Editorial——

Forget The Votes!

The battle against inflation to date has been lacking in political courage. The Government has, at long last, done the right thing in reducing taxation, although there are serious doubts whether the adjustments are sufficient to inspire wage-earners to moderate their demands. It has failed to do the right thing in not cutting back on government spending.

Both these measures have been advocated for some time by the Opposition Parties — which is to their credit. But much more will be needed. No one has yet come up with a convincing way of reducing annual wage rises to a sensible amount. This is really the core of the problem and it is being shirked by all political parties.

Mere vocal opposition to excessive wage increases is certain to be largely ignored. There must be positive action. There are three possible ways of attacking irresponsible, extravagant demands for higher money incomes.

One is a buyers' market for labour. This is apparently what the Treasury advocated. Unemployment — not really large yet, but threatening to become fairly substantial — has developed notwithstanding the Government's rejection of the Treasury viewpoint.

Unemployment could not be maintained for long. The Government would be confronted with irresistible demands to reflate the economy. Indeed that is already occurring. Sustained unemployment, of a magnitude to take the steam out of wage claims, is just not in the realm of political reality. In the coming months the tightening employment situation may exert a restraining influence on union demands. But what happens when employment begins to pick up? What is there to prevent wage claims taking off again?

The Government's remedy for wage escalation is indexation. On this the Opposition is still equivocal. Wage indexation would be a total calamity. It would guarantee the continuance of rapid inflation for a long time to come; infla-
tion would be in-built into the economy. Indexation is really a surrender to inflation, a decision to live with, rather than to destroy, it. There must be serious doubts, too, whether it would cause the militant unions to suppress their demands. In the event, indexation could not be confined to the wage-earner. What is sauce for the goose would be sauce for the gander. With virtually everyone's income hitched to the soaring cost-of-living, no section could gain. But everyone would lose because of the terrifying uncertainties attendant upon the continued rapid deterioration of the monetary unit.

There is a third way to attack the exorbitant annual rises in incomes. It is for the Commonwealth, in cooperation with the States, to impose a temporary ceiling, say, for the sake of argument, of 6 per cent. Politicians clearly fear that this would not be acceptable. Perhaps they are out of touch with the prevailing public mood; they may well be under-rating the residuum of good sense and responsibility which still exists in the Australian democracy. They are certainly under-estimating the fears of hyper-inflation now abroad in the land.

With a ceiling of this kind, everyone would be treated equally, unlike indexation which is designed to — but in the end would not — give the wage-earning sections advantages at the expense of the remainder.

A ceiling is probably the one remaining alternative to runaway inflation and possibly large-scale unemployment. In the end, it is difficult to see how it can be avoided.

In a television interview the representative of the air pilots, in being accused of irresponsible indifference to inflation, said that while wages and salaries were still subject to a free-for-all system of negotiation, the pilots had no intention of being odd man out; they would do what everyone else is doing and get the best deal they could for themselves. But he added that if the Government imposed equal restraints on all, the pilots would cooperate and play their part. This, surely, is significant.

The free-for-all, leap-frogging system of wage adjustments must, for the time being, clearly be ended. "Sacrifices" must be equally imposed, and shared.

What is needed now is honest leadership from all political parties based on a higher, more complimentary estimate of the people they lead. Let the politicians forget for once where the votes are supposed to lie, and do the right thing.

They might even be pleasantly surprised at the public response.
Justifying Profits

There has been a remarkable turnabout in the Commonwealth Government’s attitude to profits. Until two or three months ago, the attitude was one of open hostility. The Government seemed concerned to lay the main blame for price increases on avaricious businessmen seeking to make exorbitant profits from their products and services. The former Treasurer, Mr. Crean, talked constantly of “price makers” with a strong intonation of reproof. In many statements, the President of the A.L.P., Mr. Hawke, claimed that company profits were appropriating a larger and larger part of the national income at the expense of the wage-earners, and argued, unjustifiably, that wages were controlled, while prices were not. In 1973, the Government created the Prices Justification Tribunal to put the squeeze on the profits of the larger companies, for which the Government seemed to harbour a special dislike. The Tribunal has been singularly “successful” in carrying out the Government’s intentions.

However, there has been a sudden change in the wind. In two successive speeches, one significantly to the Prices Justification Advisory Service, Mr. Crean spoke of the erosion of real profits by inflation and of the need for profit margins to be sufficient to provide business with both the incentive and resources to undertake new investments. Mr. Crean said: “The plain fact is that an anti-profit attitude on the part of the Government would be self-defeating in the extreme. We simply cannot have the growing, thriving economy we need to make real progress towards our social objectives unless the private sector is also thriving. And that requires, to repeat, that prices must be set at levels that provide an adequate return for business to invest, to expand, to take risks.”

Far from lauding the work of the Prices Justification Tribunal in squeezing profits, Mr. Crean went close to criticising it for being over-zealous.

These changed sentiments towards profits were echoed a week or so later by the Prime Minister in his economic policy address to Parliament on November 12. The Prime Minister stated that he would be writing to the Prices Justification Tribunal “... to indicate the Government’s view that, in the present economic circumstances, it should now give particular attention to the problems of sustaining and stimulating an adequate level of private investment and of maintaining rates of return on capital which will induce the new investment required to maintain economic growth and employment.” Finally, the viewpoint that profits were too low to fuel the wheels of industry was repeated by the Minister for Labour, Mr. Cameron. Mr. Cameron was reported to have said, “... the economy could not pull out of its down-turn unless company profits were increased”.

Thus, the Government is giving voice to ideas hard, on the face of it, to associate with its professedly socialist doctrines. Cabinet Ministers who, a few months ago, seemed to be taking an almost sadistic delight in administering painful jabs at businessmen, are now going out of their way “to tickle their tummies”, to use a Gortonian metaphor. The reason for the Government’s change of heart has its roots, of course, in political
expediency. Confronted with dangerously soaring unemployment figures, the Government, in desperation, is turning to free enterprise to get the economy out of a mess largely of its own creation, and no doubt also to save itself from extinction at the hands of an irate electorate.

It would be a mistake to imagine that this somersault means that the political faith of the Government has undergone an overnight conversion. That is far too much to expect. If the new Federal Treasurer, Dr. Cairns, and Mr. Hawke run true to form, they will continue to blame inflation and unemployment on "the system". Both are at least refreshingly frank. They make no secret of the fact that they support "democratic socialism". Mr. Cameron, has also made clear where he stands. He is reported to have said that "he saw nothing of great appeal in the capitalist or mixed enterprise system".

Unfortunately, none of the three Labor leaders has given a clear succinct picture of what "democratic socialism" would mean. Presumably one instalment of a democratic socialist programme would be the nationalisation of major industries at present operated by private enterprise. It is of interest that Mr. Laurie Short, the sensible National Secretary of the Federated Iron-workers' Association, in a television interview, described "nationalisation" as airy-fairy nonsense. He said it was not only difficult, and probably impossible, for constitutional reasons, but the record of public enterprise in Australia gave little grounds for thinking that it would be as efficient as private enterprise.

It has taken the Labor Government two years of bitter experience to realise that a witch-hunt against profits, savings, and enterprise can have quite disastrous effects, not just on business but on the well-being of the mass of the people; that, in Churchill's remarkable phrase, "to hunt wealth is not to capture common wealth".

* * * * *

There is an important lesson for the business community in the events of the last two years. It is clear that there must be a much more sustained and vigorous effort to explain to the Australian people the facts about profits, their role in promoting economic health and growth, and in providing more jobs and better living standards. Business must become more insistent and vocal on the importance of profits. The prevalent notion that profits are somehow synonymous with sin must be attacked with all the righteous fervour of a worthy cause.

This task cannot be left solely to organisations such as the I.P.A. The I.P.A. can provide factual ammunition and ideas, but the battle must eventually be fought at the front lines of industry — that is, by companies themselves through their intimate contacts with their staffs, work forces, shareholders and customers.

There has been a tendency for companies to be faintly apologetic about profits. There is no need for them to be. Few companies, certainly few large companies in Australia, could, on any fair assessment, be regarded as making excessive profits. What is now required is a much more open and frank explanation by companies to their employees and to the media of the size of their profits in proportion to turnover, the size of dividends in terms of a return on the investments of their shareholders, the numbers of their shareholders, even a split-up of their shares into different groupings according to the numbers held, the institutional holdings and so on. The taxes paid out of profits and the amount re-
tained in the business and its intended disposition, should be all part of the information provided. All companies might do well to consider issuing a brief pamphlet to their employees, explaining in simple terms why profits are necessary, and the economic functions they perform. They could invite employees to ask whatever questions they wished and provide them with frank explanations of points that are queried.

If the system of free enterprise is to receive general support through the community, and not just an unthinking and rather unwilling acceptance, then companies must establish this kind of communication with their workforces. The task of explaining profits in an inflationary environment is complicated by traditional business and accounting practices which even today go little beyond the provision of a bare minimum of information and which do not make adjustments for the considerable impact of cost and price increases on the real value of company earnings.

Few people, not even businessmen, realise the extent to which profits have been eroded over the last decade. The decline has been steady and, in the last two or three years, precipitous. This has been due not only, and not mainly, to an increasing general antipathy to profits as such, but to the inroads of inflation on the real value of business earnings. The adherence to traditional methods of accounting during a time of steep inflation, has concealed the true picture not merely from the public but from businessmen themselves. The appendix to this article provides some estimates of the trend of company profits for trading enterprises over a ten-year period from 1963/4, after allowing for inflation and for the natural growth of industry.

The results are alarming. Over the ten years the real value of profits has fallen by around 25 per cent. Clearly, an economy which depends for its motive power on present and prospective business earnings will stagnate if this situation is not corrected. The purpose of profits is not to provide wealth for a favoured few, but to encourage businessmen to take decisions on investment in productive facilities which must be for the general benefit of the whole community.

Profit, let it be emphasised, is not an end in itself, but a means to an end: the end being economic progress, the continued improvement of living standards and of industrial and social conditions.

The experience of the steep fall-away in employment opportunities in recent months provides painful evidence of what must occur when profits are unduly compressed — in this instance as a result of inflation, the credit squeeze, and the activities of the Prices Justification Tribunal. Now business has to contend with the Restrictive Trade Practices legislation.

There is, in fact, no longer any good economic reason for maintaining the Tribunal. The Tribunal can make little impression on inflation because profits, contrary to popular belief, constitute only a minor part of selling prices. Indeed, its continued existence must delay the correction of the unemployment problem, slow down industrial development and the improvement of living standards.

There are, however, good arguments for the creation of a body to act as a watch-dog over excessive profits. Such a body could act on a reference from a government or even upon a responsible appeal by a consumer body or by a dissatisfied member of the public. But, if
the Tribunal is maintained in its present form, its function must have adverse effects not only on Australian development, but, on the efficient response of industry to market forces — which, in simple language, means to the needs and wishes of the mass of consumers.

Profit is not, of course, the sole concern of industry, and its pursuit should not be permitted to override even more fundamental purposes. The ultimate objective of the free enterprise system must be service to the community in the broadest sense. Its title to the support of the people rests on the claim that it will serve the community better than "democratic socialism" or any alternative system — not only in terms of material standards, but in the freedom and opportunities it provides for the people as a whole. There are some directions in which improvements are manifestly needed; some excesses which from time to time need to be corrected.

But when all this is said, it remains true that profit is at the core of the free enterprise way of life, and that the socialist attack on this way of life is, in the last analysis, largely directed at business profits. If free enterprise is worth defending, profit is worth defending, and the defence can no longer be delayed. There is an urgent and over-riding need for the business community to re-establish in the public mind the economic and moral justification of profits. For when this has been done, one of the central pillars of the socialist argument will have been destroyed.

The task is a big one. Success will not be achieved in a day. Nor will it be achieved by the spasmodic attempts of a few of the larger business enterprises in this country. It is a task in which every business of any proportions must participate, and they should commence to participate by starting to think and to act quickly about it now.
## CORPORATE TRADING ENTERPRISES REAL PROFIT 1963/64 - 1972/73

<table>
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<tr>
<th>Year</th>
<th>Profit After Tax</th>
<th>Depreciation</th>
<th>Additional Depreciation</th>
<th>Adjusted Profit (1)</th>
<th>Profit Index (4)</th>
<th>Shareholders' Funds Index (7)</th>
<th>Real Shareholders' Funds Index (8)</th>
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### EXPLANATION OF THE TABLE

To estimate the trend of real profits, published figures of money profits have been adjusted for the following:

- **a)** The effects of rising costs on depreciation requirements.
- **b)** The decline in the purchasing power of the dollar.
- **c)** The growth of industry as indicated by the increase in shareholders' funds.

**Column 1)** These figures, except for 1972/73, were obtained from table No. 9 "Corporate Trading Enterprise Income and Outlay Account" in "Australian National Accounts 1972/73", published by the Australian Bureau of Statistics. The 1972/73 figure was obtained from the 1974/75 Budget Paper No. 10.

**Column 2)** Figures were obtained from table No. 13 "Corporate Trading Enterprises Capital Account" in the "Australian National Accounts 1972/73".

**Column 3)** Additional Depreciation was calculated on the basis of costs increasing at an average of 3.7% a year. It was assumed that equipment is fully depreciated over a ten year period.

**Column 4)** Adjusted profit was obtained by deducting half the additional depreciation from the after-tax profit (Column 1). Only half is deducted to allow for reduced company tax following higher depreciation.

If the full additional depreciation were deducted (present tax laws make no allowance for replacement costs) the decline in profit would be even greater.

**Column 5)** The Consumer Price Index was used as the deflator to express profits in constant dollars.

**Column 6)** The Adjusted profit series (Column 5) converted into an index with 1963/64 as the base year.

**Column 7)** The Shareholders' Funds index was constructed on the basis of the All Industries—Constant Group Aggregate Balance Sheet, published in the Reserve Banks "Statistical Bulletin Company Supplement". The figure for 1972/73 is our estimate.

**Column 8)** The Consumer Price Index was used as the deflator to express Shareholders' Funds in real terms.

**Column 9)** The profit Index (Column 6) deflated by the real Shareholders' Funds Index to give a real profit index.
Address By President

Mr. W. D. Brookes, C.B.E., D.S.O.

I.P.A. Annual Meeting, 20 November, 1974

At the Annual Meeting of the Institute last year, my address drew attention to the serious state of uncertainty and bewilderment evident among the business community.

This situation has not improved in the last 12 months. Indeed it has worsened. The prevailing mood today is not one of optimism and confidence but one of deep-felt alarm, even foreboding, largely due to the Australian Government's policies.

Concern centres, of course, on the menacing acceleration of inflation, and the lack of convincing policies to deal with a phenomenon which threatens not merely the continued stability of our economy, but even our democratic way of life.

As you know, the I.P.A. in many articles in "Review", warned of the danger of accelerating inflation and urged that strong action be taken to prevent it, as early as 1970. These warnings were not heeded.

Perhaps the most serious aspect of inflation lies in the divisive effect it is having on society, setting one section against another and encouraging each section to pursue its aims selfishly regardless of the effect that their realization would have on other sections. As one of our editorials in a recent "Review" stated: Inflation is a kind of civil war where everyone is concerned to protect himself and the devil take the hindmost. We are not going to deal successfully with inflation while these attitudes prevail. Only when we accept the fact that we are first and foremost Australians, before we are businessmen or trade unionists or members of the professions or of any other section, will we be really on the way to finding a solution. What we need today is a resurgence of the spirit of national unity where sectional interests are for the time being submerged and we all work together in cooperation to overcome this menace to our national stability.

While the new measures announced by the Prime Minister last week have some good features, they do not inspire confidence that they will prove to be effective in overcoming inflation. To defeat inflation the Government should call on the community for sacrifices, not distribute benefits. We would support the reduction in personal income tax provided it was coupled with the moderation of union demands for wage increases. But in addition to these reductions, the Prime Minister has promised Government support for wage indexation. Indexation, we believe, would be a disaster. It could not, in the event, be confined to the wage-earning sections of the community and would represent a total capitulation to the forces of inflation. Indexation would guarantee the continuation of rapid inflation. Whatever militant union leaders might say, we believe that the majority of wage-earners are now prepared to accept some restraint on wage increases in the interests of
curbing cost of living rises, and it is to this large body of sensible opinion that the Government should have appealed. If we are to get to grips with inflation it is transparently clear that increases in money incomes must be brought back into line with productivity improvements. Last week the Government lost a golden opportunity of introducing some realistic common sense into our economic policies. Until this is done the economy will continue to be plagued with the gross iniquities and instabilities attendant upon rapid inflation.

While the Government has made reductions in taxation — rightly in our view — Federal Government spending is to be maintained at the level provided for by the huge increase of nearly $4,000 million in the September budget. The reductions in taxation should have been accompanied by some moderation of this expenditure.

Mr. C. B. McCoy, the Chairman and President of E. I. du Pont de Nemours, one of the greatest industrial corporations in the United States, said recently that the free market system is not under attack. He was, of course, speaking of the United States. What is at question, he said is the performance of business within the system. Would what he said be true of Australia? I think in part it is, but some may disagree.

Let's face it, the businessman is not the most popular figure in our contemporary society. He is frequently attacked by senior Cabinet Ministers, by trade union leaders, conservationists, young educated people, and recently by outraged consumers who largely blame him for the higher prices they constantly have to pay, whilst often complaining of the quality of the goods they purchase. "Profit" has become one of the suspect words in the economic vocabulary. To many ordinary people, unaware of the part profit plays in our economy, it is becoming almost synonymous with profiteering. The businessman, and especially the multi-nationals and the large Companies, are quite mistakenly regarded by some as among those most to blame for the present runaway inflation: hence the parameters set when the Prices Justification Tribunal was formed to watch over price movements of Companies with a turnover of $20,000,000 or more — in other words, big business. More recently the Tribunal has been given a wider brief.

Notwithstanding all this, I do not believe that the great majority of the Australian people wish to see, or would support, a radical or revolutionary change in our economic system. After all, why should they — in this age of the affluent society when standards of living have risen so dramatically since the war and are improving year by year? Many people may not like business particularly, and they may dislike the word "profit", but deep in their hearts they know that whatever its defects, the system has delivered and is delivering the goods. Indeed I would go so far as to say that most Australians are scared by any suggestion that our present way of life and methods of conducting our everyday affairs should be supplanted by a system of Big Brother
Government on the Eastern European model. Temperamentally Aus-
tralians are anti-socialist. They are too individualistic, too distrustful
of and irreverent toward authority to favour a society where bureau-
crats rule on socialist lines. If they do not particularly like certain
bosses in private enterprise, they like political and faceless bureau-
cratic bosses even less and, deep down, distrust the growth of Big
Government — hence the resounding "no" votes in all recent referenda.
There is, however, a small, powerfully organized leftist section in our
community, misguidedly supported by some intellectuals and others
who should know better, who would wish to overthrow our democratic
way of doing things and replace it by a system based on what is
euphemistically called the social ownership of production and distri-
bution. The mistake such people make is that they do not understand
the basic Australian character, or, if they understand it, ignore it in
their desire to grasp the reins of power in order to create the Utopian
Commonwealth of their own imaginings. Many are peddling a vested
or self interest.

One can hardly say that our system of free enterprise is not under both
threats and attack. It is under threat from policies, sometimes well-
intentioned though they may be, that tend to emasculate it and to
destroy the spirit of enterprise, which is the life-blood of the system.
Free enterprise is also weakened by a small, foolish and greedy minor-
ity of businessmen who seem unaware that the privilege of freedom
carries with it its own responsibilities. The people are right to question
activities which create, virtually overnight, huge profits for a favoured
few, profits unmatched by any corresponding contribution to the crea-
tion of real wealth. They are right to criticize products which do not
stand up to the claims that are made for them. They are right to
criticize insidious kinds of advertising, or advertising which grossly
exaggerates the qualities of the products it is designed to sell. The
public is right to demand truth in advertising and honesty in selling
practices. They are right to criticize Government or business organiza-
tions which unnecessarily pollute the environment and are unwilling to
make reasonable provision for its abatement. On all these grounds
most of us in business are on the side of the public. Reputable
businessmen have no wish to suffer the ignominy of guilt by associa-
tion.

There is one point, however, on which the business community should
be quite unyielding. This is, that profits must be adequate, (not ex-
cessive), if the free enterprise system is to perform effectively in ex-
panding employment opportunities, and in providing improved living
standards for the Australian people. I feel we are not taking a suf-
ficiently firm stand on this issue, which is all-important.
Recently business has had strong support from both the Prime Minister
and the Treasurer on the imperative need for adequate profits.
It is, I suggest, vitally important that we compare profits one year with another in real terms and not in the customary fictitious terms of a rapidly depreciating monetary unit. We do this, rightly, with all other incomes, but with profits we persist with the quite unreal comparisons uncorrected for price changes.

The I.P.A. has made some preliminary estimates which take into account the effects of inflation on net company profits, including the replacement costs of buildings and equipment. For a variety of technical reasons, into which I need not enter, the estimates must be somewhat arbitrary and therefore subject to a fairly wide margin of error. Nevertheless they are, in our view, sufficient to illustrate what has been occurring. We have applied the adjustments for inflation to the total of company profits of trading enterprises for the last ten years for which the figures are available, 1963/64 to 1972/73. We have also had to make an allowance for the great growth of industry in this time. Our estimates suggest — I stress they are preliminary — that total company profits in real terms have fallen by about 25 per cent over the ten-year period. This situation is clearly one of deep concern not just, or indeed mainly, for industry but for all the Australian people which industry exists to serve.

In the last twelve months the activities of the Prices Justification Tribunal which have resulted in the squeezing of profit margins have added to the burdens which inflation has imposed on industry. This fact was belatedly recognised by the Prime Minister in his speech last week.

The interests of the mass of the people and of business are, in fact, inextricably interwoven. Business enterprise is the main creator of the wealth of the community, whilst Governments are largely the spenders. If business is not prosperous, all suffer, not just the businessman, and the wage-earner in the long run most of all.

We, as businessmen, must give more attention to explanation and communication and, in fact, to all these various matters, and support more generously than in the past organizations such as the I.P.A. which are striving to resolve misunderstandings, bring out the facts, and to make the system work better.

Leadership must come from the top. We all live in Australia — on this great country’s progress we all depend.

Whether you like it or not you are all shareholders in a Company which has recently changed its name from Australia Unlimited to Inflation Unlimited — No Liability.

During the year the I.P.A. Council was strengthened by the addition of Mr. L. C. Brodie-Hall, resident director of the Western Mining Corporation in Perth. Mr. Brodie-Hall has already been most active in forming a small I.P.A. Committee to promote our work in Western Australia. I am sure we will derive great benefit from his interest and enthusiasm.
On reaching 30 a man tends to pause and take stock of his life. He has passed the first flush of youthful exuberance.

These were the opening remarks of Mr. Rod Carnegie at last year's address at this meeting.

Rod went on to outline, among other things, the social options available to a young man.

I have recently passed that age. I could not have envisaged that I would have to speak in defence of the free enterprise system, that this country has for so long enjoyed and benefited from, and also the need to appeal to every businessman in this audience to go out and defend free enterprise.

Throughout my life the free enterprise system has never been questioned. It has been a way of life that was assumed. In fact, I can honestly say that when people talked of the need to defend the system I believed them to be rabid right-wingers.

I was also convinced that the previous Government, during their reign, did not do enough in the social welfare areas of health, education and in help for under-privileged groups. In November 1972 I welcomed as did many others some of the programs that the socialist Government planned to implement.

In that short space of time community attitudes about free enterprise have changed dramatically, principally because of outspoken remarks by Government Ministers.

Today, profit and return on investment have become dirty words. Finally, even 2 years ago, however, I would have suggested, as I will today, that each company needs to take a hard look at itself. Not all of the faults and criticisms of free enterprise in this country stem from people's ignorance.

Therefore I would like to tackle three questions today.

— Is the free enterprise system really under attack?
— Is the attack justified and what are the possible consequences?
— What ought the business community do about it?

IS BUSINESS UNDER ATTACK?

I do not think I need to spend a great deal of time supporting this contention. The attack has come principally from the Government, and not from the community at large. For example, the ex-Treasurer, Mr. Crean, in one of his recent speeches stated, "this budget provides us with the first real opportunity, because of the downturn in the private sector, to shift resources from the private to the public sector."

The second factor supporting the attack has been the greatly increased power of unions, which occurred in part from the unlimited support that was given to them in wage demands in the early period of the Labor Government's office.

I well recall when a 10 per cent increase in salary was gladly accepted, that Mr. Cameron, the Minister for Labor and Industry, came out and strongly supported the 25 per cent increase that was being asked for by bank clerks. Where the government supports these cases,
people's expectations must rise, the unions win power and support because of their successes; inflation increases rapidly and our system comes under attack.

Government has also taken legislative action which has reduced greatly the confidence of businessmen, and diverted them away from their prime task of utilising resources in the most efficient manner, and acting in a competitive spirit to produce and sell goods and services. The Prices Justification Tribunal, Industry Assistance Commission and the Restrictive Trade Practices legislation are three cases in point.

These bodies, and the supporting legislation, are not in themselves conceptually bad, but their role, as it has been implemented, has posed a major threat to free enterprise. For example let me review each briefly:

(a) Prices Justification Tribunal
It was established, and has acted with no thought related to return on investment. There has been no acceptance of profit, and as a result it has been an arbitrary allocator of resources, insofar as it has reduced the returns in certain businesses to the point that people will not make new investments. Even apart from not accepting a return on investment, not accepting profit, arbitrarily allocating resources and inhibiting new investment, the Prices Justification Tribunal has reduced competition. Insofar as it has been the price setter and forced companies to combine in their applications to the P.J.T., it has reduced the competitive spirit. Finally, it has shifted a company's sense of public responsibility from its own decision-making to the Tribunal itself.

(b) Restrictive Trade Practices Legislation
At this stage it is difficult to know what impact this will have on free enterprise. The most concerning element of the legislation is its lack of definition. This in itself has created uncertainty for businessmen. They have all been worrying about whether or not they are acting within the law. The legislation was based on U.S. laws conceived about the turn of the century when the free enterprise system was very different. This government decided to adopt the U.S. laws, but what it lost sight of is the 70 years of case history by which the U.S. laws work. We have no case history.

(c) Industries Assistance Commission
The I.A.C. failed to recognise the difference between theory and practice. While, conceptually, it is important to shift resources into the most efficient areas; to do so in practice is not easy. It requires a clear notice so businessmen can plan adjustments.

The major shifts that have been recommended and are taking place in the community today, are causing significant disruptions which are resulting in a lack of confidence. People do not know what is going to happen next.

Finally, the inefficiency caused by the shifts in these difficult times has resulted in a less efficient use of resources, than if the industries concerned had been left alone.

**IS THE ATTACK JUSTIFIED?**
NO. Free enterprise is the most efficient method of utilising labour, technology and capital to produce a bigger pie. However, the fact that it is under attack is partly the fault of the business
community for two reasons:—
— 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, business has at times not acted in its own long-term best interests. It has accepted short-term gains which have built up justifiable criticism.

For example
— Business co-operation has been bought at times, and has been seen to be bought by Government handouts in forms of excessive tariff protection and subsidies.
— Businessmen at times have been seen to be acting purely in their own interest, regardless of how their workforce or the community is affected.
— Companies as they have grown have not always taken account of their most critical resource, people and their needs.
— Companies have tended to lag behind community thinking on social issues.

However, despite these criticisms the free enterprise system is clearly better than any alternative
— the market system is the best allocator of resources
— the most efficient user of resources
— and, above all, it is the system that respects the rights and freedoms of the individual — indeed, it fosters them.

Much of the recent criticism has been caused by a lack of understanding and ignorance of the system —
• How it operates.
• What makes it tick.

— understanding that confidence is critical to its continued success and that consistency in policy-making is essential to keep confidence. Also that capital must achieve an adequate return or no new investment will be made.
Also the criticism stems from a lack of recognition by a Government that its role is not only to divide the pie, but to make the pie larger as well. The current Government has concentrated on dividing the pie only.
And some people in the community have forgotten that in life, to use Mr. Carnegie’s term, “There are no free Lunches”.

WHAT ARE THE IMPLICATIONS OF THIS CRITICISM?
The situation we are in is critical. A number of people no longer believe that free enterprise is the answer. These people must be educated. Worse, some people blame the system and say it should be changed. This clearly comes from ignorance. However, even if the confidence in free enterprise can be restored, actions taken by this government have had a harmful long-term effect which will make it more difficult for free enterprise to operate.
— People’s expectations have changed dramatically about what they believe is a reasonable salary increase.
— The balance of power between employer and employee has got out of kilter. Unions now wield significant power which influences all companies in their actions.
— “The community responsibility”, as a result of government behaviour and because the way the new bodies such as P.J.T. are operating, has been eliminated in
the minds of many directors. This responsibility has passed to the government and companies are concentrating on survival.

If these trends and attitudes continue we will
— have more confrontation and not co-operation between employer and employee
— add fuel to the fires of inflation
— and, resulting from the current downturn and continuing inflation, the prospect of finding the money to reflate the economy, i.e. the long-term capital for investment, if confidence is restored appears beyond our reach today

WHAT OUGHT BUSINESSMEN DO?

1. We must be more outspoken as defenders of free enterprise. There are several ways we can accomplish this —
   1. Speak out in public forums. We must seek additional public forums to the traditional Chairman's address.
   2. Provide more support and demand more from the I.P.A. and other organisations, so that they marshal better argument and provide more research for us to defend private enterprise.
   3. Encourage our staff and individuals to enter politics. The business community has for too long sat on the fence of the political arena. We should foster and help those who believe in the system to enter politics. Currently it is very difficult for an individual in a company to spend the time necessary. Usually he gets little assistance.

2. We must listen to community needs and react faster.
   — business community has always lagged behind community attitudes and has generally reacted in a conservative fashion. We need to lead community and consumer attitudes
   — we should be working with the government of the day to solve problems that impinge on traditional corporate behaviour

3. We must change our management approaches
   — A major ethic has arisen in Australia that people have the right to a job regardless. Over the last 20 years everyone has been employed but people have lost the incentive to work.
   Yet people are the most critical resource of the private enterprise system. Business needs to rethink its approaches, both organisational and in the areas of remuneration, to motivate people and ensure they get satisfaction from their job, i.e. we need to reduce the bureaucracy which exists in many large companies in Australia.
   This can be done by
   — giving people more responsibility at an early age
   — providing a challenge and a sense of purpose to their job
   — involving people at lower levels in the company, making their work more interesting and giving a sense of belonging to the company.

4. We must work to restore the balance of power between Employer/Employee.
   — I believe that despite all of the things I have mentioned, that the business community should do to restore the confidence of people in the free enterprise system, the most critical step that must be taken is to restore the balance of
power between unions and employers.

— Historically (at the turn of the century) employers were all powerful and it could be said, exploited the workers.

Throughout the 1950's and 60's the balance was evenly spread, resulting in responsible action on both sides and one of the highest productive periods in our history. Today the unions have excessive power, extending well outside the areas of improving wages and conditions for their members.

— The system will not work unless this excessive power is reduced. This is the most important task a Government faces in Australia today if our system is to continue to work.

— Businessmen can take some steps to help, although without Government intervention and action in the way of legislation and coercion the problem will not be solved.

Businessmen can however take steps which include

— ensuring unions act democratically
— standing more firmly together when unions exert pressure on a single company in an industry
— putting the employers case more strongly to the Government and the public, i.e. we need better spokesmen
— fostering and assisting more reasonable union leaders
— finding ways to help employees get more involved in their jobs. Rebuild a loyalty to the company not the union. Such a course requires an air of co-operation if it is to succeed along with mutual respect

— overall take on a posture of reasonableness, make it public and show up the unreasonable of those union leaders whose continual objective is to confront and disrupt, i.e. those who want to blame the system rather than try and make it work.

The points I have made have been said before, only the urgency of action has changed. The future of free enterprise rests with the business community.

We must make the system work otherwise the outlook is bleak.

I am reminded of the alternative through the remarks Stalin made on his death bed to Kruschev

“You will have some difficulties during your reign as the leader of the U.S.S.R. Therefore with my past experience I plan to leave you a legacy. The legacy is two letters. In each is advice that will help you when you get into difficulties in your job. Open letter A. the first time and letter B. the second. These are my legacies to you and I am sure you will find them helpful”.

Kruschev thanked Stalin, then turned off the oxygen and Stalin died.

Sometime later after Kruschev had been leading the Soviet, he began to lose support and was not progressing as he had hoped. So he went to the vault and got out Stalin’s letter, opened it and read the contents which said “Blame me.” Very sound advice, Kruschev thought. He implemented the idea and blamed Stalin for everything. It worked very well for several years. Then he began to slip again, his support waned, agricultural programs failed and the five year plan wouldn’t balance. He went to the vault again and opened Stalin’s second letter. The note said “Write two letters”.

IPA Review—October-December, 1974
A Man Of Character

Cecil McKay, son of the great Hugh Victor, an outstanding world-innovator of agricultural machinery and founder of the famous Sunshine Harvester Works, was one of a small group of men who formed the I.P.A. His wife, Marjory, has written a biography “Cecil McKay: It Wasn’t All Sunshine”. The industrious author has spared no pains to give the book a thoroughly authentic and factual backdrop (it took three years to complete) but she has produced a none the less lively, readable and movingly human story.

“It wasn’t all sunshine”: Cecil had his share of worries and, eventually, responsibilities which extended far beyond the considerable ones he inherited from his father as the head of the great Sunshine enterprise. But Cecil was, above all, a man of character. He did not shirk responsibilities and his father had made sure that he was trained to accept them.

Although a millionaire, Hugh Victor had no intention of encouraging his son to fritter away his life in frivolous pursuits. From the glamour of being Head Prefect of Scotch College and stroke of the victorious Scotch crew in the famous dead-heat year of 1919, Cecil, in 1920, found himself working at a lathe in the huge works at Sunshine. Thus, through hard, slogging experience in the workshops, he became equipped to succeed his father.

During 1918 he left school to join the Air Force, but the war was nearly over and the following year he returned to Scotch. He retained an interest in aviation throughout his life and was President of the Aero Club of Victoria in the great pioneering days of long-distance flight — the era of Kingsford Smith, Hinkler, Amy Johnston and other intrepid aviators.

Although not of big stature (he was around 12 stone) Cecil became one of the most famous names in the history of Victorian rowing. He stroked the Victorian King’s Cup crew to victory in 1930 after a titanic struggle with New South Wales.

Biographies of prominent businessmen are rare. When one appears, it should be an event, at least in the world of business. The popular, “tycoon” conception of the big industrialist, ruthless, driving, interested only in power and in maximizing profits and personal wealth, usually bears little semblance to the reality. Indeed, this largely fictitious image is one of the reasons why the free enterprise system arouses little positive enthusiasm among the mass of the people.

Some industrial leaders whose names will not figure prominently in the history books contribute far more to the development of their country than many politicians who monopolise the attention of the historians. Cecil, indeed, was a most unpolitical character. He was a man of few words (indeed he seemed to almost distrust the articulate), shunned self-advertisement and, when he could, avoided the limelight (which was far from always possible). He was a man of modesty and self-effacement, who nevertheless found himself occupying important public positions. (He was, for instance, at the same time, President of the Victorian Chamber of Manufactures, and President of the Royal Agricultural
A Man Of Character (continued)

Society — surely a unique combination.) He was precipitated into public offices because he inspired supreme trust and respect among his colleagues. They recognised that he had two essential attributes of real leadership, complete, utter integrity and a quiet but steely determination to do what he believed to be right. Nothing could shake him, or if it did, nobody would ever know.

Cecil was never an office-holder in the I.P.A. — he never sought to be — but he occupied a special position, partly because he was regarded, naturally enough, as a spokesman for the manufacturing interests. In the early years the views of many manufacturers did not always coincide with policies advocated by the Institute, but Cecil seldom if ever demurred. He was a born diplomat, adept at treading the tight-rope. He received all the materials intended for publication. When he agreed, he would not bother to comment. When he disagreed, he did so in a few blunt sentences, leavened invariably by a touch of humour.

He disliked the phrase “private enterprise” because he said it conveyed something secretive and exclusive, when all should be open and frank. Whenever I.P.A. editorials slipped into using it, he would draw our attention to what he regarded as a solecism and suggest we replace it with “free enterprise”.

Because of his running start in life, Cecil, of course, aroused envy, but he was a man that no one could help respecting — not even the militant union leaders with whom he came into unyielding conflict during the industrial turbulence of the immediate post-war years. He was the leader of the employers in the notorious Metal Trades Dispute of 1946/7, a dispute which lasted a testing 15 months. Albert Monk, as President of the A.C.T.U., had much to do with Cecil as the head of the manufacturers. “A tough man” was Monk’s verdict, but added, “there was no bitterness in our association”. Where bitterness between opponents is lacking it must be assumed there is trust and respect.

No man can be summed up in a single word, but one would get close to the essence of Cecil with the old-fashioned adjective “steadfast”. Cecil’s character was revealed in his face. The expression was firm and strong and at a casual glance; a mite unyielding. But closer inspection revealed, behind the firmness of the countenance, the presence of a humorous, almost impish spirit. His sense of humour was indeed one of Cecil’s most endearing traits and many examples, which will delight the reader, are given in his wife’s book.

Marjory McKay has written a most enjoyable study of her husband, a man she not merely loved, but admired with an intensity amounting to reverence. But she has not let her devotion interfere with her desire to present a balanced, and, as far as possible, unbiased picture. She has sought and quoted the views of people who did not see Cecil in the same shining white light as she did.

This is Marjory McKay’s first published book. A woman of quite exceptional and diverse talents, she has succeeded in giving not only a comprehensive account of Cecil’s career, but, more important, a fascinating study of the personality and character of a man of “big business”. In one chapter, she reveals a side of Cecil’s nature, that, one ventures to think, would be quite unsuspected by even his most intimate friends.

The many people who worked with or knew Cecil would particularly derive immense interest from Marjory McKay’s book.
NEW BOOKLET:

“Inflation — Everybody’s Responsibility”

Inflation has reached crisis proportions and threatens the stability of our Australian society. If inflation is to be beaten people must have a better understanding of the causes behind rising prices. At present there is widespread misunderstanding.

At the end of September the I.P.A. published a special booklet “INFLATION — Everybody’s Responsibility”. This has been designed for wide distribution among people in all walks of life, especially among industrial and office employees, and for use by students and teachers. The booklet is being sold for 25 cents per copy. At the time this issue went to press we had sold nearly 120,000 copies. There has been an exceptional reaction to the booklet and we are confident of achieving a very substantial distribution throughout Australia.

We have received orders from 255 companies for copies for employee distribution. These orders varied from 50 to 5,500 copies. In addition 23 companies contributed to the cost of sending some 5,000 copies to schools for use in economics classes.

Two companies, Associated Pulp and Paper Mills Ltd. and BH South Ltd. have been so impressed with the value of the Inflation booklet that they have sent a copy to each of their shareholders at the time of posting their Chairman’s Address. We hope that other companies will follow this splendid example, because if inflation is to be defeated, there must be a broad basis of public understanding of its causes and effects.

Extracts from the booklet have been printed in many newspapers and other journals.

We have been very gratified by the many favourable comments received on the booklet.

Australia and private enterprise are facing severe challenges. The I.P.A. hopes that companies will help to achieve the widest possible distribution of the booklet, first among their own employees and, secondly, by paying for the cost of distributing copies to schools and students.
Interest Rates

by

DAVID LOVE

The author is the founder and principal of Syntec, a private economic and monetary advisory service, supplying monthly reports to subscriber companies. David Love was a leading economic journalist on the “Financial Review” and “Sydney Morning Herald”. In this capacity, a number of his articles attracted widespread attention for their originality of thought.

This contribution does not seek to debate whether current interest rates are too high or too low. It is not possible to consider such points in objective isolation: one must first decide where one stands on the trade-off between escalating inflation on the one hand and unemployment of labour and resources on the other.

The “trade-off” is an issue on its own. My purpose in this contribution is a more mechanical one: to try to unravel the contradictions which many intelligent people see in the use of interest rates as an anti-inflationary weapon. How can it be, it is so often asked, that rising interest rates contribute to the control of inflation? They are so obviously a direct extra cost in the process of producing goods and services. Is it not a further contradiction that they should begin to fall, at the short-term end of the structure at least, before inflation has abated?

In economics generally, the scope for talking at cross-purposes is great. In the area of interest rate policy it is immense. Leadership on both sides of the political spectrum has not been towards greater public understanding of the “economic management” uses of interest rate policy. Both sides in Australia have a bad record of shallow political opportunism in public discussion of interest rate policy.

Rather than attempt a simplified adumbration of why interest rates must sometimes rise (as a policy measure) at a time of accelerating inflation, Australian politicians find it so much easier to let interest rate policy be regarded as “opposition fodder”. In opposition, the proposition is simple and effective: “Higher interest rates are inflationary at any time, and they hurt home-buyers. My party will bring interest rates down and thus ease inflation.”

To the intelligent layman — particularly to the practical businessman — this makes good sense. To a single firm, interest rates are a cost. Like any other cost to business, if it rises significantly, the firm will have to try to pass it on in higher prices. Allowing such a cost to rise feeds cost inflation; surely the proposition is as simple as that.

Companies interested in the Syntec service should write to G.P.O. Box 2455V Melbourne 3001, or ring 41-4721.
This is one case where the usually reliable instinct towards the simple and commonsensical can be wrong. If pressed too far in the early part of a strong inflationary upswing the suppression of interest rates will be a source of further inflation and accelerating instability.

It is a classic example of a point not uncommon in economics: the asymmetry between “truth” viewed from the standpoint of a single firm, and “truth” from the standpoint of a system as a whole. Viewed from the position of a single firm, the rate of interest is the cost of capital, in much the same way as wages are the cost of labour. A rise in interest rates is a rise in cost without any apparent offsetting benefit. Holding down interest rates means holding down the cost of an important factor of production.

From the standpoint of the system as a whole, it is a much more complex proposition than that. In the early part of an inflationary upswing — at a time when demand is still rising strongly beyond the capacity of resources — an arbitrary suppression of the interest rate structure will have an ultimately destructive effect. [The same definitive assertion does not apply, however, in an inflationary situation continuing after demand has peaked and turned downward — the kind of situation in which we now find ourselves.]

Suppression of interest rates in a demand inflation setting will first produce an untimely expansion in the economy’s “money base”. This, in turn, will step up its rate of credit expansion beyond capacity for productive employment of new credit. Such an untimely expansion of credit will ensure the further acceleration of inflation six, nine, twelve months into the future.

The trade-off for untimely early suppression of interest rates is either (i) acceptance of a battery of direct controls and measures which will ultimately reduce the economic efficiency of a community and its financial institutions; or (ii) a delayed action rise in rates higher than they would have gone if attempts had not been made to suppress them in the first place. Both of these consequences are likely to be accompanied by the destruction of highly-geared enterprise in the aftermath of excessive “money supply” expansion.

Why is this so? How can one turn a simple cost-factor proposition on its head and escalate its inverse to the realms of an inflationary threat in this way? Briefly, because suppression of interest rates in the upswing of demand inflation provides a considerable encouragement to holders of financial securities — particularly Government securities — to sell those securities and move into real goods and property. This process, in turn, expands the primary deposits of the banking system. This ultimately forces a retractionary crunch.

**Explanation:** Consider a situation of high demand and accelerating inflation (a point earlier on in the current Australia cycle): Suppose that Government has instructed its monetary authorities that they are to prevent the official interest structure from rising. This will mean the Authorities having to take a stance in the open market for financial securities, to ensure that the interest rate, or “yield”, on existing securities in the market does not rise.

Keeping down the yield on existing securities essentially means keeping up their market price. The interest on a security moves inversely to its market price. If market prices of financial securities fall because there are more willing sellers than buyers (as is likely to be the case in circumstances of
accelerating inflation), then the yield (i.e. the interest rate) rises.

Consider a 20 year fixed interest security sold originally for $100 to yield $5 (5%). Say it loses support in the market and drops to a price of $75. Then the $5 it will still be paying represents not 5%, but 6.7%. Interest rates have risen because supply of financial securities to the market exceeds demand for them and their capital price is dropping.

What happens when the Authorities are told to keep interest rates down, come what may? They have no option but to stand in the market and buy the financial securities at a sufficient rate to keep their capital price from falling. This, in turn, accelerates the selling of these securities.

At a time of rising inflation — most particularly demand inflation — astute investors will want to shed, if they can, an investment providing a fixed rate of return (especially if the rate is relatively low). They will want to move into something that seems more likely to keep pace with inflation in rate of return. The one thing that will give the investor pause before cashing in a financial security will be a falling market price. He will not want to liquidate at a loss.

But, in our example, the Authorities are obliged to go into the market and offer to take sellers out at the price they paid. (So that the “yield” will remain the same.) The inhibitions of potential sellers are removed. The thing to do is shed your financial securities without loss. Get into something that is rising in rate of return. Sell that, too, at the top if possible.

In supporting the price structure for securities, at a time of rising demand, the Authorities are not only facilitating movement out of financial assets into “real” assets. More seriously, they are making untimely direct new injections into the money base of the banking system. A central bank cheque issued in payment for a bond, sold out of the market, becomes a direct net addition to the commercial banking system’s “money base”.

The “money base” of any market system is its banking system’s holdings of liquid assets — cash and short-to-medium term government securities. In conjunction with the Authorities, the banking system fixes a minimum ratio of these liquid assets to total deposits. It is this “liquid assets ratio” that governs the banking system’s ability to expand credit outward from its “money base”. One of the effects of holding down the interest structure in a demand inflationary upswing, therefore, is to invite — inappropriately — the banking system to accelerate its expansion of credit.

The mechanics of this: The central bank purchases a security from the public. (It has been told to stop the security’s price falling, and thus its interest rising.) The funds received by the bond-seller are from outside the existing circulation of money in the community. They become not only a new bank deposit but, more than proportionately, a net addition to the banking system’s liquidity base.

The ratio of commercial bank “liquid assets to deposits” thus starts to rise. If it rises far enough, it will be no more than straight business for the commercial banks to start stepping up their rate of new advances (thus creating “secondary” new deposits), up to the point where the “liquidity ratio” begins to fall again.
Thus, in early 1973, when the commercial banking system's "liquidity ratio" went above 34 per cent — 16 points above the minimum ratio required — the setting was laid for a subsequent expansion of bank advances which at one point reached a rate of growth above 40 per cent per annum in 1973/74.

The commercial banks were following business logic — expanding credit in response to an expansion in their liquidity base. If, at that point, the Labor Party had stuck dogmatically to its policy of "cheap interest rates" — and instructed the Reserve Bank to go out and support the bond market sufficiently to ensure that yields did not rise — the rise in the liquidity base in 1973 would have been even greater than it was. The subsequent expansion of bank credit would have been even higher. The head of steam of inflation that was building in that period would have been greater. The ultimate crunch would have been greater.

So far, I have represented the Authorities as passive respondents. In fact — in Australia or in any other modern market economy — they will want political Government to allow them to be aggressively active in their monetary policy towards inflation. The Authorities will want to be in a position to forestall a tendency for holders of financial securities to move out of bonds into "new money" to be used in pursuit of escalating opportunities while ever demand is rising.

To do this, the Authorities will want to be in a position (as inflation mounts) to go into the market and actively sell bonds if necessary, thus driving the price of existing bonds down and their yields up. Their purpose will be to make it un-attractive for the public to move out of financial securities into excessive demand for "real assets" — property, goods, etc.

They would want to sell down securities to a point at which it becomes un-attractive for the public to "liquidate" securities. In doing this they will produce higher yields, which they hope will attract funds, at the margin, away from the chase after real goods and property. If they succeed in doing this they are attracting deposits away from the base of the commercial banking system, thus curbing the excessive expansion of demand in the upswing stages of an inflation.

Briefly then, the rationale behind rising interest rates as an anti-inflationary weapon is this: To check what would otherwise be a natural movement out of financial assets and liquid balances into an accelerated chase after property and real goods when demand for these is rising. The mechanical heart of the exercise is not so much the interest rate itself, but its reciprocal — the price of the security.

By getting a financial security's price down (and the yield up) they lock in old investors and, hopefully, attract new ones. By doing this they control the growth of bank deposits, primary and secondary. This is the same thing as saying they control the growth of "money supply". Control of the growth of "money supply" is basic to the control of inflation. It was not very successfully achieved in the 1972/73 upswing.

We have moved now to a more difficult stage of the process. Demand has markedly turned around and is falling. Interest rates as a weapon are less relevant because opportunities for rising returns from "real goods" and property is not there, to say the least. Therefore
there is not the same logic in keeping the prices of financial securities low (that is, yields high) relative to real assets like property.

For a time at least, real goods and property have lost their attraction because demand has turned. Hence the tendency for interest rates on shorter-term financial securities to start to turn despite the continuance of inflation. It is now a different kind of inflation.

This exposition is not to suggest that the only reason interest rates rise or fall is because the monetary authorities do or do not support the bond market. Longer-term, other factors will prevail: the demand for public and private capital as against the supply of savings. In periods of sustained inflation, such as that now prevailing, "inflationary expectations" will cause savers to differentiate between "real" rates of return and "nominal" rates, especially on longer-term securities. Within "nominal" rates, there will be an element of discount for the decline in real value of capital invested.

These last are subject for separate exploration. I have confined myself here to outlining the rationality behind a seeming paradox: the deliberate raising of the cost of money as a policy against rising prices in a demand inflation setting. One must keep the price of money itself attractive in such a setting, in order to stunt its growth and velocity. If one allows it to cheapen relative to "real assets" in a period of demand inflation, one must resort to either Draconian direct controls, or else let the currency, and ultimately the society it serves, become distended and debauched. A tougher interest rate policy much earlier in the 1970s would have saved a great deal of burning in the present situation.
Institute of Public Affairs

Thirty-first Annual Report
1974
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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.

At the Annual Meeting of the Institute last year, my address drew attention to the serious state of uncertainty and bewilderment evident among the business community.

This situation has not improved in the last 12 months. Indeed it has worsened. The prevailing mood today is not one of optimism and confidence but one of deep-felt alarm; even foreboding, largely due to the Australian Government's policies.

Concern centres, of course, on the menacing acceleration of inflation, and the lack of convincing policies to deal with a phenomenon which threatens not merely the continued stability of our economy, but even our democratic way of life.

As you know, the I.P.A. in many articles in “Review”, warned of the danger of accelerating inflation and urged that strong action be taken to prevent it, as early as 1970. These warnings were not heeded.

Perhaps the most serious aspect of inflation lies in the divisive effect it is having on society, setting one section against another and encouraging each section to pursue its aims selfishly regardless of the effect that their realization would have on other sections. As one of our editorials in a recent “Review” stated: Inflation is a kind of civil war where everyone is concerned to protect himself and the devil take the hindmost. We are not going to deal successfully with inflation while these attitudes prevail. Only when we accept the fact that we are first and foremost Australians, before we are businessmen or trade unionists or members of the professions or of any other section, will we be really on the way to finding a solution. What we need today is a resurgence of the spirit of national unity where sectional interests are for the time being submerged and we all work together in cooperation to overcome this menace to our national stability.

While the new measures announced by the Prime Minister last week have some good features, they do not inspire confidence that they will prove to be effective in overcoming inflation. To defeat inflation the Government should call on the community for sacrifices, not distribute benefits. We would support the reduction in personal income tax provided it was coupled with the moderation of union demands for wage increases. But in addition to these reductions, the Prime Minister has promised Government support for wage indexation. Indexation, we believe, would be a disaster. It could not, in the event, be confined to the wage-earning sections of the community and would represent a total capitulation to the forces of inflation. Indexation would guarantee the continuation of rapid inflation. Whatever militant union leaders might say, we believe that the majority of wage-earners are now prepared to accept some restraint on wage increases in the interests of
curbing cost of living rises, and it is to this large body of sensible opinion that the Government should have appealed. If we are to get to grips with inflation it is transparently clear that increases in money incomes must be brought back into line with productivity improvements. Last week the Government lost a golden opportunity of introducing some realistic common sense into our economic policies. Until this is done the economy will continue to be plagued with the gross iniquities and instabilities attendant upon rapid inflation.

While the Government has made reductions in taxations — rightly in our view — Federal Government spending is to be maintained at the level provided for by the huge increase of nearly $4,000 million in the September budget. The reductions in taxation should have been accompanied by some moderation of this expenditure.

Mr. C. B. McCoy, the Chairman and President of E. I. du Pont de Nemours, one of the greatest industrial corporations in the United States, said recently that the free market system is not under attack. He was, of course, speaking of the United States. What is at question, he said is the performance of business within the system. Would what he said be true of Australia? I think in part it is, but some may disagree.

Let's face it, the businessman is not the most popular figure in our contemporary society. He is frequently attacked by senior Cabinet Ministers, by trade union leaders, conservationists, young educated people, and recently by outraged consumers who largely blame him for the higher prices they constantly have to pay, whilst often complaining of the quality of the goods they purchase. "Profit" has become one of the suspect words in the economic vocabulary. To many ordinary people, unaware of the part profit plays in our economy, it is becoming almost synonymous with profiteering. The businessman, and especially the multi-nationals and the large Companies, are quite mistakenly, regarded by some as among those most to blame for the present runaway inflation: hence the parameters set when the Prices Justification Tribunal was formed to watch over price movements of Companies with a turnover of $20,000,000 or more — in other words, big business. More recently the Tribunal has been given a wider brief.

Notwithstanding all this, I do not believe that the great majority of the Australian people wish to see, or would support, a radical or revolutionary change in our economic system. After all, why should they — in this age of the affluent society when standards of living have risen so dramatically since the war and are improving year by year? Many people may not like business particularly, and they may dislike the word "profit", but deep in their hearts they know that whatever its defects, the system has delivered and is delivering the goods. Indeed I would go so far as to say that most Australians are scared by any suggestion that our present way of life and methods of conducting our everyday affairs should be supplanted by a system of Big Brother Government on the Eastern European model. Temperamentally Australians are anti-socialist. They are too individualistic, too distrustful of and irreverent toward authority to favour a society where bureau-
crats rule on socialist lines. If they do not particularly like certain bosses in private enterprise, they like political and faceless bureaucratic bosses even less and, deep down, distrust the growth of Big Government — hence the resounding “no” votes in all recent referenda. There is, however, a small, powerfully organized leftist section in our community, misguidedly supported by some intellectuals and others who should know better, who would wish to overthrow our democratic way of doing things and replace it by a system based on what is euphemistically called the social ownership of production and distribution. The mistake such people make is that they do not understand the basic Australian character, or, if they understand it, ignore it in their desire to grasp the reins of power in order to create the Utopian Commonwealth of their own imaginings. Many are peddling a vested or self interest.

One can hardly say that our system of free enterprise is not under both threats and attack. It is under threat from policies, sometimes well-intentioned though they may be, that tend to emasculate it and to destroy the spirit of enterprise, which is the life-blood of the system. Free enterprise is also weakened by a small, foolish and greedy minority of businessmen who seem unaware that the privilege of freedom carries with it its own responsibilities. The people are right to question activities which create, virtually overnight, huge profits for a favoured few, profits unmatched by any corresponding contribution to the creation of real wealth. They are right to criticize products which do not stand up to the claims that are made for them. They are right to criticize insidious kinds of advertising, or advertising which grossly exaggerates the qualities of the products it is designed to sell. The public is right to demand truth in advertising and honesty in selling practices. They are right to criticize Government or business organizations which unnecessarily pollute the environment and are unwilling to make reasonable provision for its abatement. On all these grounds most of us in business are on the side of the public. Reputable businessmen have no wish to suffer the ignominy of guilt by association.

There is one point, however, on which the business community should be quite unyielding. This is, that profits must be adequate, (not excessive), if the free enterprise system is to perform effectively in expanding employment opportunities, and in providing improved living standards for the Australian people. I feel we are not taking a sufficiently firm stand on this issue, which is all-important.

Recently business has had strong support from both the Prime Minister and the Treasurer on the imperative need for adequate profits. In a speech, significantly to the Prices Justification Advisory Service, Mr. Crean pointed out that continued inflation tends to erode real profits and thus diminishes the capacity and willingness of businessmen to invest. He went on to say that prices should be set at levels sufficient to maintain incentives for investment and to provide for the setting aside of funds to replace capital equipment as it wears out. He stressed — and I emphasize this — that he was speaking of real profits as distinct from paper profits derived by accounting practices, that do not
get to grips with the insidious effects of inflation on cash flows and the soaring replacement costs of assets. Also, it might be added that company taxation does not take account of the effects of inflation on corporate income.

It is, I suggest, vitally important that we compare profits one year with another in real terms and not in the customary fictitious terms of a rapidly depreciating monetary unit. We do this, rightly, with all other incomes, but with profits we persist with the quite unreal comparisons uncorrected for price changes.

The I.P.A. has made some preliminary estimates which take into account the effects of inflation on net company profits, including the replacement costs of buildings and equipment. For a variety of technical reasons, into which I need not enter, the estimates must be somewhat arbitrary and therefore subject to a fairly wide margin of error. Nevertheless they are, in our view, sufficient to illustrate what has been occurring. We have applied the adjustments for inflation to the total of company profits of trading enterprises for the last ten years for which the figures are available, 1962/63 to 1971/72. We have also had to make an allowance for the great growth of industry in this time and we have assumed that this has been at the same rate as the growth of the economy measured by real Gross Domestic Product. Our estimates suggest — I stress they are preliminary — that total company profits in real terms have fallen by about 45 per cent over the ten-year period. This situation is clearly one of deep concern not just, or indeed mainly, for industry but for all the Australian people which industry exists to serve.

In the last twelve months the activities of the Prices Justification Tribunal which have resulted in the squeezing of profit margins have added to the burdens which inflation has imposed on industry. This fact was belatedly recognised by the Prime Minister in his speech last week.

The interests of the mass of the people and of business are, in fact, inextricably interwoven. Business enterprise is the main creator of the wealth of the community, whilst Governments are largely the spenders. If business is not prosperous, all suffer, not just the businessman, and the wage-earner in the long run most of all.

We, as businessmen, must give more attention to explanation and communication and, in fact, to all these various matters, and support more generously than in the past organizations such as the I.P.A. which are striving to resolve misunderstandings, bring out the facts, and to make the system work better.

Leadership must come from the top. We all live in Australia — on this great country's progress we all depend.

During the year the I.P.A. Council was strengthened by the addition of Mr. L. C. Brodie-Hall, resident director of the Western Mining Corporation in Perth. Mr. Brodie-Hall has already been most active in forming a small I.P.A. Committee to promote our work in Western Australia. I am sure we will derive great benefit from his interest and enthusiasm.

Whether you like it or not you are all shareholders in a Company which has recently changed its name from Australia Unlimited to Inflation Unlimited — No Liability.
Report of the Chairman of the Executive and Editorial Committee

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

During the year the work of the Executive and Editorial Committee has continued to be mainly concerned with the production of the I.P.A.'s two regular publications, the I.P.A. "Review" and I.P.A. "Facts". In addition, we produced in September a new booklet "Inflation — Everybody's Responsibility", which looks like being a best seller. We have also been busy promoting another special booklet "Profits and Prices" which we issued a little over 12 months ago.

"Review" circulation is 20,000 copies each quarter and "Facts" is 54,000. Judging by the correspondence and comments we receive, reader interest in both publications has been more than maintained. We continue to receive many letters and telephone calls from thinking people in all walks of life concerned about the economic policies of the Federal Government and the future of free enterprise.

Most of you would no doubt agree that the most significant contribution made by the I.P.A. in the last twelve months — or for that matter in the last three or four years — has been its contribution toward national thinking on inflation.

Several years ago when inflation was running at only three to five per cent, the I.P.A. said that unless strong action was taken, inflation would accelerate and eventually get out of hand. How true this has proved to be!

Many years ago the I.P.A. discarded the orthodox ideas of increased taxes to cope with inflation when they were supported by practically all economists. Today an overwhelming majority of the economics profession has done a right about face and is now in line with the I.P.A. viewpoint that increased taxes end up in higher prices and also that the burden of personal income taxes is one of the factors responsible for higher wage demands.

In the last twelve months, a preponderance of "I.P.A. Review" articles have concentrated on inflation. We have consistently emphasized three things:

1. Inflation will not be beaten without a community effort — a proper acceptance of a share of the responsibility by every section of the nation. Governments alone cannot do the job. As Sir Roland Wilson said recently — "Every citizen must become a soldier in the battle against inflation".
2. There must be strong, inspiring, convincing leadership, and an example from the summit, to stress the need for community sacrifice and co-operation.

3. This must, of course, be supported by the correct technical measures to deal with inflation. The I.P.A. has stressed, above all, the need for restraint in public sector spending at all levels. It has also, reluctantly, come to the view that a ceiling must be imposed, for the time being, on annual income increases. Indexation of wages we regard with horror. If it is applied to wages only, as the Australian Government seems to contemplate, there will be pressure for indexation to be applied also to all other forms of income and even to savings. It would be hazardous to introduce indexation at a time when prices are rising very steeply as they are now. Indexation would, in our view, amount to a surrender to the forces of inflation.

One of the features of the “I.P.A. Review” has been the high standard of the contributed articles we have been able to publish. One of our early contributors, Professor F. A. Hayek, has won the Nobel Prize for Economics. Professor Hayek will be remembered as the world-renowned author of “The Road to Serfdom”. He wrote for the November/December issue 1950 an article entitled “Full Employment, Planning and Inflation”.

This year we have published articles by three well known authorities:

“Australia and the Energy Crisis” by Dr. Lewis G. Weeks, a world figure in oil exploration, who played a major role in the discovery of the Bass Strait fields.

“Japan’s Economic Growth and the Productivity Movement” by Takeo Tamarushima, Executive Director of the Japan Productivity Centre.

“Life Assurance Today” by P. C. Wickens, General Manager of The City Mutual Life Assurance Society Ltd., and Chairman of The Life Offices’ Association of Australia.

“Facts” is being read as eagerly as ever by people in all walks of life. We feel sure that this publication has a key role to play in basic education about wages, profits, prices, productivity and living standards.

Government policies tend to reflect the attitudes and viewpoints of the community. If these policies are to be soundly based, people must be better informed about the workings of the economic system. I.P.A. “Facts” has endeavoured over 20 years to provide this information in a form which the man in the street can readily understand.

A former member of our Council, the late Mr. Norman Jones, commenting on “Facts” said:

“I know of no other publication which contains so much valuable information and requires so little reading effort.”
The bulk of "Facts" circulation is among employees over the whole range of Australian industry — especially among foremen, skilled tradesmen, apprentices and selected office employees. It also has a large circulation among teachers, schools and students. At the request of the Australian Government, copies are sent regularly by air mail to some 25 Immigration Officers located in various countries overseas. The following are some of the larger outlets for "Facts":—

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<td>W.A. Employers’ Federation</td>
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The distribution of "Facts" can and should be expanded considerably, but this depends on companies and firms becoming aware of the compelling need for basic economic education among their employees and the community.

On page 10 of the Report you will note a reference to the booklet "Profits and Prices" which we published last year. It has been something of a best seller. We have sold over 62,000 copies to companies for employee distribution. There has always been a great deal of misunderstanding about profits and it is vitally important that people should understand the function they perform, and appreciate the need for industry to make satisfactory profits.

At the end of September we published another special booklet, "INFLATION — Everybody’s Responsibility". This has been designed for wide distribution among people in all walks of life, especially among industrial and office employees, and for use by students and teachers. The booklet is being sold for 25 cents per copy. I am pleased to say that at the time this Report went to press we had sold over 100,000 copies. There has been an exceptional reaction to the booklet and we are confident of achieving a very substantial distribution throughout Australia.

I am pleased to say that two companies, Associated Pulp & Paper Mills Ltd. and BH South Ltd. have been so impressed with the value of the Inflation booklet that they have decided to send a copy to each of their shareholders at the time of posting their Chairman’s Address. We hope that other companies will follow this splendid example, because if inflation is to be defeated, there must be a broad basis of public understanding of its causes and effects.

We have a few copies of the booklet on display here today. If your company has not ordered copies I urge you to do so, because this would mean you would be playing a very necessary part in getting the
man in the street to understand what causes inflation and how he can help to reduce it.

One of the most pleasing features of the I.P.A.'s work is the continued demand by teachers and students from all over Australia for I.P.A. publications. These are now being used in the senior classes of over 1,000 schools. This represents about 15,000 copies of "Review" and over 50,000 copies of "Facts" which we make available to educational organisations annually. We are very proud to say that this important distribution has been built up entirely by requests from teachers and students, which I think we can regard as a tribute to the objective educational character of our work. For many years all of our school circulation was free of charge, but owing to increased production costs and postage charges we have been forced to charge a subscription which is at a concessional rate. Gentlemen, it is a matter of regret that these increases make it necessary to charge schools for IPA publications.

To maintain the Institute in a sound financial position in a period of rapid inflation, yearly increases in income are clearly essential. Despite the utmost efforts to make economies; costs, particularly of printing and postage, continue to rise disturbingly every year. Because of the present uncertain business climate it is important to attract not only new subscribers, but also to retain all of our existing subscribers. We are therefore obliged to rely heavily on the generous contributions of companies, which have supported us since the inception of the Institute, for the satisfactory maintenance and growth of our finances.

I wish to express our sincere thanks to all our subscribers, particularly to the companies which assisted with increased subscriptions during the past year. Perhaps we may look for supplementary support now from those that have not already responded to this request. I earnestly commend it for your consideration.
New Booklet "INFLATION — Everybody's Responsibility"

Inflation has reached crisis proportions and threatens the stability of our Australian society. If inflation is to be beaten people must have a better understanding of the causes behind rising prices. At present there is widespread misunderstanding.

In September the I.P.A. published a new booklet which endeavours to deal in a simple and popular way with this all-important subject. The booklet has been designed especially for widespread distribution among office and factory employees, in schools, universities, professional groups and among people in all walks of life.

It endeavours to show that:—

- We are all to blame for inflation because our demands for higher incomes and for more benefits from Governments are together more than the economy can afford.

- Wages and salaries increased in 1973 by about 17 per cent per head but the supply of goods and services increased by only 5 per cent per head.

- Company profits are a small component in prices. A reduction in profits would have little effect on inflation and would leave industry less money to finance new projects and provide additional employment.

- Excessive Government spending clashes with personal spending, causing costs and taxes to rise, and inflation.

- We can beat inflation if we moderate our demands on Governments and provided that increases in wages, profits and other incomes do not exceed the annual gains in national productivity.

Already we have had an excellent reaction to the booklet. At the time of going to press orders had been received for over 100,000 copies. The first print was sold out in ten days. The booklet is being sold for 25 cents a copy.

Australia and private enterprise are facing severe challenges. The I.P.A. hopes that companies will help to achieve the widest possible distribution of the booklet first among their own employees and, secondly, by paying for the cost of distributing copies to schools and students.
"PROFITS AND PRICES"

The role of profits in the economic system is not understood. There is also general misunderstanding about the pattern of distribution of company profits. Last year the I.P.A. published a twelve page illustrated booklet on this subject. Over 62,000 copies have been distributed to people in all walks of life — factory and office employees, public servants, libraries, teachers, students and schools. A number of companies purchased 1,000 or more copies for employee distribution.

Most of the copies for industry were sent in bulk to companies for distribution, but several companies asked us to mail copies of the booklet to the home addresses of employees, so that all members of the family could read its message.

We are very appreciative of the financial assistance of twenty companies which contributed to the cost of making copies available free of charge to teachers and schools. This valuable help resulted in over 5,000 copies of the booklet being sent to the larger schools in all States of Australia.

Among the facts contained in the booklet are the following:

- The average dividend after tax for a representative group of manufacturing industries amounts to about 2 cents of each dollar of sales.

- In manufacturing industry it costs an average of $15,000 in plant, tools and other assets to create each job. This money has to be provided out of the savings of shareholders and from profits retained by the business.

- 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.

- Most public companies have more shareholders than employees.

- The Commonwealth Government takes the biggest slice of profits — 47½ per cent of company profits are paid out in Company Tax.

- 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.

- Two out of every three jobs in Australia are provided by businesses working for profits.
EXTRACTS FROM RECENT CORRESPONDENCE

Mr. W. R. Crocker, C.B.E., Adelaide —
"Your I.P.A. "Review" still has no superior in informativeness and in responsibility and quality of comment. I always look forward to it. The world gets no better. That is why you and other people of quality are so much needed today."

Mr. R. E. Gregory,
The Myer Emporium Limited —
"The article on "Inflation" is the best I have ever read and if I had my way it would be compulsory reading for every Australian, and in particular our politicians and trade union leaders."

Mr. D. W. Stride,
Managing Director, Commercial Bank of Australia Limited —
"Our congratulations upon the excellent publications that have been produced over the past twelve months."

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

Mr. Rodney Davidson,
Toorak —
"May I congratulate you on your excellent Institute of Public Affairs President's Address. It is a most timely call for action."

Mr. C. W. Morse,
Public Relations Division, Woolworths Limited —
"The 1,500 copies of "Profits and Prices" have been distributed and have created a very enthusiastic and realistic interest."

Mr. N. F. Leggatt,
Sterling Pharmaceuticals Pty. Ltd. —
"There has certainly never been a time when the private enterprise system in Australia has been under such heavy attack as it is today. The Institute of Public Affairs is performing a most valuable service to enterprise."

Mr. P. I. Rosenblum,
Managing Director, Repco Limited —
"Your organisation in my opinion is performing superbly, particularly when we have all had to face a rapidly changed climate both politically and economically. Your vital role in communications is never more needed than now."

Mr. P. deB. Hogg,
Managing Director, James Miller Holdings Limited —
"We agree wholeheartedly that the distribution of I.P.A. "Facts" should be increased as a matter of some urgency."

Mr. Rory C. Butler,
Burnie, Tasmania —
"Facts" is not only extremely interesting and informative, but the text of the introductory page has philosophical and spiritual overtones which are particularly appealing. This appeal is enhanced coming from a bulletin which is obviously intended to present statistical facts which sometimes, by their very nature, can be overwhelmingly boring. Not so here."
FINANCIAL SUPPORT

The I.P.A. gratefully acknowledges the valuable financial support given by its subscribers. In the last financial year we received support from companies, sundry organisations, individuals and schools throughout Australia viz.:

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<td>Individuals and Sundry Subscribers</td>
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The Institute has always operated on a modest budget. Our entire staff is six — three men who are graduates and three girls. It has not increased since the inception of the I.P.A. thirty years ago. It is clear that Parkinson’s Law does not operate at the Institute.

Owing to inflation the cost of every item needed to maintain the Institute has increased. Printing and postage costs are a major concern. It will be necessary for us to increase our income by at least 25 per cent this year. We therefore ask all our old and valued supporters to maintain and if possible increase their annual contributions. We shall be looking also to many other companies which are not subscribers. All businesses, and especially companies listed on the Stock Exchanges, have a big stake in our economic system. We believe they should shoulder some of the responsibility for economic education on behalf of free enterprise. You can each help by suggesting firms, societies or individuals who you have reason to believe might become contributors.

In view of the many challenges to business and the drift to socialism it is essential to expand the I.P.A.’s educational work. Particularly we must aim at increasing our mailing list to teachers, schools, university students, libraries, debating clubs, public servants and many others who cannot be expected to contribute much financially.
I.P.A. SUBSCRIPTIONS

Entitlement — No. of copies of each issue

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The above are minimum rates and entitlements increase with larger subscriptions. The IPA relies in the main on the financial help of Companies and organizations which contribute larger amounts.