Editorial —

Destroying The Government

N O democratic government has been able to stop inflation. Prices in all the Western countries have continued to rise year after year for over a quarter of a century. Since 1967, inflation has quickened and is now moving at a threatening speed.

All this has occurred notwithstanding the strenuous and well-meant efforts of governments to bring the galloping monster under control. Every known weapon in the economic armoury has been used — taxation and monetary restraints, interest rates, currency revaluations, wage and price controls and a number of others.

All these measures have proved abortive. The situation has now gravely worsened. Not surprisingly, inflation is viewed with an almost hopeless resignation, not unmixed, however, with foreboding, even fear.

Where does the failure lie? Why, in spite of the considerable efforts of governments and of the formidable intelligence represented by their armies of highly skilled expert advisers, official and non-official, has inflation not merely continued to flourish but to grow ever more menacing?
Perhaps the answer is to be found in the fact that governments, in fighting the monster, have virtually "gone it alone" unsupported by the communities they represent. They have been like a Military General Staff with an army which is unprepared for combat and which, indeed, does not expect to have to fight. This is not the fault of the people, but of their leaders. The people, not having been told that they are needed, have assumed that the task of defeating inflation is solely the government's responsibility, requiring little or no contribution from them.

The failure of governments to arrest inflation is attributable not so much to their economic strategies as to their neglect to solicit the support of their peoples; to make clear that the battle against inflation cannot be won unless the community joins in the fight and accepts its share — and it is a large share — of the responsibility.

Not unnaturally, each section of the people, watching from the sidelines the unsuccessful efforts of the government, have concerned themselves with self-protection. They have concentrated on erecting defences to minimise the harm that mounting costs of living may inflict on them. In doing this, they have maddened the beast.

There is no prospect of victory over inflation until the Australian Government makes every section of the community aware of its responsibilities. It must frankly explain that, as with all battles, success will not be achieved without some pain and sacrifice.

The economic remedies will prove futile until the community is made to realise that it must join in the struggle. We believe that the people are ready to do this, that they will respond when told clearly what is expected of them. They await only leadership from the Government.

The sections most directly concerned, and from whom most will be demanded, are the State and local governments and government authorities, wage-fixing tribunals, employers, trade unions, professional organizations and the media. One thing the Government must make clear is that annual wage and salary increases of 10 to 20 per cent will nullify its efforts to slow the increase in prices. Another is that pressure from
employer bodies to double the migration intake could do like-wisely. Another is that demands for a “more jobs than people” employment policy will guarantee the continuation of inflation.

As convincing evidence of its determination to stop inflation, the Government should seek the co-operation of the States to impose a 3 months incomes-prices freeze. It should give up the manifestly dangerous notion of the restoration of periodical cost-of-living adjustments.

Rapid inflation is a national emergency of great gravity. Without reasonable stability of the currency there can be no real stability, no real justice, in our society. Inflation is, thus, a challenge to the strength of our democratic institutions and a test of our responsibility as a people.

It is time we gave away the delusion that the Government can defeat inflation on its own, that it is nothing to do with us. Inflation has everything to do with us: the Government will continue to be powerless to stem the rising tide of costs and prices without the full co-operation and support of the Australian people.

On its side, the Government must recast its political approach and strategy towards inflation. The Prime Minister, in a nation-wide exhortation, should make clear the gravity of the developing situation. He should state to the nation the terms on which inflation can be overthrown. He should define in precise detail the responsibility of every section.

Without this kind of leadership, a grave economic and social crisis will almost certainly eventuate. And even more certainly the Labor Government will not survive because inflation will destroy it.
Running Away

IN the September quarter the annual rate of inflation approached 15 per cent. Moreover, present probabilities suggest that this rate could be maintained, or even exceeded, in the current quarter. This is a far cry from the days, not so long ago, when an inflation rate of 5 or 6 per cent was causing deep concern and was regarded as much more than was good for the health of the economy.

Earlier this year the I.P.A. predicted that unless governments and the people showed a much stronger determination to grapple with inflation, it was not inconceivable that the rate of increase in costs and prices could soar to something like 20 per cent. This was thought to be just scare talk. It was, in a sense, meant to be, because unless both governments and the community become much more deeply involved with the problem of spiralling prices, it is unlikely that decisive action will be taken. However, the 20 per cent "prediction" is now looking to be more than a remote possibility.

Some may argue that in 1974 the measures so far taken by the Government will start to work and inflation will slow down quite markedly. The tariff cuts and the revaluations, it is claimed, will produce a splurge of imports, and the rise in interest rates and monetary restraints will reduce internal demand pressures. At the same time, it is possible that the world commodity boom will taper off and with it food and raw material prices in Australia. All this, however, is in the realm of hope. At the moment we are dealing with the harsh fact that living costs are rising at an unprecedented rate.

And, on the other side, are the ominous possibilities inherent in the 1974 National Wage Case, when the Arbitration Commission will be under pressure to take into account not merely of rising productivity, but of a more than 10 per cent increase in prices since the previous Judgment. Proposals by Dr. Coombs, Mr. Hawke and some journalists, of fiscal counter-measures against inflation by way of steep increases in taxation are dangerous nonsense. Nothing could be more calculated to further fuel the flames of inflation than the conjuncture of higher taxes (less take-home pay) and steeply rising living costs. The conventional wisdom that increased taxation provides a means of restraining inflation should have been abandoned ten or more years ago.

Rapid inflation, it is true, poses an agonizing dilemma for any government. On the one hand, if the authorities come to grips with the monster, they will inflict immediate pain on some sections of the community. Not unnaturally, these sections will respond by screaming out in anger. On the other hand, if the Government does little or nothing, prices will continue to spiral. Either way its prospective electoral support is likely to be eroded. It is not altogether surprising that many democratic governments contrive to give the impression that they are acting...
to check inflation when, in fact, they are doing virtually nothing, or, at least, nothing likely to be effective. The failure of democratic governments throughout the world to act effectively against inflation is not so much a failure of economic know-how — although that seems to be part of it — as a failure of the will.

On balance, it is likely that continuous steep increases in living costs will lose more votes for the Government than the immediate pangs of pain caused by the policy measures necessary to check the spiral. The right and courageous course may, thus, also be the one of political expediency.

The Prices and Incomes Referendum was surely a superb example of a Government contriving to give the appearance of acting more or less decisively against inflation, when, in truth, it was really running away from the beast. With inflation now galloping along at near 15 per cent per annum, the Referendum, and all that went with it, can be said to be also a classic instance of "fiddling while Rome burns".

The one effective measure which could have resulted from a "double yes" vote in the Referendum, would have been the "shock treatment" of a wage-price freeze. Anything else would have been futile. If economists and governments should have learnt anything from the experience of the last 15 or 20 years, it is that long-continued controls over prices and incomes are quite impotent in coping with inflation. Where they may have given a temporary respite, this has been at the cost of a later resurgence of inflation in an even more virulent form.

Controls give an initial appearance of success because they repress the symptoms of the disease. They are like a pain-killing drug which relieves the patient from immediate suffering but does nothing to remove the causes of his distress. Meanwhile, while the causes persist, his condition really grows worse. And to that is added another list of woes. Distortions to the market accumulate, the wrong things are produced in the wrong quantities, investment resources are diverted into uneconomic channels, enterprise is hobbled, and the energies of business and government are squandered in the effort to make the controls work. Sooner or later, the threat to economic efficiency is so manifest that the controls are relaxed or terminated. Meanwhile, the underlying causes of inflation have accumulated and strengthened, and, with the termination of the controls, prices explode and inflation is resumed. In the end there can be no escape from confronting and wrestling with the monster, however, unpleasant this may be.

Thus, unless the breathing space is used to good effect, controls over incomes and prices are not only futile but are dangerously harmful. They arouse false expectations, not just on the part of the people but on the part of governments who are indulging a vain hope that the controls will relieve them of the painful necessity of taking the measures which, sooner or later, are inescapable if inflation is to be defeated. The notion that controls can cure inflation diverts the attention of the community away from the true causes of the malady and thus delays the introduction of effective remedies to deal with it.

This is precisely what the Prices and Incomes Referendum in Australia unfortunately did. Even had the Referendum been successful, it would have been a dangerous and prodigal waste of energies and time.
It diverted the attentions both of the media and the community, and for that matter governments themselves, away from the points at which they should be directed.

The Referendum was, in fact, a national exercise in self-delusion which has served to delay the introduction of salutary measures to deal with inflation. It is a matter for wonder how the Commonwealth Government can view the accelerating inflation with apparently so little sense of urgency or alarm that valuable months have been frittered away on a futile Referendum. It must surely know that every sharp rise in the Consumer Price Index registers a decline in its popularity.

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The failure of democratic governments to move decisively against inflation is partly due to their assessment of what is politically expedient — even though the assessment may be wrong. But the failure may also have its roots in the lingering notion — though not a conviction — that inflation may not be such a bad thing after all. It has been part of the way of life of the Western world for about a quarter of a century, and, while it has caused distress to some, it has not brought disaster. Indeed, the years of inflation have also seen an extraordinary and unparalleled economic advance in which G.N.P.'s have multiplied, stark poverty has been virtually eliminated and standards of living have been raised, on average, by more than three-fold. As inflation has persisted for the past 25 years without culminating in an economic smash-up, is there any good reason why it shouldn't be allowed to go on for the next 25 years?

There is, it should be observed, a significant difference between the inflation of recent years, since about 1965, and the inflation of the 1950's and at least the first half of the 1960's. The rate of increase in prices has greatly speeded up. Up to the second half of the sixties, inflation in the Western countries proceeded, for the most part, at an average rate of somewhere between 2 and 4 per cent a year. But, for some years now, the increase in prices has been more in the 6 to 10 per cent bracket; sometimes in some countries going above 10 per cent.

There is no doubt that, on the whole, people prefer stable prices. They like to think that the dollar in their pockets will purchase just as much next week or month as it purchases today. On the other hand, they are probably not over-concerned if the buying power of their dollar is declining slowly or even moderately. Statisticians may produce figures to show that a 3 per cent annual inflation rate will do extraordinary things to the dollar in an average life-time, but 75 years is a long way off, so far off as not to be worth worrying over.

But an inflation rate of 10 per cent is another animal altogether. People then find there is a disturbing difference between what their dollar will buy today and what it will buy in two or three month's time. Slow inflation is something with which the human constitution can cope. With rapid inflation comes a sense of alarm, even fear. Like a passenger in a motor car moving at high speed, the ordinary person becomes uneasy and apprehensive. He begins to wonder how long the joy-ride can go on without ending in catastrophe.

With galloping inflation, there comes a marked change of mood, a sudden loss of confidence, and, in spite of prosperity, a foreboding of disaster. Economies, indeed stable human societies, are built on confidence. But with rapid inflation there
is no longer any confidence in the unit in which business transactions are measured and conducted. People begin to fear what the depreciation of the currency may do to their financial position and to their savings laboriously accumulated over a life-time of work and sacrifice. With each unit buying less, everyone clamours for more units. And no one wants to hold money or assets with a fixed money value.

The more rapidly prices rise, and the more rapidly they are expected to rise, the stronger is the demand for higher money wages and salaries. And the stronger also is the incentive for businesses and the professions to raise their prices and fees and rents in the endeavour to protect the real value of their earnings and investments. Thus, rapid inflation tends to fuel still more rapid inflation. The Government is then subjected to irresistible political pressures from sections of the community, such as those in retirement, who find their living standards deteriorating at a frightening rate. From the standpoint of political expediency as well as from humane considerations, it is compelled to step in to provide protection for those people bearing the brunt of the soaring cost of living. Soon everyone begins to seek shelter from the inflationary storm under the protective wing of the Government.

A situation could thus develop where virtually all incomes, and even capital assets, are hitched to the soaring cost of living. We can already see signs of this happening, albeit unwittingly, in the Government's wish to restore cost-of-living adjustments and in the talk of protecting home buyers against market rates of interest which, because of inflation, have become excessive.

In this situation rapid inflation could quickly degenerate into runaway inflation. Confidence declines still further, until there is a danger of total collapse.

It is true, of course, that inflation is at first associated with general prosperity. Business is brought to full capacity operation and there are more jobs than workers. Thus, inflation has a seductive attraction. But, like the long-continued usage of a drug, it takes bigger and bigger doses to achieve the same effect. Professor L. F. Giblin, perhaps Australia's most distinguished economist of the 1920's and 30's expressed it in simple, but frightening terms: "Inflation gives an appearance of prosperity and there is more employment, while prices keep rising. But to keep up employment, money must be increased again and again until money has no value at all and the whole thing breaks down".

One of America's most eminent economists of the present day, Professor Milton Friedman, said precisely the same thing in different words: "Economists have known — at least intermittently — for over a century and a half two propositions: first, that by printing enough money you can produce any desired degree of activity; second, that the ultimate result is the destruction of the currency. The American public has learned the first proposition. It once knew, but has now forgotten, the second".
SELDOM in the history of the Institute has an Annual Meeting been held at a time of such uncertainty, even bewilderment, among the business community. To find anything remotely comparable, one would have to go back to the first Annual Meeting of the I.P.A. in 1944. At that time there was an imminent threat of socialistic policies with the nationalization of key industries and extensive government direction and control as permanent features of the economy.

All this presented a strong challenge to the private enterprise system and to business leadership. This challenge was taken up by the business community. I think that wise and far-sighted leadership was shown then and, consequently, the threat to the free enterprise system was met and averted in the late 1940's. Undoubtedly, in these events the influence of the Institute played a major role.

Today, the situation, although bearing some similarity, is rather different because new and serious community problems have made their appearance. At the centre of these complex problems is the great issue of inflation and how it is to be curbed. At present there are few signs of a solution.

I think that all thoughtful people would support some of the objectives of the present Commonwealth Government, particularly those relating to the mounting urban problems of the big cities and to the need of some practical means of decentralization of population and industry. Some of the welfare objectives of the Government would also command widespread support, although it is clear that many disagree with the methods by which the Government is proposing to deal with these problems.

It should be obvious that the achievement of many of the goals of the Government in these and other fields will have the best chance of success if the private enterprise sector is confident, expanding and prosperous.

Despite the rapid growth of Government in various fields, private enterprise is still responsible for providing the great part of the resources out of which Government programmes must be financed and supported. The standard of living of the people and their rate of improvement still rest uniquely on the productivity of the business sector, the efficiency of its operations, its enterprise and ingenuity in opening up new resources, in discovering new and better ways of doing things, and in making new and better products. It should be remembered that free enterprise is also responsible for the employment of two out of every three of the work-force, and for the provision of satisfactory work opportunities for those employed.

The strength of the economy as a whole rests very largely on the private enterprise sector — there is no getting away from
that. One would think, therefore, that the policies of governments should be directed towards ensuring that the health of this, the overwhelmingly largest and most important part of the economy, is maintained and advanced. This would surely seem to be the path of common sense.

Indeed, I would go so far as to claim that a proper understanding and intelligent co-operation between Government and Business are essential to the continued improvement of the welfare of all the people all the time. I use the word "welfare" in its widest sense to embrace not only the broad Welfare goals of government, but also personal standards of living, the latter often suffering if un-businesslike objectives are actively followed too closely.

There is no doubt that when the Labor Government came to office last December it carried with it the goodwill of the majority of Australians. After twenty-three years of a Liberal-Country Party administration, many felt a change in government would prove to be a good thing for Australia and for the strength and functioning of our democracy. These thoughts were certainly in the minds of some businessmen, who saw no reason why the Labor Government and Business should not be able to work together effectively on the tasks of national economic development and of promoting the improvement of living standards for all Australians.

I regret to say that less than twelve months later some of these hopes have been dashed. Many of the multitude of measures, already introduced or proposed by the new Government, have had, in combination, a serious effect on business confidence and have produced a mood of great uncertainty, even of foreboding, in business circles. Investment confidence has been affected. Some senior Ministers have said harsh and completely unjustifiable things about certain sections of Business, things, let us face it, which would have far better been left unsaid. These attacks have achieved nothing for the Government's image and have contributed to the creation of the climate of apprehension that now prevails throughout the economy.

I do not intend to detail the numerous measures which the Government has introduced, and all the unpleasant things which Ministers have said; there have been so many of them and it would be a fruitless exercise and further exacerbate the position. Instead I would appeal to those Ministers and officials most closely concerned with business and financial leaders to show a more sympathetic and realistic understanding of the problems with which business has to contend.

There has been a large variety of tax increases or the equivalent of tax increases in withdrawal of incentives or concessions; there has been a sweeping, across-the-board, tariff cut; there is the Prices Justification Tribunal; there is the legislation of unparalleled severity on restrictive trade practices; there are the proposals to expand the Australian Industries Development Corporation to monstrous proportions; the intention to nationalize workers' compensation and third party insurance; the nationalization of the natural gas pipeline from the Cooper Basin to Sydney; the intention to introduce a National Companies Act which many fear would be used to impose further controls on business; the attacks on the multi-nationals which have and are contributing so much to Australia's industrial sophistication; also on companies, many of them Australian-owned and controlled, some of which have been at the heart of Australia's great developments over the last decade; there have been the successive up-
valuations of the Australian dollar; and, unfortunately, these are not all.

I don't for a moment say that all these measures are necessarily bad. One would have to concede that some may have been unavoidable.

There are at times conflicts between what may be best in the interests of the whole economy and the interests of particular sections of business. In these instances, the national interest must clearly be paramount. But the cumulative effect of everything that has been done, or proposed, has, not surprisingly, had a quite shattering impact on the psychological climate of business. This is reflected in the sick condition of the Stock Exchanges. It is indeed hard to recall a time — one would have to go back to the Great Depression — when the Stock Exchanges were so drained of life and vitality and the desire to take risks so circumscribed.

What can the Australian Government hope to gain through all this? By injuring Business, by destroying the climate in which enterprise flourishes, it must surely, in the end, injure the economy and thus, its own public prestige and support. The Government's actions must also greatly weaken the prospects of carrying through successfully its ambitious programmes in the fields of Urban Renewal, Decentralization, Education, Health and Welfare. The way to finance these programmes is surely by encouraging the growth of productivity and the expansion of real resources. Further, higher performance releases resources for use in the public sector. Otherwise, if the Government persists in its plans, they will be financed not out of real wealth, but out of continued and rapid inflation. Inflation, as Lord Keynes said, is the most efficient tax-gatherer of all. It is also the most arbitrary and unjust and unfair. The people do not see inflation as a tax, but it is one none the less. Moreover, inflation falls with cruel severity mainly on those people without substantial wealth or assets, and on retired people of modest means, members of the weaker unions, or self-employed workers least able to protect themselves. Paradoxically, it penalises most those people who, in general, one would expect to be supporters of the present Australian Government.

I would hope that the coming months will see something of a change of heart in Government circles and a disposition to co-operate with and encourage business.

I think you would all agree that, in the situation I have described, the work of the I.P.A. assumes greater importance than at any time since the years directly following its formation. I urge you to continue to support it generously and I am sure that you will.

On your behalf, I would like to thank the staff and all the members of the Executive Committee under the chairmanship of Mr. Angus Jones.

I am sure you would agree that the work they do is worthy of the highest commendation.
IPA Annual Meeting

ADDRESS given by

Mr. R. H. Carnegie, Managing Director,
Conzinc Riotinto of Australia Ltd.

On reaching thirty a man tends to pause and take stock of his life. He has passed the first flush of youthful exuberance, he has developed some skills and work experience, he has probably married and is settled in a career. The questions now come: How hard does he want to work? To achieve what? How can he keep up-to-date in a world of rapidly changing ideas both in his career and in broader social questions?

Since I.P.A. is 30 this year, it seems that we may also have reached a time for stocktaking. The basic aim of the Institute — “to advance the cause of free business enterprise in Australia” — is under siege.

We have been so busy over the last twenty years with our own businesses that we have allowed the intellectual defences of liberalism, and of private enterprise, to become eroded. Now, the terms of political debate are increasingly set by the ideas of theorists who believe in a centrally planned bureaucratic society, who in the main have little practical experience, and who intend to try out their theories on you and me.

It is easy to grow out of touch and be left with little power of adjustment to changing ideas. Wordsworth put the thought elegantly in a sonnet:

"The world is too much with us: late and soon
Getting and spending we lay waste our powers.

Little we see in nature that is ours.
We have given our hearts away, a sordid boon . . .
For this for everything we are out of tune."

This Institute cannot afford to get out of tune if “private business enterprise is to work better in the interests of all sections of the Australian people” — our declared aim.

In this address I want to do three things:
— look back at the Institute’s formation
— take stock of today, and
— take a personal view of the future.

My theme: “There is no such thing as a free lunch”, is strangely out of fashion, but it expresses succinctly the cause of many of the problems we face today.

Looking Back

A man born at the beginning of this century would, in 1943, have lived through: World Wars, Depression and the Russian Revolution. The group of men who formed the I.P.A. had shared these common experiences.

The two world wars showed Australia’s weaknesses. We were, and still are, a small population inhabiting a large continent. We were economically very dependent on raw material exports which moved into world markets over long sea lanes. Our economy was isolated and very dependent on imports.
The Depression had left deep scars. The decline in raw material prices had increased the real burden of foreign debt. Unemployment, which reached at its peak nearly 30% of the work force, was a soul-destroying experience bringing misery to many Australians and fear to all.

The Russian Revolution brought into power for the first time in a major nation a different form of organisation of society. A centrally planned, bureaucratically managed state in which individual right was subjected to the anonymous and all powerful party. Political opposition was suppressed as an unnecessary luxury and private property confiscated. From a distance in the depression days Russia seemed to some to offer real prospects of a better way of life than the democracies.

It seems to me Australians at that time shared a broad body of beliefs about the way the country should develop.

(1) Rights of the Individual
The community was appalled at the depression and people were becoming committed to a high level of employment and to the provision of a reasonable level of social services for all. The community wanted to put a floor beneath all the citizens of Australia in the case of ill health, unusual adversity, or extreme misfortune.

(2) Government Control or the Market Place
In the wartime forties individuals were prepared to sink their freedom into a national collective effort. With the limited focus of wartime aims, central planning and rationing could work but the community did not want it perpetuated. Australians looked forward to a reduction in centralised planning and control. They wished to determine for themselves how to spend the money they earned. In 1949 they voted for the market place rather than rationing. The I.P.A. played an important role in this decision.

(3) Role of Business Enterprise
It was clear that Australia needed population growth and a broader economic base. There was general support for immigration to populate the continent. Business enterprise was strongly encouraged. Industrialisation was supported to give employment to the increasing population as well as to reduce the dependence on overseas suppliers and markets.

(4) Australian Business in the World Context
Australia was seen to lack the technology and the capital required to build an industrial base within a reasonable time. The community supported bringing in foreign capital to invest in local manufacturing plants. Import replacement was a popular phrase. For the first fifteen post-war years, until 1960, Australian industry developed behind an almost impenetrable wall of tariffs and exchange controls. This period gave great impetus to many Australian companies.

In the thirty years since 1943 Australia has made major strides towards achieving these shared aims: the country has developed a broadly based manufacturing industry; our economic capacity and capabilities have expanded; our population has grown both in numbers and in real income; and unemployment has been virtually negligible throughout. Australia's exports of both manufactured goods and processed minerals have also given a broader strength to the balance of payments.

Today
What then do we see today? In 1943 few would have thought that we would now have reached the position to be
called “The Lucky Country”. But why do we no longer seem to have as a community a sense of shared purpose? Why is there a sense of dissatisfaction in the young? Why a sense of resentment among the mature? We have achieved the broad aims of 1943. However, these aims seem no longer relevant to many people.

We who claim to represent private enterprise bear a measure of responsibility for this dissatisfaction and resentment. We have not kept the ideals — and the positive achievements — of private enterprise alive in the minds of the community.

Private enterprise has stood silent while Government has assumed increasing control over economic affairs. What is worse, on many occasions business co-operation has been bought, and has been seen to be bought, by Government handouts in the form of excessive tariff protection, subsidies to inefficient industries and so on.

Unfortunately, there has also been a widespread misunderstanding in business, academic and government circles of the ideas of one of the world’s great economists John Maynard Keynes. In the Depression, Keynes postulated a new role for government spending. Before then, a balanced budget was almost an article of faith. Keynes showed that if government spending called back into useful productive employment people and skills which would otherwise be idle, then that spending had little real cost. In the short run it truly represented something for nothing.

The thesis that government spending has no cost got into the minds of students of the late 1930’s and 1940’s. Perhaps more important it entered into the vocabulary and ideas of politicians. The teaching of the thirties, when resources were idle, is now misapplied in the vastly different circumstances of today.

As quoted in the April-June issue of the I.P.A. Review, Keynes himself was aware of this possibility when he said:

“Twenty years hence governments and treasury officials will still be talking about and applying my doctrines, but by that time they will have ceased to be relevant.”

The effect of this misunderstanding has been compounded by the communication revolution. Television has encouraged rising expectations all over the world — the community of McLuhan’s “Global Village”. Easy consumer credit and full employment has enabled people to enjoy today and earn tomorrow.

Facing these expectations politicians in all countries and of all persuasions have sought to win power by promising more to the electors. Unfortunately they have been strangely silent on how it would be paid for.

The purpose of any political party is to get control of the government. Each party feels it cannot win power unless it openly promises handouts to the electors. Government spending thus has an ever increasing tendency as each party promises more to gain power.

No-one seems to feel there are votes to be gained by educating the electorate to the real cost of these handouts. No-one seems to believe economic education is a responsibility a statesman should accept. As a result the overwhelming majority of Australians do not recognise that government spending competes with private spending. Unless every individual in the community is prepared to cut back personal expenditure when government spending rises, inflation is inevitable.

But the revolution of rising expectations has a more pervasive element to it. If we believe we can get something for nothing without effort, via the ballot box, why not have more now:

— more clean air and water — without cost
— more leisure and lower hours of work — without cost
— fewer foreign investors — without cost.

I do not wish to say that we shouldn't have less pollution, more leisure, and fewer foreigners. The questioning of the young has brought home the need to do a better job in our society, in these and other respects. It has pointed out the problems inherent in a "conspicuous consumption" way of life. It must always be remembered, however, that solving these problems has a real cost and cannot be done overnight.

The community is misled by the ideal of instant "solutions". Instant "solutions" can only come with a central dictatorship very different from Australian aspirations. In a democratic society adjustments take time and require a general spirit of moderation. Patient effort is needed to persuade people of differing views to make the compromises necessary for constructive change. In a television age, however, the community may become impatient and lose this spirit of moderation. Many of today's problems are directly traceable to just such a loss.

One of the most serious of these problems is inflation. In tackling inflation patient compromise will be particularly necessary.

Inflation is caused by everyone, including everyone in the I.P.A., wanting to have more than they produce. The effect is experienced by us all in a rapidly rising price level.

The evil of this process is that everyone's attention is focused on the general price level. There is increasing ignorance of the role of relative price changes. Allowing a product which is in scarce supply to rise in price limits demand for it and encourages an increase in its supply. If the price is set too low, as has been the case with natural gas in the United States, consumers will buy too much of it and shortages will develop.

In tackling inflation, price and wage controls are fashionable "solutions" in the Western world. It is ironical, however, that enterprises in Communist countries are now being given more freedom to fix their own prices. These countries have experienced the absurdities and distortions that have arisen from attempting to fix everything at the centre.

Price control can only work over the long run if there is rationing, either of a formal kind with ration books, or of an informal kind through queues or allocations to favoured customers. There are people in Australia today who would glory in the prospect of rationing by coupon rather than rationing by price. Yet we should be clear that if extended far enough this means the undermining of a basic freedom — for different people to spend their incomes, the product of their own efforts, in different ways.

In the I.P.A. Review of July-September, the central goal of liberalism was described as "the achievement of dignity and fulfilment by each individual". And it was pointed out that: "people cannot achieve dignity without the freedom to take their own decisions and assume responsibility for their own lives, free from subjection to the wishes of others".

To be free an individual has to make his own decisions and rely on his own judgment. This means all of us will sometimes make mistakes and will lose from them. The free market economy seems to me to be more dynamic and efficient, more likely to promote the welfare of the ordinary man and woman, and more compatible with a relatively free society, than any alternative.

This Institute has an important role to play in the defence of liberalism and of the market economy. But it will fail in its role if we are unwilling to face changing circumstances. To be secure in this defence we must take action to remedy
any deficiencies in the working of private enterprise today. We cannot be simply parroting the ideas of the past. We cannot simply try to preserve the privilege of the rich and powerful, or the over-protected and inefficient. We cannot base our defence against the challenge of a centrally planned, socially owned economy, solely on the traditional rights of property. Rather, we must base it on the moral belief that individuals, when they freely make their own decisions about the details of their own lives, will produce a better society for all.

Today, in short, we face a real challenge. A challenge to the nature of the market economy; an impatience with its method of adjusting supply and demand. We face this challenge in a climate of rising expectations. These circumstances threaten pressures which are capable of destroying our democracy.

Looking Forward

In looking ahead to the next thirty years the questions of concern when the I.P.A. was founded are still valid. But clearly, some of the answers must be new. What I have to say here are my personal, and not completely formed, views.

1. How can we strengthen the rights of the individual?
In the forties the key tasks were to provide social security and jobs. These two aims are still important but the methods of achieving them must be brought up to date. For the future we must add two other aims: the opportunity for an individual to change careers more easily; and the right of an individual to keep a reasonable share of the earnings of current effort after taxation.
There is no doubt that the community wishes everyone to be reasonably free from want; to have a floor. But the floor could be given by a system of tax credits guaranteeing everyone a basic income. The individual could then use this basic income to pay his own medical bills or finance his own needs.
The present system of social services seems likely to be increasingly unsatisfactory. Since they appear to cost nothing, the supply of the services will never be adequate and the demand ever increasing.
While the scourge of widespread and prolonged unemployment must be guarded against, some job changing is inevitable in a dynamic economy. The tax credit basic income should be set high enough to avoid undue hardship on individuals faced with transitional unemployment. The alternative now adopted of accelerating Government spending to drive unemployment permanently down to the lowest possible figure, produces worse, though hidden, costs.
As a start, therefore, this Institute might examine and support a tax credit system. This system would replace the old age pension, unemployment relief, and other social services. It would retain a humanitarian floor but throw the onus for judgment on personal spending back to the individual.
Looking forward we wish to encourage a reasonably mobile society. Pension benefits are another major area where individual rights must be improved. An individual now regards his pension as something earned year by year through his working life. It is no longer an act of charity from a paternalistic employer. Many pension funds do not enable a man to take his full accumulated pension right with him on job transfer.
Thus many individuals are locked into jobs which they no longer want and
which no longer contribute to their development as human beings. Portability of pension rights, advocated by Sir Henry Bolte when Premier of Victoria, would be a gain for the individual. Though it might be inconvenient for big business and perhaps even more inconvenient for big government, the Institute should advocate portability.

My last aim would be to ensure earned effort gets a better real reward. Our present tax system unduly penalises income. The U.S.A. and New Zealand have both moved to set a maximum tax level of 50% on income. We should adopt this also. By contrast, in Australia, rewards to capital have been favoured. The picture of a high earning professional man buying a farm, simply to get a tax deduction on current income, is stupid. All we are doing is turning good doctors into fake farmers. The situation in which gains to property are largely untaxed while earned income is taxed at a high rate, is unsound. It does not stimulate the individual effort of the bulk of the community. It rewards the existing 'haves' at the expense of the current producers.

2. How can we set limits on the automatic growth in Government and strengthen the market place?

For most of the I.P.A.'s life the coalition in power has advocated a reduction in Government spending. However, Government employment has risen from 15% in 1939 to 20% of a larger work force today. Under our new administration, increasing the size of the public service is advocated, and practised. At the heart of the problem is the automatic increase in Government revenue which comes from inflation.

To give a simple illustration, a man earning $5,000 in 1950 would need an income of $12,000 today to adjust for inflation. In 1950 he would have paid 27% of his income in tax, today he would pay 32%. In other words because of inflation and the tax structure, 5% more of his income is going to the Government. While politicians all talk about inflation, they have a vested interest in its perpetuation. The Institute should strongly advocate annual downward adjustments in all tax scales to offset inflation.

As a second order of priority, Government services should, wherever possible, be put on a full charge basis. We must resist the temptation, both corporate and personal, to accept the hidden tax subsidies inherent in charges for Government services. These benefits, invisibly supported by the general tax structure, may appear to be in our short-term interest. Our true long-term interest is different. Government services can only give realistic benefits if they are exposed to the discipline of market demand. If more people will pay the full price for a service and demand still rises, then there is objective evidence of a need to increase supply.

In a similar way, the question of pollution can be tackled by charging for emissions at a rate designed to encourage best international technical practice. Certainly this will put up costs since long run social costs will be added to normal corporate costs. Ultimately these costs will be reflected in the price. Faced with this, consumers may switch their demand to other products. But we should let individuals choose in the market place. We must strive to improve the work-
It seems to me a great pity that business has been so hostile to the idea of Restrictive Trade Practices legislation. I do not want an army of Canberra bureaucrats as policemen. But the community is deeply suspicious of the economic power possessed by large companies. It would be in our own best interests to alleviate such suspicions. Industry would do better to support soundly conceived legislation which can work, rather than resisting any change. The only justification for private enterprise is its greater effectiveness in dealing with dynamic market demands. That means greater competition however uncomfortable.

Above all else, if the market is to survive, the community must realise the destructive force of inflation. Inflation destroys the value of money. And an objective measure of value is the whole basis of society, whether it be capitalist, socialist or mixed. Money is a tool of exchange which only exists in a real sense when there are goods and services produced. Men who wish to deal with one another must deal by trade and give value for value. If you destroy the value of money you destroy the ability of the independent man to trade with others; you destroy an objective standard of value.

When you accept money in payment for your effort you do so only in the conviction that you will exchange it for the product of the efforts of others. Money is a claim on the energy of those who produce and real wealth is the product of man's capacity to think. Money is made, before it can be taxed, by the efforts of every honest man to the extent of his ability — and an honest man knows that he can't consume more than he has produced.

Many people believe they can take money from others and not earn it. They do not mind inflation. But if real wealth is to expand it has to be created and the industrialist is a critical part of this creative process. The politician can offer largesse, can increase public expenditure but the act of wealth creation comes from individual efforts.

As consumers the community may be prepared to vote for increased Government spending. As earners, however, they fight for the maintenance of relativity in their own incomes. Voters do not see the incongruity of their attitudes because politicians do not talk about the costs and individual sacrifices involved.

Let "THEM" pay, people think, but today the rich are few in numbers and the burden of Government spending rests on us all. The latest figures available (1970/71) indicate that only 2% of Australian taxpayers have taxable incomes over $10,000 per year and in total they have less than 10% of the total taxable income of all Australians.

A third of Government receipts comes from individual income tax. Even with high tax rates, 80% of the individual tax receipts comes from those with incomes less than $10,000. In addition to this, 38% of Government receipts comes from sales tax, and customs and excise duties. The burden of these taxes largely falls on the whole community in their role as consumers.

If any meaningful sum of money has to be raised for education or health or other expenditures, it has to fall on almost all of the community.

There are no "THEM" who can be taxed to give more to "US" — "US" are "THEM".
3. **How to convince the public of the importance, validity and honesty of large scale enterprise.**

We have all been smeared to some degree by Watergate, I.T.T. in Chile, Lonhro, and so on. The lesson of these experiences is clear. We must re-think traditional practices, accept and encourage greater competition, and make major decisions after more open and public debate. We must also question the activities of all pressure groups, since the ability of pressure groups to promote particular interests leads to increasing power by the central government and its bureaucrats.

If we want to defuse Big Brother in Canberra we need to be certain we also attack bureaucratic approaches in our own companies. If we believe local problems need local solutions, and we believe in the principles of liberalism, we must ensure these principles are at work in the decision making process in our own enterprises. An Institute like this can argue strongly for sound, unbiased, fact founded and decentralised long-term decision making.

4. **Where is Australian private enterprise’s role in the world of the future?**

In 1943 we were a dependent economy and we decided to industrialise. Now we are stronger and can either retreat into a little Australia, cutting our links with foreign investors, with overseas investment opportunities and with our long-term allies, or we can venture out into the world. The world is a big, tough, competitive place. We must enter it as an industrial nation if we wish to build our base of technology for the future. Competing in it represents a significant challenge and requires able and educated businessmen and women. Over the long term, however, able and educated minds are the real natural resources of any country.

**The Task Ahead**

Liberalism and private enterprise are under intellectual attack. They are considered too old fashioned, too slow, too uncertain and self serving of the existing “haves”. This Institute is of great importance in the private enterprise task of countering these criticisms by developing positive new proposals:

- to protect individual freedom and to encourage individual growth,
- to make our market economy work and to combat inflation,
- to ensure large scale enterprise is seen to be of community value, and
- to shape a positive role for Australia in international business.

From 1943 to 1973 we have indeed been a lucky country. What will the next thirty years hold? The pounding surf of centralism threatens to submerge the individual and destroy the only kind of society in which the individual person can survive. The Institute is committed to resist this trend and this is its task for the future.
The Wage Share Debate in Australia

The Prime Minister, the Minister for Labour, other senior Cabinet Ministers and the President of the A.C.T.U., Mr. Hawke, have stated recently that the wage-earner's share of what is produced has been falling. Mr. Denis James, a Senior Tutor in the Department of Economics at the Australian National University, has been researching this question as part of a study of the Distribution of Income in Australia for the degree of Doctor of Philosophy. The article which follows was written by Mr. James at our invitation.

Mr. James' conclusions do not support assertions that the wage share of all incomes has fallen over the last quarter of a century. Indeed they suggest that the opposite is more likely to be true. One statistical calculation selected by Mr. James shows a rise from 54.5 per cent in 1948/9 to 60.6 per cent in 1970/1.

But, regardless of whether it has risen or fallen, Mr. James concludes that the "wage share" does not, in any case, give a reliable guide to whether the wage-earner is getting his fair share of the national income. Indeed the whole debate, he says, is "exceedingly sterile".

As far back as 1950 articles in this publication argued precisely the same thing — namely, that the proportion of total wages and salaries of the national income had no significance for an assessment of whether the wage-earner was receiving his fair share of what is produced.

In an article in the July/August "Review" 1950, the Professor of Economics at the University of Melbourne, Wilfred Prest, pointed out that wage earners also receive income from property — if not from company shares, government bonds, etc., then from the "imputed rentals" of the homes they own, or are in the process of owning. These "imputed" rentals are included in estimates of national income as compiled by the Commonwealth Statistician. Professor Prest pointed out also that wage-earners share largely in property income through institutions such as savings banks, insurance companies, friendly societies, pensions and superannuation funds and even trade unions. Since Professor Prest wrote, there has been an enormous expansion of investments by institutions such as life companies and pension funds in company shares, so that few people in the community today would not share, to some extent, in company profits.

The wage and salary figure thus provides no measure of the actual share of the wage-earning section of the community in national income.

Old fallacies die hard. It is surely about time that people in responsible positions, particularly those representing employers and employees, in the interest of industrial peace, applied meticulous care in their interpretation of the statistical facts provided by the Bureau of Census and Statistics.

* * * * * * *
During the last few months, there has been much discussion concerning movements in the share of wages in the national income over the last quarter of a century. This subject has been brought to the public's attention by the Labor Government and the trade union movement in support of their arguments concerning Commonwealth control of prices and incomes. Both sides have argued that the wage share has been falling since 1948/9. The Government has argued that since labour's position has been worsening, there should be greater control over non-wage incomes. Mr. Hawke, on the other hand, considers that wages are sufficiently controlled through the arbitration system, and that the granting of incomes control, especially to a future Liberal Government, may lead to a continuing decline in labour's relative welfare.

Although this argument is only now being publicly aired, its origin can be traced back into the 1950's when arguments as to the equity of the wage share were used in submissions to the Commonwealth Arbitration Authority. The trade unions have always argued that the wage share has been falling. Spokesmen for employers and the Liberal Government, however, have taken pains to show that, in fact, the wage share has been rising.

It is not difficult to explain how this divergence of opinion has arisen. It is conceptually very difficult to define the wage share in such a way as to get a true indication of the return to labour relative to the return to property owners. There are numerous operations that can be carried out on the official wage and national income data in an attempt to get a meaningful estimate of the wage share. Given all the permutations and combinations of these operations, many estimates of the wage share can be generated. Some are probably more appropriate than others as an estimate of labour's welfare. Both sides in the debate, most probably due to a lack of understanding of this complex area, have quoted series that I consider are inappropriate to the problem at hand.

Transformations of the Basic Wage and Income Data

Both Mr. Hawke and Mr. Cameron have cited a Masters thesis by Mr. John Tilling, an officer of the Department of Labour, as containing statistical support for their assertion of a falling wage share. In fact however, Mr. Tilling has carried out several transformations of the wage and income data, finally ending up with thirty-two different estimates of the wage share. Of these estimates, only one, and the wrong one in my opinion, has been selected by Mr. Hawke as the wage share. Let us examine more closely how these estimates were derived.

Choice of Industries: A case can be made for looking at the wage shares for only certain industries engaged in production in Australia. Mr. Tilling has suggested that the following industries...
might be excluded from any wage share analysis:

1. Those industries which are "dummy" or statistical industries, the inclusion of which would lead to a meaningless estimate of the wage share, e.g. public administration, ownership of dwellings, etc.

2. Those industries with artificial pricing systems. Mr. Tilling cites two main examples to be industries with government determined prices, and industries whose prices are set by world markets, e.g. public utilities, mining and quarrying, rural production.

3. Those industries with large fluctuations in their value of production which might disguise an underlying wage share trend, e.g. primary production.

For the purposes of the present debate, I would agree with Mr. Tilling that "dummy" industries should be excluded, but I would not fully support the exclusion of industries on his other criteria, since their inclusion does represent a fair description of movements in wages and profits over time.

The exclusion of all these various industries means that Mr. Tilling ends up with four basic industry groups. They are as follows:

1. All industries.
2. All industries excluding public administration, finance and property, ownership of dwellings, and community and business services.
3. As in group (2) but excluding primary production and mining and quarrying.
4. As in group (3) but excluding the public utilities of electricity, water and gas, and transport and communications.

On each of these groups Mr. Tilling carries out certain weighting operations to account for any structural change that has taken place, and certain other operations to account for the changing composition of the work force.

Structural Change Weights: Mr. Tilling has noted the fact that different industries have grown at different rates over the past quarter of a century. Even if each industry had a constant wage share over time, but an industry with a high wage share was growing faster than all the others, the aggregate figures would indicate a rising wage share for the economy as a whole. Mr. Tilling counteracts this effect by using a weighting procedure. First he finds the wage share for each industry over time. He then selects a base year and computes the proportion that each industry's output constitutes of total production. These proportions are then used as a set of fixed weights to find a weighted average of the wage share over time.

However, this procedure is invalid, in my opinion, if one desires a description of movements in the wage share over time. In the example I cited earlier, even if each industry does have the same wage share but one is growing faster than the rest, who could deny that, on the whole, more wages are being paid relative to profits.

Workforce Composition Adjustments: If we are really interested in determining the equity of the income distribution, it may be more useful to look at wage and non-wage incomes on a per capita basis. Mr. Tilling therefore derives figures which show the ratio of average wages to average income. He does this by dividing the basic wage share figures by the ratio L/N, where L is the number of wage and salary earners, while N is the number of persons in the work force. Since Mr. Tilling's labour figures were obtained merely by statistical extrapolation between censuses, we should regard Mr. Tilling's use of a work force adjustment only as a very rough approximation of the truth.

The Wage Share Debate Quantified: As stated previously, Mr. Tilling has
grouped his industries into four different classifications. On each of these groups he has carried out four operations. He has firstly presented the wage share, unweighted for structural change and unadjusted for the changing composition of the work force. Second, he has weighted this series for structural change using 1958/9 as his base year. Third, he has adjusted the basic data for changes in the work force. Finally, he has both weighted and adjusted the basic series. The overall result is that Mr. Tilling presents sixteen different estimates of the wage share using the Gross National Product measure of output and a further sixteen estimates using Net National Product (i.e. GNP less depreciation).

The figures that have usually been presented by spokesmen for the Liberal Government, such as Mr. Wentworth, have been the basic unweighted, unadjusted figures for all industries. These figures are presented in Column 1 of Table 1. They show a rise in the wage share from 53.8 per cent in 1948/9 to 61.5 per cent in 1972/73.

However, although these are perhaps the most basic statistics that can be quoted for the wage share, they are somewhat arbitrary in that they include some rather arbitrary "dummy" industries. For the purposes of the present debate it is probably better to exclude these types of industries and hence I believe that industry group (2) is the most relevant industry category to examine. I have listed the results of applying the four different operations on category (2) in the last four columns of Table 1.

It was in fact one of these series that Mr. Hawke and Mr. Enderby have quoted as the wage share. They chose to present the weighted and adjusted series (see column 5) to show a fall in the wage share from 76.5 per cent in 1948/9 to 69.1 per cent in 1970/1. However, as I have already shown, this weighted series is hardly relevant to a description of changes in the wage share. On the same basis we should also ignore the weighted, unadjusted figures in Column 3.

I personally would prefer to use the basic data for category (2) as a representative estimate of the wage share. From Column 2 of Table 1 it can be seen that on this definition the wage share has risen from 54.5 per cent in 1948/9 to 60.6 per cent in 1970/1. I would further choose the adjusted figures of Column 4 (with reservations about the data used) as a representative estimate of movements in the average wage/average income ratio.

As a matter of interest, a perusal of the rest of the thirty-two estimates of the wage share indicates that some series show a rise in the wage share, some show constancy and some exhibit a fall. However, a closer look at those series which exhibit a fall in the wage share over the period 1948/9 to 1970/1 indicates that most of the fall is concentrated in the rather unusual period between 1948/9 and 1952/3. Even most of these series tend to exhibit relative constancy of the wage share from 1953/4 onwards.

**The Relevance of the Wage Share.** It is important to emphasize that movements in the wage share are rather unreliable estimates of changes in the equity of the distribution of income. There are several reasons for arguing this.

First, it is possible that the wage share has changed due to changing factor proportions. If, for example, labour is being combined with an increasing capital stock, we might find that the wage share is falling (although I must stress that this need not necessarily be the case. Several commentators on the debate have fallen into this trap). However, regardless of the way in which the wage share has moved, we might find that the welfare of labour
has improved over time in that its potential real consumption has increased. It is impossible to be more precise on this matter, as some very complex economic theory is involved. Moreover, so far in Australia there has not been enough adequate empirical research to suggest one way or another how changing factor proportions and technological progress will influence wage shares and labour welfare. Suffice it is to say that this is an important area of analysis, and that a mere observation of changes in the wage share sheds no light whatsoever on this problem.

Second, it is impossible to say what a “just” wage share is. If the wage share were regarded as being too high then a falling wage share may be regarded as a just distribution of income from wage to non-wage earners. Since, of course, the whole concept of what constitutes a just wage share is a value judgment, even if people on both sides of the debate were to agree on a wage share series, they may still disagree on whether the wage share is equitable or not.

Third, it is probably important to point out that the dichotomy between wage earners and property income earners is not clear cut. Many wage and salary earners hold wealth in the form of stocks, shares, debentures, etc. which channel part of the incomes of companies into the pockets of wage earners.

Fourth, in all the preceding analysis I have been concerned only with what is called the primary distribution of income. It may be that the secondary distribution is more relevant. This is the distribution of income after government redistribution policies of taxation and expenditure have been carried out. These transfer payments further cloud the distinction between wage and property income earners.

Fifth, Mr. Tilling argues that the best series to use in the formulation of equity judgments are those series which have been adjusted for changes in the composition of the workforce. Now, although these series are in principle better indicators of equity than the unadjusted data, they are still rather unreliable estimates of the welfare of the various income groups. Any figure which purports to be an average is rather meaningless unless some knowledge of the dispersion around that average is gained. If the dispersion of incomes among individuals in the wage and non-wage income groups is great, and I suggest that this probably is the case, these adjusted series may prove to be of lesser value than they would at first appear.

These last three points would indicate that the unions should not continue to become involved in an examination of the functional distribution of income (i.e. the distribution of income between factor classes). If they want to pursue some policies to correct any inequalities in the existing distribution of income, they should concern themselves more with the distribution of personal income, no matter how that income is derived. It seems somewhat incongruous that a movement espousing socialist, egalitarian aims should support the case of wages and salary earners, many of whom might be earning extremely high wages (the so called “fat cats”) against property income earners who may be earning a meager living, such as the small farmer or the small self-employed businessman.

If the unions feel the need to compare the equity of the income distribution between sections of the population, it would be far more meaningful for them to merely contrast the rich with the poor, rather than to select income groups on a functional basis.

If these basic points are accepted, the whole debate on the functional distribution is easily seen to be exceedingly sterile.
TABLE 1
THE SHARE OF WAGES IN GNP AT FACTOR COST

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Category (1): All Industries</th>
<th>Category (2): All Industries excluding Public Admin., Dwellings, Finance, Community and Bus Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Col. 1</td>
<td>Col. 2</td>
</tr>
<tr>
<td></td>
<td>Unweighted</td>
<td>Unweighted</td>
</tr>
<tr>
<td></td>
<td>Series</td>
<td>Series</td>
</tr>
<tr>
<td>1948-49</td>
<td>53.80</td>
<td>54.5</td>
</tr>
<tr>
<td>1949-50</td>
<td>51.01</td>
<td>52.3</td>
</tr>
<tr>
<td>1950-51</td>
<td>47.13</td>
<td>48.1</td>
</tr>
<tr>
<td>1951-52</td>
<td>57.24</td>
<td>59.3</td>
</tr>
<tr>
<td>1952-53</td>
<td>56.22</td>
<td>54.7</td>
</tr>
<tr>
<td>1953-54</td>
<td>55.72</td>
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<td>1954-55</td>
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<td>1956-57</td>
<td>56.14</td>
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<tr>
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<td>56.7</td>
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</tr>
<tr>
<td>1972-73</td>
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Income and Expenditure 1972-73.
Draft of Masters Thesis by J. Tilling, Ch. 2.
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Objects

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

1. To Inform the Australian public of the facts of our economic system and to raise the level of economic literacy in Australia.
2. To work always for a full and friendly understanding between employers and employees and for good relations throughout industry.
3. To study the means by which private business enterprise can be made to operate better in the interests of all sections of the Australian people.
President’s Address
Mr. W. D. Brookes, C.B.E., D.S.O.

Seldom in the history of the Institute has an Annual Meeting been held at a time of such uncertainty, even bewilderment, among the business community. To find anything remotely comparable, one would have to go back to the first Annual Meeting of the I.P.A. in 1944. At that time there was an imminent threat of socialistic policies with the nationalization of key industries and extensive government direction and control as permanent features of the economy. All this presented a strong challenge to the private enterprise system and to business leadership. This challenge was taken up by the business community. I think that wise and far-sighted leadership was shown then and, consequently, the threat to the free enterprise system was met and averted in the late 1940’s. Undoubtedly, in these events the influence of the Institute played a major role.

Today, the situation, although bearing some similarity, is rather different because new and serious community problems have made their appearance. At the centre of these complex problems is the great issue of inflation and how it is to be curbed. At present there are few signs of a solution.

I think that all thoughtful people would support some of the objectives of the present Commonwealth Government, particularly those relating to the mounting urban problems of the big cities and to the need of some practical means of decentralization of population and industry. Some of the welfare objectives of the Government would also command widespread support, although it is clear that many disagree with the methods by which the Government is proposing to deal with these problems.

It should be obvious that the achievement of many of the goals of the Government in these and other fields will have the best chance of success if the private enterprise sector is confident, expanding and prosperous.

Despite the rapid growth of Government in various fields, private enterprise is still responsible for providing the great part of the resources out of which Government programmes must be financed and supported. The standard of living of the people and the rate of improvement still rest uniquely on the productivity of the business sector, the efficiency of its operations, its enterprise and ingenuity in opening up new resources, in discovering new and better ways of doing things, and in making new and better products. It should be remembered that free enterprise is also responsible for the employment of two out of every three of the work-force, and for the provision of satisfactory work opportunities for those employed.

The strength of the economy as a whole rests very largely on the private enterprise sector — there is no getting away from that. One would think, therefore, that the policies of governments should be directed toward ensuring that the health of this, the overwhelmingly largest and most important part of the economy, is maintained and advanced. This would surely seem to be the path of common sense.
Indeed, I would go so far as to claim that a proper understanding and intelligent co-operation between Government and Business are essential to the continued improvement of the welfare of all the people all the time. I use the word "welfare" in its widest sense to embrace not only the broad Welfare goals of government, but also personal standards of living, the latter often suffering if unbusinesslike objectives are actively followed too closely.

There is no doubt that when the Labor Government came to office last December it carried with it the goodwill of the majority of Australians. After twenty-three years of a Liberal-Country Party administration, many felt a change in government would prove to be a good thing for Australia and for the strength and functioning of our democracy. These thoughts were certainly in the minds of some businessmen, who saw no reason why the Labor Government and Business should not be able to work together effectively on the tasks of national economic development and of promoting the improvement of living standards for all Australians.

I regret to say that less than twelve months later some of these hopes have been dashed. Many of the multitude of measures, already introduced or proposed by the new Government, have had, in combination, a serious effect on business confidence and have produced a mood of great uncertainty, even of foreboding, in business circles. Investment confidence has been affected. Some senior Ministers have said harsh and completely unjustifiable things about certain sections of Business, things, let us face it, which would have far better been left unsaid. These attacks have achieved nothing for the Government's image and have contributed to the creation of the climate of apprehension that now prevails throughout the economy.

I do not intend to detail the numerous measures which the Government has introduced, and all the unpleasant things which Ministers have said; there have been so many of them and it would be a fruitless exercise and further exacerbate the position. Instead I would appeal to those Ministers and officials most closely concerned with business and financial leaders to show a more sympathetic and realistic understanding of the problems with which business has to contend.

There has been a large variety of tax increases or the equivalent of tax increases in withdrawal of incentives or concessions; there has been a sweeping, across-the-board, tariff cut; there is the Prices Justification Tribunal; there is the legislation of unparalleled severity on restrictive trade practices; there are the proposals to expand the Australian Industries Development Corporation to monstrous proportions; the intention to nationalize workers' compensation and third party insurance; the nationalization of the natural gas pipeline from the Cooper Basin to Sydney; the intention to introduce a National Companies Act which many fear would be used to impose further controls on business; the attacks on the multi-nationals which have and are contributing so much to Australia's industrial sophistication; also on companies, many of them Australian-owned and controlled, some of which have been at the heart of Australia's great developments...
over the last decade; there have been the successive up-valuations of
the Australian dollar; and, unfortunately, these are not all.

I don’t for a moment say that all these measures are necessarily bad.
One would have to concede that some may have been unavoidable.

There are at times conflicts between what may be best in the interests
of the whole economy and the interests of particular sections of
business. In these instances, the national interest must clearly be
paramount. But the cumulative effect of everything that has been
done, or proposed, has, not surprisingly, had a quite shattering impact
on the psychological climate of business. This is reflected in the sick
condition of the Stock Exchanges. It is indeed hard to recall a time —
one would have to go back to the Great Depression — when the
Stock Exchanges were so drained of life and vitality and the desire
to take risks so circumscribed.

What can the Australian Government hope to gain through all this?
By injuring Business, by destroying the climate in which enterprise
flourishes, it must surely, in the end, injure the economy and thus
its own public prestige and support. The Government’s actions must
also greatly weaken the prospects of carrying through successfully its
ambitious programmes in the fields of Urban Renewal, Decentraliza-
tion, Education, Health and Welfare. The way to finance these pro-
grammes is surely by encouraging the growth of productivity and the
expansion of real resources. Further, higher performance releases re-
sources for use in the public sector. Otherwise, if the Government
persists in its plans, they will be financed not out of real wealth, but
out of continued and rapid inflation. Inflation, as Lord Keynes said, is
the most efficient tax-gatherer of all. It is also the most arbitrary and
unjust and unfair. The people do not see inflation as a tax, but it
is one none the less. Moreover, inflation falls with cruel severity mainly
on those people without substantial wealth or assets, and on retired
people of modest means, members of the weaker unions, or self-
employed workers least able to protect themselves. Paradoxically, it
penalises most those people who, in general, one would expect to
be supporters of the present Australian Government.

I would hope that the coming months will see something of a change
of heart in Government circles and a disposition to co-operate with
and encourage business.

I think you would all agree that, in the situation I have described,
the work of the I.P.A. assumes greater importance than at any time
since the years directly following its formation. I urge you to continue
to support it generously and I am sure that you will.

On your behalf, I would like to thank the staff and all the members
of the Executive Committee under the chairmanship of Mr. Angus
Jones.

I am sure you would agree that the work they do is worthy of the
highest commendation.
Report of the Chairman of the Executive Committee

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

As Chairman of the Executive Committee of the I.P.A. it is my responsibility to report to subscribers on the work of the Institute over the past twelve months.

I think you will all agree that the articles in the I.P.A. “Review” and “Facts” have maintained their customary high standard. During the past 12 months, we have published several I.P.A. Review articles bearing on inflation, which is certainly Australia’s most critical problem.

The I.P.A.’s viewpoint on the need to take strong, decisive action against inflation continues to receive a good press in all the main capital city dailies, and in periodicals and house journals.

We have received many letters and telephone calls from thinking people in all walks of life concerned about the economic policies of the Federal Government. These people repeatedly say to us that the work of the I.P.A. has never been more important.

We are very conscious of this and I can assure you that the Institute will continue to be a vigorous critic of many of Canberra’s policies. As always we shall be fair-minded and responsible.

The contributed articles for the I.P.A. “Review” which have aroused considerable interest have been:

- The article by a member of our Council Mr. Andrew Grimwade who wrote on his impressions of China as a member of the recent Australian Trade Mission.
- The address to graduates by the President of Pennsylvania State University.
- The “World’s Burden of Poverty”, which was based on an address by Robert McNamara, President of the World Bank. This was of special interest to schools. A recent letter from the International Development Association in Washington said that this article gave “The World Bank invaluable exposure in Australia, a country where our activities do need more publicity”.

Both the I.P.A. “Review” and “Facts” continue to be in demand by teachers, schools and students. We are delighted by the many letters of appreciation we receive from educators.

The I.P.A.’s educational work is essentially long-term and it is, of course, not possible to obtain spectacular results. We have always had in mind the impact of our ideas on the thoughts of younger people.

The fact that I.P.A. publications are used in senior classes in over 1,000 schools throughout Australia is, I suggest, a rather unique achievement for an organisation formed by businessmen and flying the private enterprise banner. As you know some schools take hundreds of copies of our publications for regular use in their classes.
For financial reasons the I.P.A. cannot meet all the heavy demands received from the schools. I am sure you would agree that this situation is far from satisfactory. With additional financial support, there is no doubt that our circulation in the schools can be greatly increased. We have introduced a concessional charge for schools and students. Over 100 schools are now paying annual subscriptions at concessional rates.

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

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

During the year over 100 copies of each issue of the I.P.A. "Review" and "Facts" were sent regularly to press and other communications' media in many cities and towns throughout Australia. Most of the national dailies, and a good sprinkling of the suburban and country weeklies, republished I.P.A. material during the year. We are most grateful for their co-operation.

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

I should mention for the record that the total circulations of "Review" and "Facts" have remained steady at about 20,000 and 55,000 respectively. Had our finances permitted, we would have no trouble in boosting these circulation figures quite substantially. We have been compelled to ration the free mailing list to schools and other avenues. In September the I.P.A. published a 12 page illustrated booklet which deals, in an easily understood way, with company profits and their effect on prices. It has been designed for wide distribution among people in all walks of life, the schools, and especially among factory and office employees.

There has always been a great deal of misunderstanding about profits and it is important that the facts be widely known. It is clearly of vital importance that the people who work in industry should have a proper comprehension of the important function of profits and the size of profits, especially those made by the larger companies which are so much in the public eye. In the interests of better industrial relations and a better work effort it is important that every possible step should be taken to correct many popular misconceptions which surround this subject.
The booklet is being sold for 25 cents per copy. You can read further details of the booklet on page 10 of the annual report.

Initially we printed 30,000 copies. These were quickly exhausted and a second print of 20,000 copies was ordered. We are hopeful that sales of the booklet will exceed 60,000 copies.

Some of the larger Australian companies have ordered upwards of 1,000 copies for distribution among their employees and several companies have paid for over 500 copies for free distribution to teachers, schools and students.

I think you will all agree that the I.P.A.'s contribution towards a better and more intelligent understanding of our economic system is out of all proportion to the size of its income and the staff who run it. As business is the target for increasing criticism, I am sure that the I.P.A.'s work has never been more important than it is now.

This year we have made a drive to increase our income to meet steeply rising costs which always seem to fall very heavily on non-profit organizations. It is essential for us to have adequate funds to maintain and expand our work. I appeal strongly to all the Institute's subscribers to maintain their support and to increase their annual contributions.
The circulation of "Review" continues at around 20,000 copies per issue. The primary aims of "Review" are to influence national economic policy and to achieve a better public understanding of vital economic issues.

From comments and letters received, there is no doubt that "Review" has a considerable influence in Government and business circles and among leaders of thought throughout Australia.

For many years, "Review" has had a growing circulation in about 1,000 Australian schools, where it is respected and valued by masters and students.

From "Review"

The Answer to the Riddle
All Western Governments, particularly the Australian, at least once a week proclaim their horror of inflation and their insistence that stern measures to stop it must be taken. So far, without exception, they have all been glaringly unsuccessful. Maybe the solution lies closer to home than they think. It is rather more than possible that if Keynes could be contacted on some celestial hot-line, he might tell governments to take a searching look at their own expenditures and to ask themselves whether these could possibly contain the answer to the riddle.

Business and Welfare
There is a basic contradiction in the Government's policy that has always plagued governments of the Left. They have to try to carry through their ambitious plans for social improvement in the context of what is still an essentially free enterprise economy. Indeed, precisely because their objectives in the field of welfare are so far-reaching, Labor governments are, paradoxically, even more dependent on the effective operation of the private sector than are governments of the Right. It is only an optimistic, buoyant and expansive private enterprise which can provide the resources and rate of economic development needed for even an approximate attainment of Government objectives.

Common Sense About Unemployment
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.

**Inflation Victimizes the Weak**

The victim, for the most part, of exorbitant wage and salary rises is 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.
Published every second month, "Facts" has a circulation of about 55,000 copies, mainly among factory and office workers. Its readers recognize that it compresses a great deal of important and interesting information about the economy into a tiny space. This partly accounts for its continued popularity. As with "Review", it is also used extensively in schools throughout Australia.

From "Facts"

Big Brother
A modern Government should do everything it can to promote equality of opportunity and protect the more luckless members of society. But one must wonder whether a society in which Government has a finger in pretty well every pie will lead to greater happiness and better human beings. One must question whether this is the road to a productive economy and a better Australian living standard.

Inflation Gallops On
In 1972 average weekly earnings in Australia rose to over $100.00 per week — double 10 years ago. If wages and salaries continue to rise at the rate of 10 per cent a year, then a man aged 25 on an average income would be earning about $225,000 a year at 65. On the basis of retirement benefits at 5 times salary, he would receive a $1.1 million lump sum when he retired at 65.

Oil Search
Since 1967, 473 wells have been drilled, with 52 producing oil and gas and the remainder being plugged and abandoned. If the Government enters the field of oil search, the taxpayer will pay for the failures.

The Cost of Immigration
Migration imposes great strains on scarce education, health, transport, housing and other facilities, which Governments have to supply. These costs have been estimated to be over $10,000 per migrant. A permanent settler with a family may cost Australian governments around $50,000 in community facilities. A net migrant intake of 100,000 a year would thus ultimately cost governments around $1,000 million.

Multi-Nationals
Australians have benefited enormously from multi-national and their large-scale developments, in terms of employment, exports, acquisition of technology and skills, the rate of industrial growth and standards of living.
New Booklet. “PROFITS and PRICES

In September the I.P.A. published a 12-page illustrated booklet which deals, in an easily understood way, with company profits and their effect on prices. It has been designed for wide distribution among people in all walks of life, the schools and especially among factory and office employees.

There has always been a great deal of misunderstanding about profits. It is vitally important that people should have a proper comprehension of the function of profits and their size.

Among the facts contained in the booklet are the following:

- The average profit after tax on each dollar of sales for a representative group of manufacturing industries is 2.1 cents. If profits were eliminated entirely from these industries, an article now costing $100.00 would sell for $98.00.

- In manufacturing industry it costs an average of $15,000 in plant, tools and other assets to create each job. In some mining enterprises, investment in plant and facilities per worker is as high as $250,000. This money has to be provided out of the savings of shareholders and from profits retained by the business.

- Some people believe that company profits go to a few rich people. This is far from so. Life insurance companies and pension funds are large shareholders. Thus everyone with a life insurance policy or an interest in a pension fund benefits from company profits.

- Statistics which show that most public companies have more shareholders than employees.

The Commonwealth Government takes the biggest slice of profits —

- 47 per cent of company profits are paid out in Company Tax. What remains is split between shareholders’ dividends (32 per cent) and profits retained by companies to finance expansion, provide new tools and better facilities for employees (21 per cent).

- The steepest rises in prices in recent years have taken place in the services provided by Government, not in goods made and sold by business.

- The prospect of profit encourages people to start businesses and expand existing ones. In doing this they give employment for other people. Two out of every three jobs in Australia are provided by businesses working for profits.

The booklet is being sold for 25 cents per copy. The I.P.A. is asking companies to purchase copies both for employee distribution and for circulation to schools throughout Australia.

There has been a good reaction to the booklet and we hope that sales will eventually reach at least 60,000 copies.

Some comments on the booklet:

Sir Ronald Irish,
Chairman Rothmans of Pall Mall (Australia) Limited —
“It is a good and simple summation.”
Mr. J. S. Lacey,  
General Manager Personnel, M.I.M. Holdings Ltd —  
"The need for this story to be told is very real" ... "We would be able to use 2,000 of the issue amongst employees, schools and other suitable locations".

Mr. K. C. Steel,  
Group Managing Director, The Myer Emporium —  
"This material could serve a very worthwhile purpose".

Mr. P. I. Rosenblum,  
Managing Director, Repco Limited —  
"Such a book will fill a long-felt need for a simple but effective means of communicating with employees as well as the public at large".

Mr. D. R. Zeidler,  
I.C.I. Australia Limited —  
"I think it is a very worthwhile project".

Mr. J. J. Gillespie,  
Shovelton Storey Company —  
"The publication of this booklet is most timely. The Institute is to be congratulated on its production".

Mr. L. E. Beck,  
Acting Managing Director, General Motors Holden's Pty. Ltd. —  
"The draft material in our opinion covers the elementary factors that very few people in our operations understand and, as such, I think does go a long way towards letting them see both sides of the picture. You can be sure that we will endeavour to utilise the material prepared by your Institute to the best advantage in our operations".

Mr. R. W. Brack,  
General Manager, Australian Consolidated Industries Limited —  
"Generally we think this is a very sound approach and there are no major comments which come to mind. We believe that the document is generally very good and should serve a most useful purpose".

Mr. F. Stoven-Bradford,  
Executive Director, Grocery Manufacturers of Australia Limited —  
"I am sure this will be a most useful and interesting booklet".

Mr. Philip Spry-Bailey,  
Secretary, Alcoa of Australia Limited —  
"It contains an impressive array of facts to support the arguments and should dispel some commonly held misconceptions".

Mr. Alan Gregory,  
Lecturer in charge, Economic Education — Monash University  
"We have been slow in Australia in recognising the need for every individual to be economically literate. Economic issues are at the heart of modern society, and although the economic perspective is only one view the citizen must take, it is important that this be an informed view. IPA is attempting to serve this need, and it does so very well. IPA publications are used widely in the schools, and teachers of economics appreciate being able to use and obtain such excellent material. IPA publications have the gift of being not only sound but concise and readable. IPA is to be congratulated on the excellent service it is providing."
FINANCIAL SUPPORT

The continued support of subscribers, particularly those which have contributed to the I.P.A. since its inception, is deeply appreciated by the Council.

The current inflation presents great problems to non-profit educational organizations like the I.P.A.

The I.P.A. income continues to expand, but unfortunately not nearly as fast as expenditure. This trend must be arrested if the Institute's work is to continue to grow, particularly in widening the distribution of our publications among schools and universities which are requesting ever-increasing numbers.

The I.P.A. is financed by all sections of free business enterprise. 165 large national companies and organizations provide a substantial proportion of the Institute's income. But a further 350 subscribers contribute at the minimum company rate of $50 and over 1,200 private individuals at the rate of $3.00 a year and upwards.

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

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<tr>
<th>INDUSTRY</th>
<th>Number of I.P.A. Company Subscribers</th>
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<tr>
<td>Banking, Finance and Insurance</td>
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<tr>
<td>Building, Transport and Other Services</td>
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<td>Metal Trades</td>
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<td>Food, Drink and Tobacco</td>
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<td>Mining and Primary Production</td>
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In spite of the high regard in which the Institute is held by all sections of industry, annual revenues are not sufficient to permit the I.P.A. to carry out its work on behalf of free business enterprise with maximum effectiveness.