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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.
Editorial —

Benevolent But Somehow Sinister

The closeness of the election, and prolonged uncertainty of the outcome, may be said to symbolize the current state of uncertainty among the people.

The uncertainty is rooted in the fact that Australia is facing a great historic choice about its future. Confronted with two diametrically opposed philosophies of society, two roads running in very different directions, the people do not know which to choose. Perhaps they feel in their bones that once the decision is made, it will be irreversible; that once having gone far down one road, it will be impossible, for practical reasons, to turn back.

The decision rests between a society in which Government as such occupies a position of dominance, personal inclinations counting for little, and a society in which the individual is largely free to determine his own destiny, to work out his own life in his own way. In the first alternative, the basic pattern of the community's life will be established by Government; in the second, while Government will be by no means insignificant, the pattern will emerge, in the main, as the result of the spontaneous expression of the individual's own desires and choices.
Notwithstanding its devastating defeat in the crucial bank nationalisation election a quarter of a century ago, it is clear that Labor has not surrendered its goal of achieving a radical, far-reaching transformation of the Australian way of life. Twenty-five years, and the advent of the affluent society, do not seem to have altered one jot the Labor Party’s fundamental socialist purpose. It is true that the objective of public ownership does not loom so large as in earlier Labor thinking — although it is still prominent. But the Labor Party is still clinging obdurately to the other main prong of its political philosophy — that of intrusive government planning and government control of the economic and social life of the community. Lurking in the shadows of the planned society — well-intentioned though it be — is the enormous, menacing ogre of omnipotent, omnipresent Government.

The Labor concept of society is revolutionary because it breaks with one of the two great strands of the Australian tradition — that of the independent, self-reliant individual person fending for himself. This tradition is deep-rooted in Australian life and is maybe more tenacious than Labor philosophy allows for. It stems from the opening up of the Continent, from the early settlers who had no one to help them but themselves. And it is associated with an irreverent attitude towards authority, no matter in what form authority comes. The almost inevitable rejection of referenda suggests that Australians have a profound aversion to giving more power to Governments.

The other central strand of the Australian tradition and way of political thought is that of egalitarianism, a hatred of class distinction and a humane concern for the under-dog. In this respect, Labor may claim, in the past at any rate, to have been more in step with the underlying elements of Australianism than their opponents. But in its attempts to bring about a more equal society, it is undeniable that Labor is stamping on, and threatens to destroy, the other, and perhaps greater national characteristic, that of the purposeful, independent, individualistic Australian with his detestation of all forms of authoritarianism.

Unless the Labor Party changes direction, the choice between these two utterly diverse concepts of society is one that the Australian people can hardly avoid making within
the next three to six years. The time is nigh when Australians will be compelled to take one of the climactic decisions of their history.

The decision is really one about the role of Government. How much Government do we want? How big, how dominant, how pervasive are we prepared to see Government become? To what extent are we prepared to concede to Government the right to intervene in our business affairs, to shape the pattern of our living, to assume the role of universal protector, to make decisions on our behalf which we would otherwise make for ourselves? This is, at root, what our present uncertainties are all about.

* * * * *

It is a startling fact that Australia seems to be the last remaining country in the Western World which has yet to cast the die, to make this basic, almost certainly irrevocable decision.

Britain appeared to make its choice as long ago as the end of World War II when it rejected Winston Churchill, then at the dizzy heights of his unparalleled prestige, in favour of the Attlee Government. It was a decision of a desperately tired, deeply suffering people prepared to pay any price for security and a quiet life. The Welfare State became a fact of British life, which the Conservative Party, as well as Labour, has since been compelled to recognize. The present discontents of Britain suggest that it has not been an altogether happy choice.

The democratic countries of the European continent, with the possible exception of Switzerland, have also long since opted for the Welfare State, and for Government as the predominant, directive, if not energising, force in their economies. In the United States and Canada, on the other hand (the former with an almost mystical faith in the free enterprise way of life) the individualist tradition, the distrust of Big Government, seems to be securely entrenched. This can be said notwithstanding the fact that Government now occupies a part in those countries which earlier generations would have regarded with feelings of horror.
Australia alone seems still undecided.

No one would deny that the Welfare economies of such countries as France and Germany have apparently worked well. But this is not to say they would be successful in the more rugged, less disciplined Australian environment. The European peoples, by long historical experience, are accustomed to an authoritarian, paternalistic tradition quite foreign to Australia. Indeed, the "new" countries overseas — the United States, Canada, Australia — were settled by intrepid, enterprising people, prepared to face incredible hazards to escape from the oppressive political climates of Europe in order to seek a new life of freedom and opportunity.

The improvement and reform of Australian society, it must be stressed, is not the question at issue. The question at issue is the means by which we seek improvement. Two roads now lie before us. The choice between them cannot be long delayed.

We believe that it would be a disastrous, retrograde step for Australia to be false to its history and tradition by choosing the road of Big Government. It would be disastrous for political as well as for economic reasons. Democracy is a matter of power and the avoidance of its concentration. It makes little difference whether the power is concentrated in private hands or in those of Government and the meddlesome, ubiquitous bureaucratic apparatus of Government. Men can only be truly free, can indeed only achieve their full stature as men, so long as they make their own choices.

"Big Daddy" may give the appearance of benevolence, but, deep within us, we feel he is somehow sinister.
A Communication Breakdown

Practically everyone hates rising prices. We like to think that the dollar in our pockets will buy just as much tomorrow or next year as it does today. The overwhelming majority of us are strong anti-inflationists.

Yet, despite this, we have been plagued with inflation ever since World War II, and, in recent times, prices have risen at a rate which frightens the wits out of most of us.

Thus, we are in the strange and contradictory situation of hating inflation, yet allowing it to take charge of our lives. We have begun to look at it almost as something beyond our control, as something we can do little or nothing about. Yet inflation is not an act of God; it is man-made and what is man-made can be unmade.

Why has inflation proved so far to be invincible?

After all we know the economic remedies of inflation. The trouble is that politicians are reluctant to apply them. They are reluctant to apply them because they fear the people will throw the medicine in their faces.

Governments can hardly blame the people for their attitudes, because they have not really bothered to explain the nature and causes of inflation in terms which the ordinary person can understand. Thus, there has been an almost total breakdown in communication between government and people.

The people, it is fair to say, are utterly bewildered about inflation and its causes. One political party tells them one thing; another tells them almost precisely the opposite. Some economists say one thing; others something quite different. In any case, neither politicians nor economists speak about inflation in the language of the people.

But unless the people can be persuaded to accept the measures necessary to cure inflation, then inflation will, of course, go on. The people feel that the correction of inflation is solely the responsibility of their governments and has little or nothing to do with them. This is because governments give the impression that they can cure inflation without any help from the community. Of course they can't.

The first thing that must be done — otherwise there is no hope — is to correct this misapprehension. We all want to beat inflation; but it can't be done unless we all make our contribution, unless we all join in the fight.

To enlist the support of the community, the causes of inflation must be explained in a way which the ordinary man can understand. This article presumes to make a few suggestions in this regard.

*   *   *   *

(1) Simply put, rising prices are caused by attempts by the people as a whole to have a higher standard of living than the economy can afford.
Our standard of living is determined by two things:

(a) by the quantity of goods and services we can buy out of our after-tax incomes.

(b) by the standard of the services that Governments—Federal, State and Local—provide for us out of the taxes we pay them.

(2) Taking the Australian community as a whole, the standard of living of the people can obviously be no higher than the quantity of goods and services produced. You can't distribute more cake than the size of the cake permits. Only by producing more cake can living standards be raised.

Some people, it is true, may succeed in getting a rise in their living standards—in other words, a greater share of the cake. But this can only be at the expense of other people who are left a smaller share—in other words, suffer a fall in their living standards.

(3) Attempts by people to get a higher living standard take two forms:

(a) A demand for more money, for a higher wage or salary or fee or profit.

(b) A demand that their Governments—Federal, State or Local—provide them with better roads, hospitals, schools, public transport, or higher pensions, increased child endowment and so on.

But if the people's demands add up to more—they have been adding up to much more—than the increase in the goods and services they produce, some of their demands must obviously remain unsatisfied.

(4) Let us assume, for instance, that, on the one hand, wage and salary earners, as a whole, get an average increase in their incomes in one year of, say, 20 per cent; and, on the other, that the goods and services, on which they can spend their 20 per cent addition, increase only by 5 per cent. In that case, it is clear that their standards of living (on average) cannot improve by more than 5 per cent, since this represents the increase in the goods and services available. The increase in money incomes exceeds the increase in goods by 15 per cent. The two are brought into line by a rise in average prices of some 15 per cent. Everyone in the community would have been just as well off if money incomes had increased by only 5 per cent. Prices, then, would not have risen at all. The people could have bought just as many goods and services with the 5 per cent rise as they can with the 20 per cent rise. They have gained nothing by the extra 15 per cent increase, since it is all taken away from them by the rise in prices.

Indeed, as far as their personal expenditures are concerned, they could be worse off. The large increase of 20 per cent in their incomes means that they will be paying much higher rates of taxation. A greater proportion of their incomes will thus be taken by governments. Governments may spend this extra money in ways which will benefit the people, say, on better schools and roads; on the other hand, they could waste the money on, say, more public servants, or on turtle farms that prove to be a fiasco.

Actually, in the 12 months from December 1972 to December 1973, the average family wage-earner appears to have been little or no better off at the end of the period than he was at the beginning. And this, despite the fact that his money wage increased by 15 per cent. Between the December quarters of 1972 and 1973, average annual earnings rose by $800. But take-home pay, because of tax increases, would have risen by far less than that. After allowing for the effects of higher prices, the average family wage-earner (who receives child
endowment) was in much the same position at the end of the year as at the beginning.

(5) There is a further aspect of demands for wage and salary increases that greatly exceed the production out of which they can be paid. Say a particular union makes a claim for a 15 or 20 per cent increase in wages. Who is to foot the bill for this increase? Most unions seem to have the impression that the bill will have to be met by the employers. Certainly the employers meet the increase by putting more money in pay envelopes. But they do not really pay the bill. They pass on the increase in their wage costs in the prices they charge for their products. Indeed, they are compelled to. They really have no alternative. To stay in business they have to make a profit. If they fail to do so, they will eventually go out of business. If their profits are severely reduced by the wage increase they would be unable to find people prepared to invest their savings in the business in order to finance its expansion. In that event they would be unable to provide additional jobs.

Thus, it is not employers but the public who really pay the bill for large increases in wages. The people pay for them in higher prices. And three-quarters of the people are wage and salary earners. A large part of the remainder are pensioners. Thus a successful claim by a particular union for a big jump in wages is paid for by their fellow unionists. It is really a claim not on employers, but on other wage-earners and on the luckless people in retirement.

(6) For some years, wages and salaries have been rising, on average, by between 10 and 20 per cent a year. On the other side, the goods on which they can be spent have been increasing by about an average of only 3 per cent a year. In these circumstances, nothing that governments or anybody else can do can stop prices rising. Yet in discussions of inflation you seldom hear politicians, or, for that matter, economists, ever mention wage and salary increases among the causes of inflation. They show a lack of both frankness and courage. They fear to tell the people the truth. But people are not fools; in our hearts most of us know very well that enormous increases in money incomes all round must result in price rises. The reason why most of us persist in demanding these increases is because we fear that, if we don’t, we will be left behind — that we will be the “suckers”. If one section of the community succeeds in getting an increase in wages of, say, 20 per cent, not unnaturally all the rest of us feel that we should get likewise.

(7) There is really only one thing that can stop this mad, competitive chase after huge increases in money incomes, and that is courageous leadership and example by governments. Governments must set a ceiling on annual wage and salary rises, a ceiling that is consistent with reasonable stability of prices. Somehow or other they must compel all wage-fixing authorities and all agreements between employers and unions to observe this ceiling.

And, of course, politicians must observe the ceiling in relation to their own incomes. Members of Parliament and public servants have been as culpable as anyone else in pressing for, and getting, inflationary increases in their salaries. Unless they show self-restraint, they can hardly expect the rest of the community to limit their demands.

(8) Such a ceiling would, however, be clearly impossible to maintain should the demand for workers greatly exceed the number of those seeking work. In that case employers will compete with one another, and bid up wages, in order to obtain workers.

(9) This leads to the part that Government spending plays in inflation.
It has become a habit among democratic peoples to look to governments to remedy, almost overnight, all the shortcomings in the services provided by governments. We, the people, demand better roads and more freeways to solve the terrible congestion of traffic, better trains and trams, better schools, “free” universities, more hospitals and improved medical facilities, expanded welfare services of all kinds from child-minding clinics to homes for the aged, cheap housing, higher pensions, increased assistance for families — the list is almost endless. Far from restraining these ambitions, political parties have done the opposite. They compete with one another in making lavish promises involving the spending of more and more money in every direction under the sun. Thus they give the people the impression that there is virtually no limit to the things that the government can and will do for them if the people vote them into power.

But, of course, there are limits, in fact, very severe and definite limits. The limits are set by the resources available to carry out the massive government programmes which the politicians promise to put into effect. Bricks and mortar, for instance, are not unlimited. If more are used in building schools and universities, there will obviously be less for public housing and hospitals. Precisely the same applies to everything that governments do. If they spend more money on one thing, there will be that much less for others. Politicians seldom bother to tell you this; they give the impression that there is ample money for everything.

If we, the people, want better government services and demand better government services, we must realise that there is a price to be paid. Nothing in the world is “free” in spite of the fact that politicians like to talk about “free” schooling and “free” health services and the rest. Governments do not bother to tell you that all the money they spend is, in fact, your money. They do not tell you that when they are being generous, they are being generous at your expense. So if governments spend more money on the services they provide, the money can only come out of your pockets. There is nowhere else it can come from.

You will see where this is leading. If governments spend more, it must leave the people less to spend on their personal needs — less on food, less on clothes, less on furniture, less on their children, less on holidays and recreation. But most of us don’t want to cut down our own personal expenditures. We want, at one and the same time, better personal living standards, and also greatly improved government services of every conceivable kind. A little thought will tell us that this is just not possible.

What, in fact, happens when governments raise taxes to pay for their extravagant programmes is that finding there is less money in our pay envelopes, we ask for an increase in our wages or salaries. This really means that we are not prepared to pay the price for getting better schools, roads and the other things. We are trying to take back what the Government has taken away from us in order to provide the better services we have been demanding.

It is this conflict between our personal spending and government spending that leads costs to rise and thus prices to rise. Costs rise because wages and salaries go up as taxes are increased. They also rise because total expenditure, that is, spending by people for personal needs and spending by governments, together become excessive. If bricks and mortar are not sufficient to supply the demand for both schools and homes, the shortage will drive up prices.

This is how heavy government spending leads to inflation. Increased government spending would not lead to inflation
if we were, as a people, prepared to pay for the increase; in other words, make sacrifices by accepting lower personal living standards than we would otherwise have. But when it comes to the crunch, few of us are prepared to do that. When taxes rise or tram fares rise, we demand a higher wage or salary in compensation.

All this simply means that if inflation is to be stopped, governments must moderate their expenditures. And this really means that we must moderate our demands on governments.

(13) High interest rates are an effect, not a cause of inflation. Interest rates are a price like the price of potatoes — the price of borrowing money. The price is determined, as with other prices, by supply and demand, in this case for money. In an inflation there is a tremendous demand for borrowed money, both by business and individuals, the latter for houses, motor cars, refrigerators and the rest. This drives up interest rates. Lenders are also reluctant to lend their money except at a high price, because with rising prices generally, the real value (purchasing power) of the return they get is falling all the time. Interest rates will come down when inflation is slowed down — not before.

(14) All this may still leave the reader asking what we are to do about inflation. How is it to be stopped or, at least, slowed right down?

We have tried to make clear that inflation has its roots in our attitudes (including the attitudes of governments) rather than in policies. The attitudes determine the policies. To change the policies, the attitudes both of ourselves and of governments must first be changed.

The primary responsibility belongs, of course, to government. The Government should make clear that it cannot spend huge sums of money — our money — on everything from schools to superphosphate bounties, without inflation: and, accordingly, that if inflation is to be checked, we, the people, must moderate the demands we make on governments. The Government should also make clear that if inflation is to be overcome, we, the people, must cut down our demands for higher money wages, salaries, professional fees and profits.

When we accept the fact that the real value of what we receive in money depends upon the prices we have to pay, and not just the amount of money in our pay envelopes, and limit the annual claims we make for higher money incomes to a reasonable amount, we will be well on the way to bringing inflation under control. If increases in incomes average more than 4 or 5 per cent a year, prices will rise. The rise in prices will reduce the real value of the increase to something like 4 or 5 per cent, no matter whether the increase is 20 per cent, or 40 per cent, or even 100 per cent. As a community we cannot improve our living standards just by paying ourselves more money: these standards are determined by how much we produce in goods and services.

Not until the community accepts this simple truth will inflation be defeated.
A New Measure of Unemployment

THE present measure of unemployment gives a totally incorrect picture of the state of the labour market. Yet it is used by governments as the main indicator of whether the economy needs to be stimulated or retarded: in other words, it has a major influence on decisions affecting the management of the economy.

The present measure is also used by the media, by politicians and economists, who should know better, for forming their attitudes on the state of the economy. These attitudes, based on an utterly misleading statistic, in turn, determine the attitudes of the community as a whole.

There can be no sensible approach to economic management until a relevant index of unemployment is computed and made available by the authorities. For example, in April this year the number of persons registered for employment was 76,900 or 1.31 per cent of the work force. In fact, as everybody with any close connections with the labour market would know, there was a condition of severe labour shortage; in other words, of excess demand. "Excess demand" is, of course, a synonym for inflation.

Ideally, a measure of unemployment for the purpose of national economic management should include only those out of work through no choice of their own and genuinely seeking work.

The present figure is made up of the total of those registered with the Commonwealth Employment Service. This includes a large number of people who, because of physical or character defects, are virtually unemployable. Many of these people are destined to remain unemployed, at least under present conditions. They should be adequately supported by the community; their numbers might be reduced through government subsidisation of employers. But, in any case, they
should not be included in a figure of unemployment concerned to measure the state of the labour market.

A further sizeable part of the present unemployment figure — possibly one-fifth — consists of people who have become unemployed of their own free choice in order to seek more remunerative, or different kind of work. Most of these people find employment within three months or less. They have no place in a statistic used for purposes of national economic management.

A further number of those on the unemployed register consists of people not seriously seeking work, but content to draw unemployment benefits. It has been suggested by economist, Peter Samuel (in articles in “The Bulletin” last January), that they comprise a disturbingly high proportion of the total figure. Clearly they should not form part of any statistic used to indicate the state of the economy. Nor, needless to say, should they receive unemployment benefits.

The present measure of unemployment, thus, does not mean what it purports to mean, or at least what it is taken to mean by the community. A new statistic to serve as a proper basis for rational management of the economy is urgently needed. Otherwise governments, under pressure from the media and the community, will continue to pursue inflationary policies. The new figure should, so far as possible, be comprised only of people unemployed through no fault of their own and genuinely wanting work.
The Commonwealth Public Service is expanding at a frightening rate.

The spiralling growth of the Public Service was criticised frequently and trenchantly during the long years of the Liberal-Country Party administration and this, no doubt, played some part in persuading the Government in 1972 to set an annual growth limit of 3 per cent for full-time staff. Under the Labor Government, the growth of the Service has accelerated alarmingly. In 1972/73 the rate of increase was close to 4 per cent and the Prime Minister has said that new Government plans in prospect may take the figure for 1973/74 to 5 per cent. This could prove to be a serious underestimate. Latest information suggests that between June and December, 1973, the Public Service grew at an annual rate of nearly 10 per cent.

The Coombs Report on Government expenditure made the disturbing observation that “the growth of the Australian Public Service could get out of hand”. The Report stressed that the Labor Government’s programmes were already taxing the resources of the Public Service because of the scarcity of high-level management and administrative skills and that expenditure decisions should take this fact into account. Referring to the run-away expansion of the Service, the Report called for a concerted effort by the Government, the Public Service Board, the Treasury and other departments to raise standards of efficiency in order to restrain the rate of growth. The Coombs Report has become the New Testament for the dissenters from the Liberal Government’s pattern of expenditure; but so far few people seem to have paid much attention to the chapter warning of the expansion of the Public Service.

The estimated size of the administrative Commonwealth Public Service (that is, excluding Defence Services, 109,149, and the Post Office, 124,437) is 105,206 for 1973/74. The figures for previous years were as follows:

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The total administrative salary bill rocketed from $429 m. in 1970/71 to an estimated $675 m. in 1973/74, an increase of around 60 per cent. This large jump in expenditure was due, not only to the increase of numbers, but also to a big rise in the level of salaries. Indeed, where private enterprise was once regarded as the pace-setter for salaries, that honour now seems to have passed to the Public Service.

Perhaps the most spectacular expansion has occurred in the Second Division of the Service. Here we enter the hallowed offices of those drawing high salaries — Mr. Cameron’s “fat cats”. Salaries for Second Division public servants on the lowest grade are now $17,300 a year; for the highest grade,
$26,225. These salaries, it could be said, are more than comparable to those earned by experienced management in all but the top echelons of private enterprise. Three years ago the equivalent salary levels were $11,822 and $17,899. There has been a quite extraordinary increase in highly paid Second Division officers since the advent of the Labor Government. In June, 1972, they numbered 856. Within 18 months, by December, 1973, they had increased to around 1,200 or by nearly 40 per cent.

It must be questioned whether sufficient people, with the qualifications, experience and personal talents to justify such salaries, are available to meet an expansion of this magnitude. Top administrative capacity, whether in private enterprise or government, cannot be produced in a day. First-rate academic qualifications are far from enough; a long apprenticeship in coping with practical problems is indispensable.

In 1972, of the Second Division permanent officers, one-third were between the ages of 40 to 50; 50 per cent were between 45 and 55. The experience and ability of these men could thus be said to have been tested and proven over 20 or more years. Even then the resources of the Public Service were stretched. Nearly 50 per cent of 604 Second Division officers in 1972 were in the lowest salary bracket. 73 per cent were on the bottom two rungs of the six-step ladder within the Division. The expansion of the Second Division by nearly 40 per cent within 18 months suggests that many Third Division officers have been catapulted into positions of high pay and responsibility more rapidly than they could reasonably have expected.

Thus, under the Labor Government there has been not only an unprecedented expansion of the Canberra bureaucracy, but a much more than proportionate increase in the numbers in the highly paid top strata. It is interesting to note that Grade 1 public servants have been pegged back in salary increases, but these officers should represent those that are most worthy of special consideration.

There has also occurred a significant development of the practice of appointing advisers from outside the Public Service to the personal staffs of Ministers; the 1973 Report of the Public Service Board draws attention to this. Ministerial assistants come in various guises, from Press Secretaries who earn $12,549 a year to top private secretaries who may get $16,433. These amounts do not include overtime, which, in some instances, has run to thousands of dollars in additional earnings. In 1973 a member of the Prime Minister's staff received $8,386 in overtime, another officer had to make do with a meagre $4,430. The average overtime pay for 14 members of the Prime Minister's personal staff was a little over $2,000. These bountiful overtime rewards were not restricted to Mr. Whitlam's staff. It has to be said that during the same period members of the personal staffs of some Opposition leaders received comparable payments. Some over-worked permanent public servants, not entitled to overtime additions, must cast envious glances at these figures.

Part of the impetus behind the ballooning growth of the Public Service comes from the Government itself and its policy decisions. In these times, regardless of party, Government is assuming more and more responsibilities in economic, social and other fields. But this development, as might be expected, is more pronounced with a Labor Government than with a non-Labor administration, because of the greater emphasis placed by the former on government planning and intervention and on national schemes of social welfare.

The rapid expansion of the Public Service is also traceable to natural forces of growth within the Service itself — the notorious Parkinson's Law is ceaselessly
at work. There is the widespread practice of "empire-building", the desire of officials to extend their field of responsibility and to increase their staffs for reasons of personal status and prestige. A senior man can also always find more things that his section should be doing and has little difficulty in convincing himself that they are absolutely essential. He is not accustomed to weigh prospective benefits to the community against the expense involved. It may be that a projected expansion requires only two or three more people, but when the practice is followed as it tends to be, throughout large sections of government, the cumulative addition to the size of the Public Service can be quite startling.

"Empire-building" is not confined to the Public Service. It is also prevalent in large private enterprises. But a departmental head in a private business has a much harder task to justify increases in his staff than his opposite number in government. Costs exercise a sobering influence because of the compulsion to show a profit; proposals for expansion are therefore likely to be subjected to rigorous scrutiny. In the Public Service the normal commercial disciplines and tests do not — because they cannot — apply. Indeed, they do not apply even to government business enterprises, such as the Post Office, which can always raise charges to compensate for inefficiencies or for extravagant or wasteful expenditures, increases which, if made by a big corporation, would incur the wrath of socialist politicians, trade unions and the media. But when made by a government enterprise, they go largely unremarked.

* * * *

A huge over-size bureaucracy has serious implications for the taxpayer and the economy. It has even more serious implications for the reality of democracy.

For the taxpayer, the consequences are obvious enough. The salary of every addition to the staff of a government department, whether it is a Ph.D. or a junior typist, must be paid for out of the taxpayer's pocket. The total administrative Public Service of Australia — Federal, State and Local — would not be far short of a quarter of a million people.* The cost to the taxpayer is probably now running at over $1,000 m. a year. It is a lot to pay, and the Australian people are entitled to look for proportionate benefits from the bureaucracy which it supports. And, of course, that is far from the total outlay. There is the cost of massive buildings, equipment, opulent cars and, in the case of the Commonwealth at any rate, superannuation benefits generally unmatched in private enterprise. A growth rate of 4 per cent means approximately another 4,200 Commonwealth public servants. Assuming an average weekly earnings rate of $100, expenditure would rise by some $20 million a year for salaries alone.

Not unnaturally, the ordinary person frequently wonders whether these huge numbers of bureaucrats are necessary to run the business of the country. While it is common knowledge that senior departmental officials are, for the most part, dedicated men working long hours, there is a widespread belief that this does not apply to many among the rank and file. In business circles particularly, it is thought that the pressures and urgencies which exist in private enterprise are absent in large government departments. It is widely believed, in other words, that "productivity" in the Public Service is far lower than is warranted and that its work could be carried out just as efficiently by much smaller numbers.

Some businessmen, no doubt, make insufficient allowance for the substantially different nature of the work of government from that of profit-earning

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*The total for all Government employees is 1,164,000.
business. Rules and regulations unnecessary in the latter — "red-tape" as it is commonly called — are to some extent unavoidable in public administration. Nevertheless, the impression persists, not perhaps without justification, that the pace of life is much more leisurely in government departments than in the busy hum of the commercial office.

What of the broader economic aspects of a huge, bloated bureaucracy?

As the Public Service absorbs more and more workers, less are available for the "productive" sector of the economy which alone provides the goods and services that, in the end, determine the standards of living of the ordinary Australian. A government administrative department does not produce bricks and mortar, or steel, or overcoats or bread and butter, or hair cuts. It doesn't even directly "produce" services such as education or hospitalization or transport. The disproportionate proliferation of pen-pushers and paper workers at the expense of fitters and turners and even teachers and nurses must detract from rather than improve the lot of the average Australian. In the end, it is the "producers" who make possible the salaries and superannuation benefits of tens of thousands of government officials and clerks. University graduates, looking to the Public Service for a lucrative career, may end up in a new popular growth area such as a department dealing with the environment and conservation, and may find themselves in confrontation with miners and manufacturers. They should — but almost certainly will not — realise that were it not for the enterprises which these people have created, there would be no jobs for them.

These things are worth bearing in mind so long as the argument is not pushed to extremes. The "productive" section of the community stands to gain, and indeed has gained vastly, from a well-managed economy. But mere numbers, the multiplication of fact-finders and research workers, and advisory committees, do not guarantee this happy result. Indeed they often give rise to confused thinking and ineffective "compromise" decisions. One Keynes is worth a thousand run-of-the-mill economists, no matter how impressive their academic attainments. In one respect, in the standard of thought and understanding generally displayed by the Commonwealth Treasury, Australia has been singularly fortunate. The viewpoints on the economy, particularly those expressed in the series of special White Papers, have been intellectually penetrating and of great value. Unfortunately the most worthwhile papers are seldom read by the average citizen.

The fact that they have not been sufficiently reflected in Government thought and policies is, of course, no fault of the Public Service. But the mere size of the Treasury, a department of some 1,500 employees (excluding Census and Statistics and Taxation), has little to do with this achievement. The credit is almost certainly due to two or three especially gifted minds.

As bureaucracy grows, the heavy burden already carried by the taxpayer becomes heavier still. So does the burden on the economy. The multiplication of public officials means that the community's resources are not being applied in the most productive manner. But like the old man on Sinbad's back, once well ensconsed, the load becomes difficult, if not impossible, to shake off.

This is bad enough. But serious though it be, it is by no means the most disturbing aspect of a huge public service. There comes a point when an ever-expanding bureaucracy becomes a threat to the reality of democracy itself. It makes no difference that the people still have the right to choose those who
Bureaucracy Becoming Bloated (continued)

govern them. True democracy begins to disappear when more and more of the significant decisions affecting the everyday life of the individual are, in effect, taken out of his hands, and made, on his behalf, by remote and anonymous bureaucrats.

Democracy, in the last analysis, has to do with power and its diffusion through the community. The increasing concentration of power in governments, and in the bureaucracies through which they operate, is one of the frightening features of the modern world. Power is a heady wine and even the best of human beings are not immune from its intoxicating effects. When, then, does Big Government - which has no doubt come to stay - become too big?

Even leading socialist thinkers have evinced alarm about these trends: The late Richard Crossman,* a British socialist intellectual of some eminence and a former Leader of the House of Commons, wrote, "The growth of a vast, centralised State bureaucracy constitutes a grave potential threat to social democracy. The idea that we are being disloyal to our socialist principles if we attack its excesses or defend the individual against its incipient despotism is a fallacy."

That was some years ago. In the meantime the bureaucracy gets bigger and bigger. At what point will the community become sufficiently alarmed to say that enough is enough and to demand that much stronger restraints on its growth be imposed?

*Richard Crossman died on April 5 this year.

Since this article went to press, the Prime Minister (at the June Premiers' Conference) announced that a ceiling of 2.6 per cent would be imposed on the growth of the full-time staff of the Public Service.
New Booklet

"PROFITS and PRICES"

Towards the end of 1973 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.
There has been a good reaction to the booklet and sales to date exceed 62,000 copies. Several companies have taken in excess of 1,000 copies. Some comments on the booklet:

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. 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. B. F. Hartshorn,
Industrial Relations Officer, Provincial Traders Pty. Limited —
"I congratulate you on a fine publication."

Mrs. D. Anzarut,
Teacher of Economics, Methodist Ladies' College —
"I am senior teacher of economics at M.L.C. and feel that this publication would be of great value for my students."

Mr. A. D. Kelly —
"Am afraid some of my friends have a poor idea of the workings of business and I will hand a copy to them. It might help them a bit."

Mr. J. B. Nichols,
Bank of New South Wales —
"The bank is impressed with the booklet 'Profits and Prices'; we are interested in providing each branch and department with a copy."

Mr. Michael Ivens,
Aims of Industry, London —
"'Profits and Prices' is absolutely excellent."

Copies of the booklet may be obtained on application to:

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

Price to companies — 25 cents per copy.
Copies will be posted free of charge to teachers and schools.
It is not possible to send copies to individual students.
Japan’s Economic Growth and the Productivity Movement

by

TAKEO TAMARUSHIMA

A graduate of Hitotsubashi University, Mr. Tamarushima attended an I.L.O. Conference in Geneva in 1933. During the war he was Adviser to the Navy Minister and in 1954 he was Secretary to the Finance Minister.

In 1972 Mr. Tamarushima was a speaker at the Australian Productivity Seminar in Perth. He is at present Executive Director and Secretary General of the Japan Productivity Centre.

I The Japanese Economy at the Time of the Establishment of JPC

By 1953-54, the Japanese economy had been restored to its pre-war level, but was suffering from severe deflation, with growing unemployment and inability to pay wage increases. As the workers pressed the employers for higher wages, struggles between labor and management intensified, resulting in frequent strikes. On the other hand, export volume had not reached a level of two billion dollars, so the future looked gloomy.

With its small area, poor natural resources and a dense population, there was no other way than to make use of the resources of other nations, to raise value-added, and to promote exports, if Japan was to prosper. The Japanese began to realise that in order to develop the Japanese economy, we had to promote exports through productivity improvement. The workers, too, began to understand that they could not get higher real wages by quarrelling with employers, but should co-operate with management to develop industry and then seek a share of the fruits.

In order to restore the war-torn economies of the free world to normality, the U.S. Government took expeditious measures in rendering economic assistance to the free-bloc countries. Among various assistance programs, the worldwide productivity movement was launched under the U.S. technical co-operation and assistance policy with I.C.A. (International Co-operation Administration) as the promoter of this movement.

In Europe, the assistance began in 1948 and continued until 1953. The program included the sending of study teams to the U.S. and visits from U.S. specialists. The U.K. benefited greatly from the findings of the study teams in the United States which resulted in a...
rapid economic recovery, the so-called Second Industrial Revolution. Germany, too, achieved a miracle of economic growth due to the U.S. assistance policy.

Following the European countries, Japan concluded a technical co-operation agreement with the U.S. Government. As a result, the Japan Productivity Centre was established in 1955 and since then the Japanese economy has expanded with the progress of the productivity movement.

II The Philosophy of the Japan Productivity Centre

At the outset there was suspicion among labor unions that a productivity movement would only strengthen the hand of management and make a scapegoat of labor and increase unemployment. Ideological differences apart, it was necessary to dispel doubts due to misunderstanding.

Immediately after its establishment, therefore, the Japan Productivity Centre adopted three principles as the basis for promotion of the movement:

"Improvement of industrial productivity is vital to the achievement of the Japanese economy's self-sustenance and the raising of the standard of living of the Japanese people.

"A productivity movement conceived from this perspective must develop as a national movement supported by a deep understanding of the following principles:

1. Improvement of productivity will ultimately increase employment. To cope with transitional surpluses in personnel, however, the government and private sectors shall work together to devise adequate means of preventing unemployment, including transfers of personnel when feasible.

2. The specific ways in which to improve productivity shall be left up to the individual enterprises, being decided in accordance with the actual circumstances and as a result of study and discussion with the collaboration of both labor and management.

3. The fruits of improved productivity shall be equitably distributed among management, labor, and consumers in accordance with the actual conditions of the national economy.”

These three principles, which, for the sake of brevity, we call the principle of secure employment, the principle of labor-management consultation, and the principle of equitable distribution of the fruits obtained, have been the background support of the movement throughout its history.

The adoption of this basic policy led to the active participation in the movement of labor unions, which had hitherto hesitated. Within a few years, important national unions, organized along industry lines, sent representatives to the Japan Productivity Centre.

In the process of our rapid economic growth, we have encountered many social anomalies, including soaring commodity prices and the serious threat of environmental pollution. Since around 1968, changes in values have frequently been mentioned throughout the world. People, especially younger generations, contended that man’s objective should be an improvement in human welfare and happiness, with economic growth as a vehicle to these ends. These people also pushed industry to undertake increasing responsibilities for environmental preservation and pollution control. Emphasis was being shifted from a highly-industrialized to a welfare-centred society.

As part of an international society, it became clear that Japan could not prosper without co-operation with overseas countries and it was emphasized that the
developing countries should be assisted in development and growth. The responsibilities of the advanced countries for assisting others are great.

The underlying philosophy of the JPC is that productivity is really a belief in human progress, a belief in perpetual improvement, a conviction that today can be made better than yesterday and that tomorrow is better than today, and that there should be a ceaseless effort to apply new technology and methods to improve the welfare and happiness of mankind.

III Reasons Behind Japan's Economic Growth and Its Continued Economic Success

Supported by the productivity movement, Japan has achieved an unparalleled economic growth. GNP, which was US$24 billion in 1955, rocketed to US$415 billion by 1973. Japan's export income, which was as small as US$2 billion in 1955, amounted to US$38.5 billion in 1973. During these years, Japan recorded, on average, more than 10 per cent annual growth rate. In terms of per capita income, also, while Japan ranked 20th with about US$200 in 1955, she was among the top ten countries in 1973 with US$3,020.

There is no doubt that unique labor-management relations have contributed greatly to the outstanding economic growth of Japan after World War II. Also noteworthy is the high percentage of literacy of the Japanese people. According to statistics of the Education Ministry, the percentage of attendance at primary-secondary school, high school and college or university was 99.87 per cent, 87.2 per cent and 29.2 per cent respectively in 1972. That is to say, about one third of boys and girls go to college or university. Being curious by nature, it is easy for the Japanese to absorb new technology quickly.

Technological innovation was also promoted as company executives were forced to meet the increasing demands of workers for higher wages. The stronger the demands, the more sophisticated management gets in terms of innovation and rationalization. Thus, the payment of higher wages becomes possible with a rise in real purchasing power, which in turn promotes economic prosperity.

IV Characteristics of Labor-Management Relations in Japan

The characteristics unique to industrial relations in Japan can be summarized in the following three points:

a. Enterprise-wide trade unions
b. Wage and salary (compensation) systems based on age and seniority of employees, and
c. Life-time employment.

Although Japanese trade unionists initially studied the European pattern of the union movement, especially that of England, the enterprise-wide union pattern peculiar to Japan prevented the growth of the English-type of trade union. It is true, however, that in the early stage of our trade union movement there were organizations such as the Engineers' Union, Pressmen's Trade Union, etc. But the enterprise-wide pattern of a union lent itself most readily and efficiently to the need of rapidly organizing unions in the post-war period of Japan. This factor certainly contributed to the expansion and widespread penetration of the enterprise-wide union which undoubtedly forms the unique character of our unions.

The enterprise-wide structure of the unions facilitates the collecting of union dues with co-operation from management. The fact that their union offices are located within the enterprise, has led to criticism from foreign trade unions. It is suggested that the unions lack "militancy" which foreigners think is
Japan's Economic Growth (continued)

essential for trade unions. Nevertheless, trade unions in Japan have constant coordination with their national industrial organizations so far as disputes over wages and working conditions are concerned. Through co-ordination with other unions, they stage the so-called "joint struggle" and this makes it virtually impossible for the employers to determine wages according to their individual business conditions and capabilities. Rather, they are forced to comply with the general wage levels regarded as commensurate with accepted social standards. As is clear from wage negotiations during the past several years, final determinations are made in the bargaining between labor and management within the company structure. Nevertheless the unions have an edge over the management on wage issues because of the support rendered from their national industrial organizations.

During the past six years, Japanese workers have obtained the following wage hikes:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1969</td>
<td>15.6%</td>
</tr>
<tr>
<td>1970</td>
<td>18.1%</td>
</tr>
<tr>
<td>1971</td>
<td>16.5%</td>
</tr>
<tr>
<td>1972</td>
<td>15%</td>
</tr>
<tr>
<td>1973</td>
<td>19.8%</td>
</tr>
<tr>
<td>1974</td>
<td>25% or more</td>
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</tbody>
</table>

Considering that such powerful labor unions as the Steel Workers' Union or Automotive Workers' Union in the U.S. obtained only about a 10 per cent annual wage hike during the same period, it can be easily seen that the Japanese labor unions, even though they are organized on a company basis, are powerful enough with the support rendered from the national industrial organizations.

Labor disputes in Japan are usually settled quickly, unlike the U.S. and the European nations where disputes tend to be prolonged. This is partly due to the labor-management joint consultation system in Japan through which mutual trust has been fostered. The Japan Productivity Centre, since its inception, has advocated the establishment of labor-management joint consultation within the enterprise. Nowadays about 80 per cent of Japanese enterprises have adopted this system to communicate with workers on productivity problems.

The Joint Consultation Systems proved very helpful in collective bargaining. This system also provides a channel by which workers "participate" in the management of the company. It goes without saying that the system facilitates better communication between labor and management, but, of course, the management have a final right of decision on managerial problems. By giving workers an opportunity to express their views, joint consultation plays an important role in fostering mutual trust between labor and management.

Recently the JPC has advocated the establishment of national industrial labor-management joint consultation arrangements. These have now been introduced in such industries as shipbuilding, automobile, textile, iron and steel, electric power and electric appliances.

While the role of organized labor is increasing, the need for management to have a parallel organization is under study.

Prior to World War II, the number of workers in unions reached 420,000, a relatively small figure. According to the statistics at the end of 1970, the total population of the nation was 108,000,000, of whom 52,000,000 people are in the labor market, with 33,000,000 registered as wage earners. Of these more than one third, namely 12,000,000, are unionized.

The life-time employment and compensation systems based on employees' age and seniority are peculiar to Japanese industry. In my view, it is certain that such arrangements help to cultivate the employees' sense of belonging and loyalty to the enterprise, resulting in a low turnover rate of workers. American managers
often complain that their staff members, in whom they have invested much money in recruitment and training, are persuaded to frequently join rival companies. In Japan the turnover rate of white collar workers is comparatively low. However, the turnover rate of blue collar workers is increasing. As a result of changing values among the younger generation, even white collar workers are now inclined to change jobs more frequently. But, generally, it can be said that life-time employment and compensation systems, based on employees’ age and seniority, remain characteristic of Japanese industry.

Since the principle may be opposed to that of reward commensurate with employees’ capability, Japanese enterprises are beginning to introduce job-wage incentive or similar systems for certain jobs.

It is natural that labor-management problems should be solved between labor and management and that government should not intervene. In collective bargaining on wages, the Japanese Government calmly watches the development of the situation. As a mediating agency there are the Central Labor Commission and the Public Enterprise Labor Commission for private industries and public enterprises. Respectively these bodies undertake mediation at the request of both labor and management. Wages for public servants of governmental agencies are based on the recommendations of the National Personnel Authority.

The Japanese Government has not yet introduced a so-called incomes policy. But should wages and commodity prices rise to such degree as to threaten the stability of the national economy, the Government may explore the possibility of introducing controls of commodity prices, wages, interest, etc. In any event, control of the incomes of public servants and of public enterprises is a part of an integrated national policy, and constitutes a guideline to abide by.

V Activities of the Japan Productivity Centre

a. The productivity program consists of many activities over a wide spectrum of areas. The major ones are:

(1) Management education
(2) Modernization of labor relations
(3) Management consulting
(4) Information processing activities
(5) Overseas management exchanges
(6) Productivity studies
(7) Publicity and publication
(8) Audio-visual activities
(9) Extension of the movement’s organizational network

b. Scale, Yearly Budget, etc.

Annual budget (April 1974 - March 1975)

3,133,395 thousand yen = US$10,173,000
(Out of which 10 per cent is from governmental subsidy, 6 per cent from member fees and 80 per cent from operating income. Membership of the JPC is 2,000 corporations and labor unions.)

Number of Employees.
300 (Regular 240; Part-time 60)

Regional organizations:

About 200 staff members, in 7 provincial centres and 16 prefectural councils. (Those centres and councils are independent from the JPC in terms of organization and budget. Membership of those centres and councils is approx. 8,000 in total.)

c. Overseas Exchange Program

By the end of 1973 the JPC had sent 13,000 participants overseas. Of these, about 2,000 were small business managers, another 2,000 labor leaders and the remaining 9,000 were professors,
school teachers, national or local government employees, representatives of public bodies and trade organizations, as well as business managers.

Country-wise, about 9,000 visited the U.S., 3,000 European countries, and about 1,000 visited South-east Asia, the Soviet Union, Eastern Europe, South America, Africa, and other places. During a single year about 300 go to the U.S. and 200 go to other areas. Five study teams of 54 people have been sent to Australia since 1968.

On the other hand, we have invited more than 200 specialists or scholars from overseas in the same period. Moreover, seminars on the Japanese economy have been held since 1972 in New York, Chicago, London, Paris, etc., to contribute to closer relationships between Japan and the countries concerned.

The JPC is also co-operating with APO (Asian Productivity Organization consisting of 14 Asian countries) projects.

d. Relations with Labor Unions

I have stated already that the total work force of Japan is 52 millions. Employed workers number 33 millions, of which organized workers amount to 12 millions.

Of the organized workers, about 4.5 millions are unionists advocating class struggle and denouncing the productivity movement as only strengthening the capitalist's head. The remaining 7.5 millions support the productivity movement.

Among the office-bearers of the JPC are the Presidents of leading Japanese Companies, Banks and Trade Unions, together with prominent university professors.

VI Future Direction

The national target of Japan after World War II was to restore the economy. Owing to the denunciation of warfare in the Constitution, Japan could concentrate on economic rehabilitation.

Since around 1970, when Japan's GNP ranked third next to the U.S. and the Soviet Union, there has been criticism from home and abroad of Japan's economic growth. People began to clamour for the welfare society instead of economic power. From abroad, voices have been raised against the rapid expansion of Japanese exports.

Due to rapid economic growth and export promotion, Japan's international surplus amounted to US$19 billion at the end of 1972. This led to an excess of liquidity which eventually resulted in spiralling prices for land and shares. To meet rising consumer prices, workers' wages were increased by 20 per cent in 1973 and 25 per cent or more in 1974. On the other hand, oil shortages and the resultant price hike of oil and oil products since the end of last year have shocked the Japanese economy. At present Japan is searching for a new way of economic operation based on a new system of prices.

In an effort to check inflation and to seek a new direction for the productivity movement, the JPC inaugurated last November a permanent "National Conference on Social and Economic Issues" composed of representatives of labor, management and scholars. The conference is endeavouring to find a new direction for the Japanese economy and will send its findings to the Government. The component members will make efforts to ensure that their respective organizations will gear to the proposed direction.
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