of GNP —
only half of the Second Development
Decade target (see attached table).

That is regrettable in the extreme.

The first, and least tolerable, of the
effects is that the poorer of our member
countries — those with per capita GNPs
of less than $200 — will be penalized
the most. Their needs for Official De-
velopment Assistance are the greatest.

What is more, these countries collect-
ively contain 1.1 billion people, 64% of
the aggregate population of our entire
developing country membership. They
are the very countries which have suffered
the greatest burdens of poverty during
the past decade. Their GNPs grew an-
ually at an average rate of only 4.1%
and their per capita incomes at a mini-
cule 1.7%.

With the ODA objective only half
achieved, these poorer nations have
almost no hope of attaining the 6%
growth target. That will condemn them
to so slow an economic advance over
the decade that hundreds of millions of
individuals within these countries will be
able to detect virtually no improvement
whatever in their desperately low stan-
dards of living. Their per capita incomes
will rise by no more than two dollars
a year.

Projected to the end of the century —
only a generation away — the people of
the developed countries will be enjoying
per capita incomes, in 1972 prices, of
over $8,000 a year, while masses of the
poor (who by that time will total over
two and one-quarter billion) will on
average receive less than $200 per capita,
and some 800 million of these will re-
ceive less than $100.

For the Bank Group to relax in its
resolve to do everything it feasibly can
to assist in this situation would be to
shirk its central responsibility.

We are convinced that the Bank
Group can obtain the necessary funds to
continue to expand its operations during
a Second Five-Year Programme. As an
overall goal, for the period FY 1974-
1978, we propose to increase our finan-
cial commitments to our developing
member countries by an average of 11%
a year. If we can achieve this expanded
level of operations — it would mean that
the World Bank Group would help fin-
ance, and provide technical assistance
for some $50 billion of capital improve-
mements in our developing member coun-
tries during the Second Five-Year Pro-
gramme period. This would be in con-
trast to $30 billion of such projects from
1969-1973, and $13 billion from 1964-
1968.

It is useful to distinguish between three
broad categories of poverty in the de-
veloping world.
First, there is great poverty in those countries which simply have very few resources — natural, financial, or skilled — with which to promote growth. There is so little wealth in these nations that even if it were more equitably distributed, virtually everyone would still be very poor.

Second, there are impoverished regions in most of the larger developing countries — for example, the southern republics of Yugoslavia, the North East of Brazil, or the North East of Thailand.

But it is the third category that is the largest, the most pervasive, and the most persistent poverty of all. It is the poverty of the low-income strata — roughly the poorest 40% of the total population in all developing countries. It is they who— despite their country’s gross economic growth — remain entrapped in conditions of deprivation which fall below any rational definition of human decency.

This poverty of the poorest 40% of the citizenry is of immense urgency since their condition is in fact far worse than national averages suggest. Our studies, for example, indicate that:

— In 10 countries, with per capita incomes averaging $145, the poorest 40% of the population receive a per capita income of only $50.

— In another 10 countries with per capita incomes averaging $275, the poorest 40% of the population receive a per capita income of only $80.

When we reflect that of the more than half a billion persons living on the Indian subcontinent, some 200 million subsist on incomes that average less than $40 a year, how are we to comprehend what that really implies? The estimate is that if India were to depend exclusively on the growth of national income to solve its massive nutrition problems it would require more than 30 years before the poorest third of the country could afford an adequate diet.

To many in the affluent world, to be a farmer suggests a life of dignity and decency. That may be what life on the land ought to be. But for hundreds of millions of these subsistence farmers, in Asia and elsewhere, life is neither satisfying or decent. Their nation may be developing, but their lives are not. The miracle of the Green Revolution may have arrived, but, for the most part, the poor farmer has not been able to participate in it. He simply cannot afford to pay for the irrigation, the pesticide, the fertilizer, or perhaps even for the land itself on which his title may be vulnerable and his tenancy uncertain.

His nation may have doubled or tripled its educational budget, and in the capital city there may be an impressive university. But for 300 million children of poor farmers like himself there are still no schools — and for hundreds of millions of others if a school, no qualified teacher — and if a qualified teacher, no adequate books.

Let us be candid.

What these men want are jobs for their survival, food for their families, and a future for their children. They want the simple satisfaction of working toward something better: toward an end to misery, and a beginning of hope.

We are talking about hundreds of millions of desperately poor people throughout the whole of the developing world. We are talking about 40% of entire populations. Development is simply not reaching them in any decisive degree. Their countries are growing in gross economic terms. But their individual lives are stagnating in human terms.

What can be done?

The first and obvious step is the political resolve to make the effort.
Public understanding is the second. The fact is that all of us need a clearer perception of the problem.

Let me summarize the challenge and the opportunities which lie before us.

Current development programmes are seriously inadequate. They are inadequate because they are failing to achieve development's most fundamental goal: ending the inhuman deprivation in hundreds of millions of individual lives throughout the developing world.

Why are these programmes failing?

There are two over-riding reasons: the affluent nations are not moving effectively enough to assist the indigent nations and the indigent nations are not moving effectively enough to assist the poorest 40% of their own populations.

The affluent nations have, of course, their own domestic priorities. But their growing incremental income is so immense, their technological capacity so powerful, and their whole range of advantages so disproportionately gigantic, that no rational argument can be made for their refusal to do more to assist the disadvantaged nations.

Collectively, the affluent nations are currently providing only half the target of .7% of their GNPs in the Official Development Assistance which will make so decisive a difference to the development efforts of the poor countries. These amounts of money are miniscule in the light of the fact that the collective gross national products of the developed nations, which totalled $2,000 billion in 1970, are expected to grow to more than $3,000 billion in 1980.

The rich nations are being asked to diminish their riches in order to help the poor nations. They are being asked to share a tiny percentage of their continually increasing wealth.

Further, the rich nations are failing the poor nations — and themselves — in another critical respect. They are refusing to give the poor nations a more reasonable opportunity to trade fairly with them. Discriminatory trade restrictions on the part of wealthy countries are indefensible on two counts: they penalize the people of the poor countries, and they penalize their own domestic consumers. The trade problem is admittedly complex, but the essence of it is simple enough. The political pressures of special-interest groups in affluent nations are prevailing over the interests of the majority of ordinary citizens in rich and poor countries alike.

If the rich nations do not act — through both aid and trade — to diminish the widening imbalance between their own collective wealth and the aggregate poverty of the poor nations, development simply cannot succeed within any acceptable time frame. The community of nations will only become more dangerously fragmented into the privileged and the deprived, the self-satisfied and the frustrated, the complacent and the bitter. It will not be an international atmosphere conducive to tranquility.

The developed nations, then, must do more to promote at least minimal equity in the distribution of wealth among nations. But the developing nations must do more as well. Their internal equity problems are no less important than those of the international community at large. In the developing nations' pursuit of rapid economic growth, the poorest 40% of their populations are being largely left behind.

It is becoming increasingly clear that the critical issue within developing economies is not simply the pace of growth but the nature of growth. The developing nations achieved an overall average annual GNP growth rate of more than the targeted 5% by the end of the sixties.
But the social impact of that growth was so severely skewed, and the numbers of individuals all but passed by so absolutely immense that the simple statistical achievement of that target was misleading.

Governments exist to promote the welfare of all of their citizens—not just that of a privileged few. Absolute egalitarianism is as chimerical as absolute laissez-faire, but what is certain is that absolute human degradation—when it reaches the proportions of 30 to 40% of an entire citizenry—cannot be ignored, cannot be suppressed, and cannot be tolerated for too long a time by any government hoping to preserve civil order. It would be naive not to recognize that time in many quarters of the world is running out.

The task then for the governments of the developing countries is to re-orient their development policies in order to attack directly the personal poverty of the most deprived 40% of their populations. This the governments can do without abandoning their goals of vigorous overall economic growth. But they must be prepared to give greater priority to establishing growth targets in terms of essential human needs: in terms of nutrition, housing, health, literacy and employment—even if it be at the cost of some reduction in the pace of advance in certain narrow and highly privileged sectors whose benefits accrue to the few.

Such a re-orientation of social and economic policy is primarily a political task, and the developing countries must decide for themselves if they wish to undertake it. It will manifestly require immense resolve and courage.

The task of political leadership in the wealthy world is to match that resolve and courage with a greater commitment to equity between their own affluent nations and the grossly disadvantaged developing nations.

I believe that no thoughtful person would deny that the time for significantly greater social and economic equity, both among nations and within nations, has indeed come. Given more than a million years of man's life on earth, it has been long in arriving. Now that it is here we cannot escape asking ourselves where our responsibilities lie. It seems to me that the character of our entire era will be defined by the shape of our response.
### PROJECTED FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE MEASURED AS A PER CENT OF GROSS NATIONAL PRODUCT

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a Countries included are members of OECD Development Assistance Committee accounting for more than 95% of total Official Development Assistance. Figures for 1970 and 1971 are actual data. The projections for later years are based on World Bank estimates of growth of GNP, on Information of budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) for 1975.