“IT’S TIME

In 12 months’ time the economy could be in chaos — with inflation over 20 per cent and out of control, unemployment spreading, and business, investor and community confidence at its lowest ebb since the Great Depression.

In 24 months’ time Australia could be floundering in the same evil bog in which the British people are at present sinking — a hideous morass compounded of rampant inflation, 5 per cent unemployment, crippling taxation, a huge and rising external deficit, irresponsible, power-drunk unionism, near bankrupt industries, business investment at a virtual standstill, declining living standards, a despairing, bewildered people, a helpless Government, a society in disarray.*

These fearsome contingencies can be avoided: but only on two conditions.

The first is that the trade unions strictly adhere to the recent indexation judgment of the Commonwealth Arbitration Commission. If the unions flout the Commission’s decision and are able to enforce, by the use of naked power, demands for irresponsible wage increases, then hyper-inflation will take hold of the Australian economy with the disastrous consequences just mentioned. Even as it is, indexation will ensure that inflation
will be kept close to boiling point during 1975/76. The second condition is that the Commonwealth Government radically recasts its attitudes and policies on Government spending. The forthcoming Budget is critical. Another large expansion of the public sector, with its inevitable concomitant of a huge budgetary deficit, would debase the currency at a terrifying rate. It is now perfectly clear to all responsible people that the more spectacular spending programmes of the Government — such as National Compensation and National Superannuation — must be indefinitely delayed. Medibank alone will more than tax our financial digestion for some time to come. Such unnecessary projects as the Government Insurance Office should also be postponed or, preferably, scrapped entirely.

But even this will not be enough. The situation calls for much more. It calls for a change of heart and philosophy on the part of the Government. The policy of indiscriminate hand-outs in one guise or another — some of which have somewhat sinister political overtones — should be abandoned. There must be evidence in Canberra of a firm determination to “economise” (an old fashioned word in these days of multi-billion dollar budgets) in all established areas of Government spending. There must be much stricter supervision of expenditures where obvious abuses are occurring — for instance, the disbursement of millions in unemployment benefits to people who are not seriously seeking work or who are not prepared to move to areas where suitable jobs are available. The already grossly swollen public service should be “frozen” at its present size, if only because of the burdens it is already imposing on the “productive” sectors of the economy. There should also be a careful look at the new regulatory agencies, both existing and intended: the Prices Justification Tribunal, for instance, could be abolished with clear benefits for the economy. If investment is to be revived and unemployment reduced it is imperative that profit prospects be improved.

The cardinal error of the Government, from the beginning of its administration, has been to give the people the impression that lavish welfare benefits in fields such as Health and Education, as well as those in the form of cash hand-outs in directions too numerous to mention — that all this can go hand in hand
with substantial gains in personal living standards. Thus, senior Ministers, particularly in the intoxicating first months of the Government, positively encouraged union demands for inflationary wage rises and indeed attempted to use the public service as a pace-setter for pay and conditions in the private sector. It should have done precisely the reverse. It should have made clear that large-scale welfare programmes had to be paid for by the people themselves; in other words, that, in the absence of more effective work in both private and public sectors, the cost of these programmes would entail some reduction in personal living standards, that if Government spends more, the people are left with less to spend for themselves. Instead, the Government conveyed, and continues to convey, the false impression that the benefits dispensed are, in some magical way, “free”.

If we are to avoid the otherwise almost certain prospect of economic anarchy and collapse some time in 1976, there must be a return to responsibility by staff associations and unions, both white and blue collar, and a retreat by the Government from its extravagant spending notions.

The longer-run consequences of the Government’s spending philosophies are even more serious than the immediate dangers of economic chaos.

Its fundamental mistake has been to suppose that, in the pursuit of social and economic progress, the efforts of the State, supported by a giant bureaucracy, can supplant those of the people themselves; that a vast transference of power from the people to Government can be effected without destroying enterprise and the reality of democratic freedom.

Surely it is wholly illogical, indeed an incredible arrogance, to assume that Government, as such, possesses some kind of divine intelligence, some kind of superior morality, denied to the rest of us? The attitude that “we know what is good for you better than you know yourselves” is indeed the underlying cause of many stupidities perpetrated by the Labor administration.

Hardly a day goes by that there is not new evidence of egregious folly — some additional regulations to tighten the strait-jacket on business, some uncalled-for intrusion into areas rightly the province of private concern, some new committee to
pry into how we live, some further expansion of the now mounta

inous bureaucracy.

If the Australian Government continues on its present course, Government as such is destined to grow bigger and bigger, taxes will get higher and higher, the ordinary Australian will have less and less scope to shape for himself the pattern of his own life, his freedom will become increasingly circumscribed and his everyday standard of living will stagnate and not inconceivably decline. Officialdom, remote, cold, academic, ideologically motivated, will penetrate into every nook and cranny of Australian society. We will be suffocated under the stifling attentions of an omnipotent, omnipresent Big Brother. We may obtain a kind of dull, soulless, low-level, cradle-to-the-grave security but it will be at the expense of colour, variety, self-reliance, individual character, and indeed of human happiness.

The I.P.A. does not believe that Australians want this kind of society. We are not even sure that the members of the Government understand where their policies are leading. We will give them the benefit of the doubt and hope for a change of direction.

Just as the Government's victorious and rousing slogan in December 1972 “It's Time”, had much to be said for it, the same slogan can be applied with equal force to the situation now confronting us. “It's Time” — time to call a halt to destructive, wrong-headed policies which are leading to the precipice of disaster.
Milton Friedman's Visit

"I believe in the free enterprise system because I believe it is the only system which will enable the ordinary man — the ordinary citizen — to have a maximum degree of both freedom and prosperity."

MILTON FRIEDMAN'S visit to Australia in April was like a breath of fresh air. The great political and economic debate had bogged down in the almost nightly T.V. repetition of old, well-worn cliches and in the largely incomprehensible jargon of too many Australian economists. The irrepressible Chicago Professor, the most eminent and articulate world exponent of free market economics and an uncompromising opponent of Government intervention, gave new life to the argument.

Professor Friedman has no patience with the current economic fashions and saw much in Australia which undoubtedly horrified him. Despite the virtual neglect, even hostility, of some sections of the media, he made a deep and salutary impact on the Australian economic and political landscape. Gifted with a rare talent for simple, compelling exposition, Friedman was able to remind us of the verities and virtues of "the market" which many are in danger of forgetting and which some of the modern school of economists seem to have barely heard of. He gave renewed hope to those dismayed by the rapid, apparently inexorable, growth of monolithic Government in this country. Those who believe that all virtue resides in the State were seriously discomfited by his visit. Indeed many union leaders, politicians and economists must have sighed with relief when the Professor boarded his Jumbo Jet to leave for home.

Professor Friedman's power to influence derives not merely from his intellectual grasp and articulateness; he brings to his exposition the passion of a crusader. He is no cold academic but a man with a mission. To those who differ from him, Friedman bears no ill feelings; he believes only that they are sadly misguided.

His uncompromising advocacy of the market economy is based on two simple convictions: first, that it ensures a far greater rate of economic progress than any other system; and second, that it provides for a maximum of personal freedom.

State directed and controlled economic systems, at best, seriously slow down progress and destroy individual freedom into the bargain.

In these days of ever-rising government expenditures, the growth of bigger and bigger Government, Friedman reminds us of two simple truths, so obvious as to be frequently overlooked.

The first is that people spend their own money much more carefully than Governments spend it for them. Government, unlike John Citizen, hasn't got to use up time and effort in acquiring the
money; it has merely to raise taxes. Thus, there is an in-built, indeed unavoidable, tendency for Governments to spend wastefully.

This prodigality extends down to the bureaucratic level. Compare a Government department with a small business enterprise. The managers of the latter must be constantly aware of costs. If they employ additional people, this may easily result in a reduction in their profits and in their own incomes. The bureaucrats are inhibited by no such mundane constraints. The employment of more staff does not affect their salaries in the slightest. They stand to lose nothing; indeed they stand to gain. The larger the staffs they control, the more important they become, not only in their own eyes but in those of their fellow bureaucrats. Thus, there is an irresistible propensity for government departments to spend more — and yet more. In private enterprise, the incentive is precisely the reverse — namely, to economise, to spend nothing that is not absolutely essential or that will not clearly improve the efficiency and thus the profits of the enterprise.

This simply means that in Government there is often a gross waste of time and manpower. Parkinson’s Law runs riot. In private enterprise the likelihood of extravagance is reduced to a minimum because of the pressure of rising costs on the earnings of the business.

The second simple truth emphasised by Friedman is that people do not value, do not economise in things which are apparently “free”. Why should they? If something is free, we might as well have as much of it as we can. “I think one of the most common rules of life and of economics is that if people get something for nothing, they value it at nothing; and if something is available for no charge, people will consume it up to the point at which it gives no value”.

It is only when people have to pay for an article or service that they hesitate and ask themselves whether it is worth the price demanded. Friedman gives the example of “free” tertiary education. If universities are “free”, there will be enormous numbers clamouring for admission, many of whom would be far better suited to non-academic or non-professional pursuits. There will thus be a squandering of public moneys. If people had to pay something, only those who were really interested in and qualified to benefit from tertiary education would go to universities. Friedman proposes that those who attend a university “on the Government” should be required to reimburse the Government out of their earnings in later years, the amount paid back to be related to the amount of their earnings.

In these two simple human propensities — the tendency to spend other people’s money improvidently and to take as much as we can of anything offered “free”, lies the reason why Medibank is certain to be wasteful, inefficient and frustrating for doctors and patients alike. Nationalised health services, “free” medicine, as in Britain, are notorious for the long delays in attaining treatment. This simply results from the fact that when people have to make no payment at all for a consultation with a doctor, they will not hesitate to seek his services for the most minor, insignificant ailments. Where there is no charge for hospital treatment, the demand for beds will invariably exceed the supply. Despite a quarter of a century of The National Health Service in Britain, over half a million are waiting to get hospital beds; the average period of waiting is 3 to 4 months.

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Many people still seem to harbour the delusion that we must choose between unemployment and inflation. The former Australian Treasurer, Dr. Jim Cairns, is clearly among them. Friedman insists that there is no such option. "If you continue on your present path of promoting higher inflation, then you will really be stuck with permanent unemployment". Indeed, in the Australian context, it is the prospect of continued rapid inflation that deters employers from embarking on the investments necessary to restore real growth and to provide additional jobs.

Friedman does not propose unemployment as a cure for inflation. What he maintains is that some temporary unemployment is an inevitable side-effect of the treatment. From that, he argues, there is no escape. To those who suggest that the cure might be worse than the disease, he would reply that the path of inflation — something we have contended at the I.P.A. for many years — must lead eventually to total economic and social break-down.

Friedman’s name has been seized upon by the advocates of indexation of wages as a cure for inflation. But Friedman and these people are really oceans apart. In the first place, he states categorically that indexation is not a cure for inflation. The remedy is to be found in a reduction in the growth of the money supply and nowhere else, even at the cost of temporary unemployment. The Australian Government’s policy of “printing money” to overcome unemployment is the precise opposite of the Professor’s position. Combined with indexation of wages, this policy would produce — and no doubt Friedman would agree — a terrifying rate of inflation. He made clear many times on his Australian visit that indexation is in the nature of an aspirin to reduce the pain of the measures which he regards as inescapable if inflation is to be cured and balance restored.

But, in any case, his main concern is not with indexation of wages (Friedman, incidentally, would index not wages alone — which would be grossly unfair — but all incomes) but with indexation of taxes and of government loans. Inflation puts people on modest incomes into higher and higher tax brackets. An inflation rate of 16 per cent is a tax of 16 per cent on the cash balances held by the people. Inflation is a “hidden tax”. No members of Parliament have voted for this tax; nor have the people authorised it. “If the people of Australia wish the Governmental sector to expand at the expense of the private sector, that is of course their right; but their representatives should be required to do it openly and explicitly and above board. Government should be required to vote for the higher taxes and not allow those taxes to be obtained by the fact that inflation pushes people into higher and higher brackets”. Friedman believes that if the people were aware of the full extent of the taxes they are required to pay to finance Government programmes, this would put an effective brake on the growth of the public sector.

Friedman points out that all those who have lent money to the Australian Government in the past 5 or 10 years have paid for the privilege of doing so. Suppose Government paid the investor in bonds 7 or 8 per cent interest; after tax, he might be left with a return of say 4 or 5 per cent. But last year inflation was 16 per cent, so at the end of the year the investor had paid the Government 11 cents out of every dollar for the privilege of lending to it. A reversal of the natural order — the lender pays the borrower instead of the other way round. “I think it’s disgraceful the way in which my Government and your Government have taken the ordinary people who have bought
Government securities to the cleaners"). His remedy is to index Government loans to restore justice to the lender. It might be added that institutions, such as life companies, are compelled by law to invest a certain proportion of their policyholders' moneys in government securities. So that under inflation, government borrowing is not just robbery, but robbery under arms.

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We do not by any means accept Friedmanism in toto. His severely "monetarist" explanation of inflation, which has recently attracted so much attention throughout the world, we find simplistic and misleading, even dangerously so. The proposition that a sustained rise in the general price level is due to excessive increases in the money supply is little more than a truism — a resurrection of the quantity theory of money. It is a definition of the problem, not a diagnosis. We have to ask ourselves what causes the excessive expansion in the volume of money.

Friedman's answer would no doubt be that as Government controls the money supply, inflation is made in Canberra, Whitehall, Washington and nowhere else. On several occasions, when in Australia, he seemed to assert that the people themselves bear no responsibility for inflation; that trade unions bear no responsibility; employers no responsibility; the general public no responsibility. This was clearly sweet music to the ears of trade union secretaries; on the face of it, it relieved them of all guilt for the massive price rises of the last year or so. If they had stopped to think a little, they would not have been quite so happy. What Friedman is advocating is a controlled, consistent annual increase in the supply of money closely related to the increase in the community's production, say something of the order of 5 per cent. Thus, if the trade unions persisted in wage claims for increases of 20 or 30 per cent, under Friedman's proposal there wouldn't be enough notes to put in the pay envelopes. The result would be large-scale unemployment.

Friedman would possibly argue that since no trade union leader would wish this to occur (and knowing that Government policy was to allow the money supply to increase by no more than 5 per cent) wage claims would be limited to a level consistent with high employment. This is a plausible, if less than convincing viewpoint. It assumes a degree of economic understanding, allied to a sense of public responsibility, which all trade union leaders may not possess. It would need only one powerful union to breach the wage barrier and the rest would feel compelled to follow. If this occurred — as it almost certainly would — no Government, which wished to remain in office, could refrain from "printing notes" to fill the pay envelopes. Full, or at the least high, employment is a "categorical imperative" for any democratic government.

There is another circumstance which would make the Friedman policy difficult or impossible to apply. It is one with which in these days we are all too familiar. This is the tremendous, unremitting pressure on all Governments to provide increased benefits — education, health, pensions for instance — for the people at large, and also benefits for special groups — say, subsidies for certain industries or cultural activities. Confronted with these pressures, the tendency of modern Governments, aware of the unpopularity of higher taxes, is to seek refuge in the printing press. What Government cannot extract from the people in taxes, for fear of incurring their
disfavour, it takes from them in the concealed taxation of inflation.

Friedman is, of course, very well aware of this process — indeed he referred to it on many occasions during his Australian visit. He pointed out that if the people knew of the full burden of the taxes — overt plus “hidden” — the Government was imposing on them, they wouldn’t have a bar of it. Indeed, this led him to suggest — perhaps not very seriously — that the people might be asked to indicate the proportion of their incomes they were prepared to release to Government in taxation. This would certainly impose an effective limit on Government spending.

However, the point we are concerned to make is this: the increase in the supply of money is the immediate cause of inflationary price rises; but the cause, in turn, of the expansion of the money supply, lies in the public demand for excessive wage increases and excessive Government benefits. This, of course, does not mean that Government bears no responsibility for inflation — it bears the main responsibility. But in a democracy, Government must work within the parameters imposed by the climate of public opinion. Its fault lies not so much in its monetary policies, but in its failure to lead, guide and educate the people.

Friedman’s views on monetary policy have, however, had beneficial effects. Governments have tended to under-rate the significance of the money supply in the long-term control of inflation and Friedman’s crusade has undoubtedly helped toward re-instating it to its proper place in over-all economic policy.

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Friedman is a proponent of the free market doctrine in its purest form. He is, for instance, an unrepentant supporter of free trade. He believes that Government should be kept to a minimum. He sees its main role as a referee to ensure fair play and to maintain competition. Competition, he says, is the constraint on the abuse of power by big corporations. “The great virtue of free enterprise is that it prevents capitalists from having too much power.” The free movement of prices is the only way to guarantee the most efficient allocation of resources in the consumer and public interest. Friedman’s argument against trade union restrictions is that they are ultimately to the detriment of the workers themselves — they slow progress and thus retard the improvement of living standards.

In the severely theoretical sense, Friedman is no doubt correct. But one must have some doubts about the realism of views held and expressed in such an uncompromising form. The days have long since gone — if they ever existed — when pure free trade was a tenable doctrine, or when Government could restrict its activities to “keeping the ring”.

The great virtue of Friedmanism — and it is a great virtue — is that it brings the scales into better balance. It reminds us of the fearful dangers of the paths we are following, of the terrifying, sinister threat of Big Brother Government to individual freedoms laboriously achieved over centuries of struggle.
An Impressive Judgment

In its most impressive judgment for many years the Commonwealth Conciliation and Arbitration Commission has made a gallant attempt to re-assume control of, and impose order on, the present anarchical system of wage adjustments.

The Commission granted wage indexation on the condition that there is a radical change in Government and union policies. Unless these conditions are met, indexation, in the words of the Judgment, "would produce grave economic results". What the Commission says, in effect, is that indexation would be feasible only in a non-inflationary economic climate.

The conditions are that wage increases, outside of indexation, will be limited to national productivity gains (and little else) and that Governments will support the Commission and other wage tribunals in opposing claims above this amount. The Judgment also indicates that for indexation to work the Australian Government should reconstruct income tax to permit the wage-earner to retain a greater part of additional earnings and, further, that its fiscal policies must be such as not to add to inflation. If these conditions are not observed, then, in the terms of its Judgment, the Commission would seem obliged to withdraw indexation.

Those who criticise the Commission's decision should ask themselves what they would have done had they been in the Commission's shoes.

The I.P.A. has been an uncompromising opponent of wage indexation. We still are. The re-instatement of the principle of cost-of-living adjustments in the wage-fixing mechanism is, in our view, a bold gamble that will fail. We believe that, in the practical outcome, indexation, if persisted in, will accelerate inflation, not retard it. It seems improbable that the unions will abide by their part of the contract — that is, observe the wage-fixing principles set down in the Judgment; nor is there any indication that the Commonwealth Government will pursue the kind of policies implicit in the Judgment as necessary to its successful operation.

The new system differs significantly from the system of indexation abandoned by the Commonwealth Arbitration Court in 1953. The old method of quarterly cost-of-living adjustments applied only to the basic wage: its justification rested on the fact that the basic wage was a minimum "needs" wage. Clearly these needs would not be satisfied unless the wage was adjusted regularly for price changes. The 1975 determination, on the other hand, covers the total wage or salary. The Commission points out that the new system is, in effect, much more generous: that, under the old system, the adjustment would apply to only about one half, or even less, of the total wage.

The Commission has wisely refrained from making the adjustments "automatic" as in the old mechanism. It will sit in the month following each quarter to hear representations as to why the adjustments should not be continued. This would suggest that, if the other clauses of the "package" determination are not adhered to, the Commission would feel free to retract indexation.

The Judgment emphasises that for indexation to succeed, wage increases, other than those arising from quarterly
indexation and national productivity, would need to be small. Outside of indexation and productivity increases granted by the Commission, the only wage rises should be those due to changes in work value and to the adjustment of relativities where they have lagged behind the general movement. But in both cases the Commission sternly warns that it will guard against the circumvention of the indexation plan by contrived work value agreements or by claims based on relativity that are not genuine.

The Commission makes clear that it is concerned here with all sources of wage increases — that is, award or over-award — and irrespective of how the increases are achieved — that is, whether by arbitration, consent or duress. In a vital sentence the Judgment stresses that unless these increases are, in economic terms, negligible, the Australian economy could not afford indexation.

In support of the stand it has taken, the Commission significantly refers to an assertion made by the trade union advocate, Mr. Jolly, that “work value and other increases related to special considerations have a negligible effect on the total wage and salary bill”. The Judgment then states, quite ominously, that if Mr. Jolly's claim is not realised, "indexation would seem to have no future".

Having stipulated the conditions which the unions must observe if indexation is to work, the Judgment then proceeds to deal in equally strong terms with the special responsibilities of the Australian Government. "We firmly believe that its support is vital to the success of our proposals." The Commission calls on the Government to intervene in relevant arbitration cases and in the federal public sector in order to ensure observance of the wage-fixing principles defined in the Judgment. It suggests also that the Australian Government should impress upon the Prices Justification Tribunal that wage increases inconsistent with the Commission's principles should be disallowed as a factor justifying price rises.

But the Judgment goes much further even than this. In effect, it lectures the Government on its fiscal policies. The Commission accepts the view that wage demands are aggravated, especially in inflationary conditions, by the impact of personal income-tax on additional earnings and raises the possibility of tax indexation. It warns the Government that “the viability of our wage-fixing principles will depend in part on the Government's constant sensitivity on this point”. On fiscal policy generally, which of course includes Government expenditure, the Judgment, states that policies which add to costs and prices "will have a direct and rapid effect on wage movements through indexation”.

The Commission is not unaware of the grave responsibilities, and risks, it has assumed in re-introducing the principle of cost-of-living adjustments. The Judgment stresses many times that indexation can only work provided the stipulated conditions are honoured by unions, employers, Australian and State Governments and the public at large. "Violation, even by a small section of industry, whether in the award or non-award area, would put at risk the future of indexation for all.”

The Commission has acted courageously; it has acted intelligently; the Judgment is extremely subtle and must be read carefully to be properly understood. However, in our view, it will prove, in the event, to have been a gallant failure. But the Judgment undoubtedly does the right thing in making clear by
An Impressive Judgement (continued)

The responsibility for curtailing inflation rests on the Australian people as a whole and, predominantly, on the Australian Government and the trade unions. Employers must also assume their share. If the unions flout the principles of wage fixation laid down in the Judgment (and the sequel to the Metal Trades decision suggest that some intend to) then the Government, if it is to govern, could not continue to stand in the wings, but would have to step on to the stage and decisively assert its authority. With inflation accelerating dangerously and with confidence diminishing to the point of despair, the Government would have to assume control, temporarily, of the income structure. This would mean that the Commonwealth, with the support of the States, would stipulate the permissible annual increases in incomes for all sections of the community until inflation is brought under control and economic balance restored.

The Judgment makes the best of the almost impossible situation in which the Commission is placed by present circumstances. The Commission cannot be held responsible for controlling inflation, although it should do nothing which would add to it. The 1975 Wage Judgment has performed a significant service in making clear where responsibility finally rests — fairly and squarely at the door of the Commonwealth Government.

NEW BOOKLET  

"FREE ENTERPRISE"

The I.P.A. will publish towards the end of July, 1975, a twelve-page illustrated booklet which deals in a simple and popular way with the achievements of free enterprise and the need to preserve and encourage it.

The booklet has been designed for wide distribution among office and factory employees, in schools and among people in all walks of life.

Some of the points made in the booklet:

• The average Australian family is more than twice as well off today compared with 25 years ago.
• A range of statistics is quoted to show the great increase in the standard of living.
• Free enterprise provides 75% of all employment.
• Under free enterprise a person is free to choose his job. He is also free to start up a business of his own.
• Company profits benefit millions of people.
• The development of the mining industry in the last ten years is an outstanding example of the way free enterprise is helping Australia.
• Free enterprise countries provide a standard of life far ahead of socialist or communist countries.

The price has yet to be decided but it is likely to be around 25 cents per copy.

Today free enterprise is being seriously challenged and it is important that the message of this booklet should be brought to the notice of all Australians. We hope the booklet will be a best seller like our recent publication "INFLATION — Everybody's Responsibility" of which over 200,000 copies have been distributed.
The Corporations and Securities Industry Bill

In an article in the January/March “Review”, the I.P.A. suggested that the Corporations and Securities Industry Bill should be comprehensively re-drawn. Our basic objection to the Bill was that it created a new regulatory body, “The Securities and Exchange Commission”, with virtually unlimited powers to intervene in the affairs of Stock Exchanges and Companies, and would thus open the way to bureaucratic interference with the private sector of the economy on a scale that could have the most damaging consequences.

The Attorney-General of Australia (The Hon. K.E. Enderby, Q.C.) requested space in “Review” to reply to our criticisms of the Bill. This we were glad to provide.

The Attorney-General’s Reply is published below. This is followed by our Response.

REPLY BY THE ATTORNEY-GENERAL OF AUSTRALIA

The article entitled ‘The Corporations and Securities Industry Bill 1974’ which appeared in the January/March 1975 issue of the IPA Review contained a number of criticisms of that Bill. The purpose of the present article is to show that those criticisms are not justified.

I will set out the substance of each criticism in the form of a proposition and then reply to it.

That the Bill would mean, in effect, a massive transfer of power over companies and stock exchanges from the States to the Federal Government.

The Bill does involve a transfer of power and responsibility for stock exchanges and some aspects of public companies from the States to the Australian Government. But the Report of the Senate Select Committee on Securities and Exchange (chaired by a liberal senator) demonstrated that the time has come for such a transfer. There are good reasons for this. It is sometimes forgotten that the ‘main finding’ of the Select Committee was that a fundamental reform should be made of the securities markets, of the intermediaries operating in the markets and of some of the activities of public companies and investment funds. It is also forgotten that the ‘essential recommendation’ of the Select Committee was that a Commission be established forthwith by the Australian Parliament to carry out this fundamental reform.

There is a general consensus that a Corporations and Exchange Commission should be established by the Australian Parliament. All parties agree that the proposed Commission should be responsible for the stock exchanges and the securities industry. There is, however, some disagreement about whether the ‘company law’ provisions should be left in the States Companies Acts or moved to this Bill. (The ‘company law’ provisions include accounts and audit, prospectuses, debentures, unit trusts, investment companies, substantial share-holdings and take-overs.) It surely would be inappropriate to establish a national body that is to be responsible for controlling the securities industry in Australia and yet leave that body dependent on State legislation and State administrations. Such a responsibility must be accom-
panied by the capacity necessary to discharge the responsibility. To be effective in controlling the securities industry in Australia, the proposed Commission must have powers of its own to deal with all matters that are necessarily involved in the control of the securities industry. The Government believes there to be an irrefutable case for a National Companies Law. The company law provisions of the Bill are consistent in that regard.

The Bill was drafted on the basis that, if effective protection is to be provided for investors in relation to their dealings in securities, it is necessary for the legislation to control a number of related activities. Plainly, the Bill needs to regulate stock exchanges, market dealings, brokers and investment advisers. There is no dispute about these matters. But legislation which was confined to those areas would not, in my view, be fully effective. The legislation must ensure that investors have access to reliable and up-to-date information relevant to the value of their securities. This consideration leads to the inclusion of the so-called 'company law' provisions. I will pursue this subject further when discussing the Commission's power to require disclosure of information.

That the existence of Federal and State Laws will cause confusion.

The present system of regulating the securities markets and public companies in Australia could scarcely be more confused. Today, a large public company operates in a national market without regard to State boundaries; its shareholders are scattered across the continent and its shares are traded on every exchange. Yet there are six separate State Companies Acts and two Territorial Ordinances. Such a company is regulated by eight separate administrations because each State and Territory has its own bureaucracy for regulating companies. The time has surely come to rationalise this complex system and to provide a single administration for all public companies.

The situation is much the same for the securities industry. The Senate Select Committee on Securities and Exchange showed that a national securities market exists in Australia and that it should be encouraged for reasons of efficiency and the national economy. But, again, separate State administrations are involved.

Far from causing confusion, the proposed legislation will eliminate confusion. The Bill is self-contained and there will not be confusion as to its coverage in any particular field. The purpose of clause 18 is to make plain Parliament's intention that, with respect to every field covered in the Bill, State law is not to apply. There will be no confusion about which law is applicable to a case, because where the legislation covers an area, only the new legislation will apply.

That decisions of the Commission cannot be challenged in the Courts.

The Bill provides for an appeal of all decisions involving individual rights to the proposed Administrative Appeals Tribunal. This Tribunal will be an independent body and an appeal will be by way of a complete rehearing on the merits. Moreover, appeals will lie to the courts on points of law from the Administrative Appeals Tribunal.

In those cases where an appeal is not provided to the Administrative Appeals Tribunal, access to the courts is in no way impeded by the proposed legislation.

Far from acting in a dictatorial manner, the Commission, in holding a hearing, is expressly required by the Bill to observe the rules of natural justice.
That the Commission will have unlimited authority to demand information.

The need for the Commission to have broad investigatory powers was amply demonstrated in the Report of the Senate Select Committee on Securities and Exchange. Indeed, were it not for that Committee's own broad investigatory powers, the appalling abuses of the boom markets would never have been uncovered.

The major responsibility placed on the Commission will be to protect investors and to ensure that the securities markets are free of fraudulent practices. This responsibility cannot be discharged effectively unless the Commission is empowered to investigate suspicious circumstances and to uncover frauds at an early stage. Historical investigations make interesting reading, but they do not protect investors.

Another aspect of the need for disclosure of information is the reporting of public companies to the commission. The legislation must ensure that investors have access to reliable and up-to-date information relevant to the value of securities. As the value of securities will depend on the financial condition and profitability of the companies to which they relate, there is a further need to ensure that public companies make appropriate and continuing disclosure of their affairs.

That the provisions relating to the disclosure of information may lead to matters of a confidential nature concerning a company's activities being divulged. E.g., the rules prescribing the contents of prospectuses might force a company to reveal information of advantage to competitors.

There are two aspects to this objection. The first is concerned with leakage of information. The second is concerned with the contents of documents that will be made publicly available.

On the first question, the Bill contains provisions designed to ensure the security of confidential information. There are provisions prohibiting members and employees of the Commission from divulging information. Further, the Bill expressly provides that certain classes of documents filed with the Commission are not to be available to the public. Examples are:

- documents produced to the Commission in connection with a hearing that takes place in private
- the monthly reports lodged by stock exchanges on complaints and investigations
- the profit and loss account, balance sheet and auditor's report of a dealer
- a special report by an auditor to the Commission about a dealer.

Finally, the Commission is itself empowered to prescribe classes of documents that may not be available to the public. The second question raised by this criticism really relates to the breadth of the Commission's powers to prescribe the contents of documents such as prospectuses. The Commission will have broad rule-making powers. Such powers were recommended by the Senate Select Committee on Securities and Exchange and the Commission would not be able to carry out the fundamental reform that the Select Committee recommended without those powers.

In my view, the discussion here should turn not so much on the breadth of the Commission's rule-making powers, but rather on the safeguards. First, the Commission will be composed of experienced men. The Bill specifies that the Commissioners are to be full-time and that a person is not to be appointed unless he is
qualified 'by virtue of his knowledge of, or experience in, industry, commerce, economics, law or public administration'. Second, the exercise of the rule-making powers is circumscribed by procedural safeguards designed to ensure publicity and that all parties who will be affected can participate in the rule-making process:

- the Commission must give at least 30 days notice of its intention to make a rule
- it will normally hold hearings in connection with a proposed rule
- it must take into account all submissions received on a proposed rule
- a rule does not come into effect until 14 days after it has been notified in the Government Gazette
- either House of Parliament can disallow a rule
- the Governor-General will retain power to override a rule.

That the Commission's power to appoint an officer to attend stock exchange and company meetings is questionable.

With respect to stock exchanges, the provision gives statutory recognition to the notion that a stock exchange functions as a public utility and that its operations affect not only the limited circle of its members but also the public and the national economy. Stock exchanges in the United States themselves acknowledge their public role by providing representation on their governing boards for members of the public who are not associated with the securities industry.

The Australian stock exchanges have not provided for similar public representation, although the Report of the Senate Select Committee on Securities and Exchange illustrated that they have not always considered the public interest above members' interests. The provision is simply a means of ensuring some public participation in the operation of the Australian stock exchanges with minimum disturbance to their present constitutions.

The purpose of the provision which empowers the Commission to authorise an officer to attend company meetings is to enable the Commission to be apprised of untoward situations in time to avert detriment to shareholders, debenture holders and creditors. If anything was made clear in the Report of the Senate Select Committee on Securities and Exchange, it was that adequate investor protection means prevention rather than attempted redress after the event.

That the requirement that dealers keep a public register of their interests in securities is an infringement of privacy.

A person who consults a broker or other dealer expects fair dealing and disinterested advice. If the broker or dealer has an interest in the securities under discussion, whether directly or indirectly, he should disclose it. The Report of the Senate Select Committee detailed many instances where brokers did not make the required disclosure.

As long as dealers are to be permitted to buy or sell securities for themselves, it is necessary to devise a simple and fair means of providing their clients with positive protection. By requiring a broker to maintain a public register, the Bill ensures that a client can always check to ascertain whether advice received was apparently disinterested. It will also enable him to discover whether the broker made more advantageous transactions for himself than for the client at about the same time.

The provision does require that information that has hitherto been private shall be public. But the more severe alternative is to prohibit brokers from
dealing at all on their account. Publicity of their principal transactions is a small price for them to pay to be permitted to continue making principal transactions.

That the prohibition of brokers being directors of listed companies is detrimental to the most efficient conduct of business and thus to the interests of the community.

This criticism looks to one peripheral effect of the prohibition without examining the reason for the prohibition or its major effect.

Due to the position which they have traditionally occupied in the community, brokers hold themselves out to the public as unbiased advisers. Clients are encouraged to rely on them heavily for disinterested advice. But the widespread abuse by broker/directors of their position during the boom period and in more recent times has received wide publicity and was also well documented in the Report of the Senate Select Committee. The fact is that the practice of brokers acting as directors is fraught with irreconcilable conflicts.

The purpose of the provision is to remove the conflict of interests entirely. While some companies in the immediate future may lose the expertise of a broker/director, the reality of the situation should not be overlooked. Only a relatively small percentage of companies have a broker on their boards and brokers are by no means the only people who can bring comparable expertise to a board.

From the community viewpoint the benefits of the prohibition overwhelmingly justify its cost.

That the prohibition of brokers being directors of listed companies discriminates illogically against members of stock exchanges because it permits other dealers in securities to sit on company boards.

The reason that the prohibition applies only to brokers and not to other dealers is because the relationship between brokers and their clients is special. By and large, their clients are unsophisticated investors who are not likely to have available to them other sources of information on which they can base their investment decisions. On the other hand, the clients of dealers other than brokers are usually sophisticated investors and are capable of protecting their interests.

The Corporations and Securities Industry Bill is a most significant new piece of legislation for companies and for the securities industry in Australia. It comes at a time when the U.S.A. is strengthening its Securities and Exchange Commission legislation in response to social need. Australia has even greater need and I therefore welcome discussion and comment on the Bill and thank the Editorial Committee for this opportunity to comment on the previous article.
OUR RESPONSE

The need for a Commission to supervise the activities of the Stock Exchanges and securities markets in order to guard against the more flagrant types of abuse which occurred in the mining boom of 1969 and 1970 is not in question. The question is whether a Commission, armed with over-mastering authority, is necessary to provide reasonable protection for the investing public against a recurrence of such abuses.

Despite what the Attorney-General says, we hold to the view that a much less ambitious Commission, with limited and clearly defined powers, would serve the business and public interest much better than the kind of authority proposed in the Bill.

Government, of course, has an undeniable responsibility to regulate business and other activities in order to protect and serve the public interest. It must set the rules of the game and appoint umpires to see that they are observed. But Government should clearly not make such a multiplicity of rules or give the umpires such powers, that, in the terminology of Australian Rules Football, "the game ceases to flow", indeed becomes bogged down in a hideous and hopeless confusion. It is clear that the public interest will best be served only if business organisations are administered efficiently and imaginatively. If the time and energy of managements are distracted from this task by the need to comply with a profusion of Government regulations and regulatory bodies (and this is the general drift of policy under the present Government) then it is clear that economic progress will be hampered and the public interest will be ill served.

There has been much criticism of the Bill in that it covers not merely the securities market but also makes laws which affect corporations. Indeed, the Government has been accused of using the accepted need for regulation of the former to greatly extend its powers over important aspects of company administration. The Attorney-General attempts to justify this with the argument that the Commission must have these powers if it is to effectively control the securities industries. He goes on to say "there is an irrefutable case for a National Companies Law" and, further, that this will overcome the confusion arising from six separate State Companies Acts. The Attorney-General frequently seeks support for the Bill in the recommendations of the Rae Committee, but the Committee does not suggest that the Commission become involved in the area of Company Law. The Attorney-General ignores the recent developments by the States in creating Uniform Company legislation which provides a thorough and basically uniform framework on which the Commission may rely.

The Commission would clearly need access to adequate information in order to function effectively. However, "adequate" does not mean "unlimited". The Attorney-General's answer fails to meet our criticism that through the rule and regulation-making power of the Commission and the Governor-General, the Government and the Commission are able to determine the limit of their own powers to acquire information. The scope for bureaucratic meddling in the affairs of the securities market and of public companies thus seems to be well-nigh inexhaustible.

On the danger of the divulging of information rightly regarded by companies and dealers as confidential, the Attorney-General claims that the Bill specifies certain documents which are not to be available to the public and that the Commission itself is empowered to prescribe other documents falling into this category. However, this prohibition does not apply to a Court, the Attorney-General's Department, holders of "prescribed offices" or the people responsible for the
management of a registered Stock Exchange. We hold to the view that the scope for leakages of confidential information is dangerously wide. For example, the chief executive of the Petroleum and Minerals Authority could presumably be described as “a prescribed office”. Thus confidential information obtained from, say, a mining company could be transmitted to the Minerals Authority.

On the right of appeal against the Commission’s decisions, the Attorney-General states that appeal can be made to an Administrative Appeals Tribunal, and, in cases where such an appeal is not provided for, there is access to the courts. He also claims that the Commission itself is required to observe the rules of natural justice. We believe these statements do not accord with the terms of the Bill.

Clause 279 clearly prohibits the right of the individual of access to the courts where the Commission exceeds its authorised powers, fails to accord to the individual the right of a fair hearing, or misuses its discretion. Thus the requirement in Clause 42 of the Bill that the Commission observe the rules of natural justice is of no effect, since it cannot be enforced by an affected party. It should be observed that the Bill specifically catalogues only 8 cases in which there is a right of appeal to the Tribunal.

The provision in the Bill which has probably aroused most ire in business circles is that empowering the Commission to appoint an officer to attend meetings of Company Boards. The Attorney-General, rather incredibly in our view, asserts that this is necessary to enable the Commission “to be apprised of untoward situations in time to avert detriment to shareholders, debenture-holders and creditors”. We would have thought that that is what Boards of Directors are for. If the Commission should suspect that the affairs of a particular company are being improperly conducted, other sections of the Bill provide it with far-reaching powers to intervene. We regard this power to be quite untenable because it would represent a grave interference with corporate responsibility — and by people who must necessarily lack a thorough understanding of the company’s affairs. It is thus both unnecessary and unwise and should not, for one moment, be contemplated.

We appreciate the Attorney-General’s courteous reply to our article. Nevertheless, we remain deeply disturbed about the broader implications as well as the detailed content of the proposed legislation. For one thing, it represents a further centralization of power in the Commonwealth at the expense of the States — a process which has already gone a long way. But, much more important, taken in conjunction with other regulatory legislation (such as the Trade Practices Act, the Prices Justification and the Mining Legislation) the Bill would impose on industry a stifling bureaucratic overload, hampering freedom of decision and slowing down economic progress. It would thus react against the best interests of the community.

The Corporations and Securities Industry Bill as it stands, would, in our view, create what might not unfairly be described as a bureaucratic monstrosity. The Bill is an extension of the Government’s philosophy that everything, or nearly everything, can best be controlled and managed from Canberra, that ordinary citizens whether they be businessmen, employees, doctors, lawyers, educationalists, investors, left to their own devices, cannot be trusted to administer their affairs in a responsible and effective manner. This we believe to be a great and dangerous fallacy.
The English Disease — and is it Catching?
by Graham Hutton

We invited the author, Graham Hutton, to outline reasons behind Britain’s alarming economic and social malaise.

Graham Hutton is one of Britain’s most distinguished economists. The author of numerous books and pamphlets, he was at one time Assistant Editor of “The Economist”. He is at present a business consultant and a Director of a number of companies.

Graham Hutton was recently appointed an Honorary Fellow of the London School of Economics.

His article warns us that Australia is already infected with “the English disease”, which if not arrested leads to an authoritarian State.

A lot of facts can be adduced about Britain’s “English disease” which her people have had since VE-day thirty years ago.

Here are just a few, to get the record straight. First, plenty of economic doctors have described, and prescribed for, it all that time. Secondly, it has been endemic and at its worst in Britain, but it shows up in other leading “Western” democratic countries with milder symptoms; even in France, Germany and the U.S.A., not to mention Italy, Australia and New Zealand where its symptoms emerge somewhat clearer today. Thirdly, it is closely linked, causally, with productive efficiency of industries and services; rates of growth of annual output; and above all the rate of expansion of the State’s “cut” out of the national income, in countries where the private enterprise sector of the economy turns out most of the national income, and pays accordingly most of the taxes and State subsidies to keep the State (or “public authority”) sector expanding. Fourthly, the disease is most marked by inflation, because the State or public sector expands its “take” year by year from the national output faster than its revenues grow (taxes, social security contributions, etc.); so it runs year-to-year deficits, which it then covers not wholly by borrowing from the private sector’s savings but by printing new money to pay its mounting bills. Fifth and lastly, and purely politically, the inevitably and regularly ensuing currency crisis, caused by this faster inflation than those of other countries, lead Governments of all kinds to duck the difficult tasks of deflation, re-deployment of trade union labour, unemployment; and to prefer further inflation in order to “maintain full employment”; which leads inescapably to bigger and bigger doses of faster and faster inflation; leading eventually to hyper-inflation and a currency — possibly even, as in Weimar Germany, social and economic and political — breakdown. Which, according to a majority of serious British economic and political commentators, is precisely what Britain now faces.

It is therefore helpful to look back over these thirty post-war years and trace the main indicators of the “English disease” by way of the similar, but successively graver, regular economic crises which have plagued Britain and sterling.

From the devaluation of 1949 onwards, by 5-year periods, normal (“transitional” job-to-job) unemployment rates have risen like this: from roughly 1½ - 2% of registered workpeople
through 2.2, 2.4, 2.6, 2.9, and 3.2% averages, to 4.0% in 1973, and currently to a menacing 5.0% if we include part-time working and young first applicants for jobs. Yet the staggering feature, alongside these periodic attempts to maintain full employment by the State’s deficit-spending, has been the accelerating rate of price-inflation and money-supply. Over the same 30 years in 5-year periods the rise in retail prices has risen from 7½% in the first 5 years after 1949, through 12½%, 15%, and 19%, to nearly 40% up-to-date over the past 5 years; and the current rate is universally expected to rise from its latest rate, 21.2% between March 1974 and this March, to nearer 25% p.a. by the time we get to July. This is already Latin-American hyper-inflation, “banana republic” mismanagement. It accounts not only for the dire warnings from all press and radio commentators of repute in Britain; it also explains the latest run on sterling, the ensuing pother among the leading countries over currencies, the internal political crisis in the British Labour Government and its Party, and the embittered convulsions and confrontations now tearing British society apart as all the trade unions vie with the professions (doctors, university and other teachers, nurses, civil servants, etc.) over preserving their customary “differentials” in income and status.

Now the ordinary foreign observer of the British over these years is frankly, and rightly, puzzled. What on earth has turned this normally stable, somewhat apathetic, reasonable people into a chaotic, anarchic, deeply disturbed mass of contentious, strike-prone, slow-going, irrational groupings? What has been the root cause of these successive economic crises?

In fact there is one root cause, but it manifests itself in many ways. The late Lord Beveridge and his helper the present Lord Kaldor brought out their book Full Employment in a Free Society (London, Allen & Unwin) before the war ended, in 1944, in which they projected, on the lines of Lord Keynes’ pre-war studies, a programme to ensure not only a “full employment” figure which would allow a substantial (3%) figure for transitional unemployed, but also the stability of the currency (i.e. not by way of perpetual accelerating inflation). Clearly, guaranteeing full employment for every worker in his or her existing job, at the cost of exploding the currency and society itself, would have been laughed out of court; and not only for just those reasons, but also because as the war was ending every reasonable person in Britain (indeed, elsewhere) realised that great social and economic changes would be needed to repair the ravages of war and carry out many necessary and postponed private and public improvements — from “the Welfare State” with its social services, to roads, railways, airlines, coal mines, gas and electricity networks, etc., as well as to Britain’s older manufacturing plants, whole industries still in the hands of private enterprise, and of course — often forgotten but vitally important — agriculture. But when we look back over these 30 years we can clearly see that this was not what really occurred.

Successive Governments expanded the State or public sector faster for consumption than for production: i.e. what we now call “the social wage” — so-called “free” education, health services, heavily subsidised public authorities’ housing — mounted astronomically, and were not covered by contributions. Taxes rose astronomically, on everything and on even moderate incomes. Yet the public sector’s deficits remained uncovered, so more money was pumped out. Moreover
as the decades wore on, the capital equipment of the public sector's industries and services ran down, despite the fact that the sector was taking one-half (and latterly over that) of the total of the nation's savings, to update things like the railways, coalmines, airlines, hospitals, schools, university laboratories, power stations, gasworks, etc. Taxes rose further and faster; fares, charges, prices in the public services soared; local authorities' spending ran completely out of control, as they are now admitted to be on all sides (local "rates" or taxes have this year risen roughly 50% over last year's — a body-blow to householders). Yet "the social wage", in the guise of what seemed "free" welfare and educational and health and housing services, soared. But the cost of living also soared, reflecting trade unionists' (and, more recently, professional people's) demands for higher rewards in the form of pay. The cost of the labour ingredient in all prices thus rose.

Whenever new capital equipment was installed, trade unions on the whole demanded that "full employment" should be maintained: i.e. the up-to-date and inherently more efficient equipment should not be permitted to economise human labour, which was the whole aim of the up-dating exercise! As a result, over most of the public and private sectors of the British economy, productivity per employee, or per machine, stuck obstinately low as compared with the same equipment or service in similar countries.

It would be wrong to give the impression that no economy in labour was shown over these 30 years, or that "the British disease" rampaged throughout the nation's system. It obviously didn't because — though the British are living on 5% borrowed from foreigners (mainly Arabs for the costlier oil) — they are living in real terms at twice their 1939 standards of consumption on average, living longer and healthier with more leisure, provided as to 95% by their own efforts. The margin of their stupidities is as small a percentage as that. Moreover some public and private enterprises have set up records which can face up to any abroad: e.g. agriculture, forestry and fishing had 1,176,000 workpeople of all kinds in 1949, but only 434,000 in June 1973, yet their volume and value of output in real terms had nearly doubled on average. Mining and quarrying employees fell from 875,000 in 1949 to 363,000 in 1973, though vast sums of capital were sunk in the mines from public funds. Gas and electricity supplies have more than doubled from thousands of workers fewer than in 1949.

On the other hand the biggest employer of labour in Britain is now the civil service (both in central and local government administration) with some 4,000,000 in its employ out of a total workforce of 25,500,000, a figure which has grown fastest since 1964, and is still growing as a proportion. It naturally reflects the fast-expanding public sector of the economy, at the cost of the private enterprise sector. Even more striking is the proportion of all employment taken by the public sector: at the latest count it represented just on 1 in every 4 employed persons, contrasted with only 1 in every 7 in 1949-50. This means an almost doubling of the State sector's importance and influence in the economy in a generation; but, with that sector's expansion still going on at the cost of the private enterprise sector, the gap between the "productiveness" of the public and the private sectors is ominously widening.

In my Politics and Economic Growth (Institute of Economic Affairs, London, 1968) I emphasised that while the British
public sector levied, controlled and redistributed some 53% of the nation's total output through taxes, contributions and charges for public services, its services and industries (apart from defence, parks, etc. that cannot be costed-out to individual citizens) actually produced only about 15% of the country's annual output (which is its national income). So the private enterprise sector turned out 85% of annual national income, but had to give up to the public authorities two-thirds of that 85%, letting these authorities extinguish much of it in unproductive administration, defence, etc., while re-distributing most of it as "the social wage" services (health, education, subsidised public housing, etc.), benefits, relief, etc., plus more recently a growing amount of public funds for subsidies to keep food and other prices lower (in an attempt to buy-off trade unions' demands for higher pay), or to bail-out failing private firms (Rolls-Royce, British Leyland) and thus "maintain full employment".

We are now at the climax of the progressive "English disease". British politicians and publicists of the Left (though not all Labour politicians) criticise the British private enterprise sector for not having invested enough in the private sector all these post-war years, contrasted with their opposite numbers in Germany, the U.S.A., etc. But consider: over all the post-war period of 30 years successive Governments have steadily expanded the "take" of the public sector out of the national income, at the cost mainly of company profits but also of higher salaries and other incomes. During the past 15 years, and acceleratingly over the past 5 years of both Conservative and Labour Governments, the share of private profits and self-employed persons' incomes in the total national income has been disastrously diminishing, while both the share of wages and the State's (and public authorities') "take" have gone on increasing. Yet the private enterprise sector, as I have shown, turns out most of the national income, and virtually all Britain's exports. The disease is killing the goose, whose eggs are fewer, while others take them from her, and then complain of her diminished laying powers and her decaying nest.

The latest figures show that total public spending in Britain, from having been at 53% of national income when I wrote in 1968, is now touching 60%: i.e. Britain is now 3/5ths a communist, or collectivist, or authoritarian-centralised State. It is certainly such an economic system, though it still depends vitally for its economic lifeblood on a private sector undergoing progressive, if unintended, strangulation. No wonder Parliament and Parties are in such bewilderment, disarray and impotence in the sixth or seventh, and latest, post-war British economic crisis. "The thing itself speaks." Like a dog in a barnyard, successive Governments and the whole apparatus of State have run around stopping the hens from laying, but have not laid eggs themselves.

Meanwhile the gains of organised labour, through trade unions and professional bodies, have outpaced each higher and faster hike in the price-level. With so heavy a top-hamper of public authorities in the ship of State, the U.K. economy has been making very heavy weather, "down by the head". As taxes and contributions (both from employers and employees) remorselessly rose, to defray the soaring cost of heavily labour-intensive social services and public services, and as charges and prices soared as well, the whole body of employees tried desperately to push up its remuneration in step with prices. Only the most-tightly-organised, most militant unions and...
organisations won. All others have lost. Hence the embitterment of society and politics. Hence the split in the Labour Government and Party. Hence the cleavage between extreme Left and Centre-to-Right in Parliament. Hence too the widening, louder and louder press and public demand for a coalition, a “National Government” to represent the overwhelming majority of the electorate (and the Commons) against militancy in trade unions, further expropriation by the State, greater penalisation of the modest and moderate self-employed, or any more “Socialisation” of life (e.g. compulsory and unitary State education, abolition of private medicine and nursing homes, etc.).

“And what will ye do in the end thereof?” Make no mistake: Britain’s disease, its cure, and her hopes of a healthy and long life on rising real standards of living, remain as they were visible a generation ago when I wrote We Too Can Prosper (Allen & Unwin, London, 1953) to summarise the unanimous reports of the 66 productivity teams, sponsored by the British trade unions and the (then) Federation of British Industries to travel round the U.S.A. and report on their various opposite numbers’ problems, performances, and progress. The post-war economic problem has too long faced Britain, without anyone’s having tackled it. It consists in revising, reforming, revitalising the attitudes of the political parties and publicists, employers and employees in their organisations, and the overwhelmingly decent and reasonable householders, en masse, towards the self-respect of good workmanship, towards self-dependence in more ways, towards less dependence on “they” in town halls and other public offices, towards the advisability of good profitability in the private productive sector, and towards cost-consciousness and economy (and, indeed, immediate reduction) in the public sector. As part of the revision of these attitudes we must recall our leaders, in politics and the publicity media, to stark facts which now loom up as the grim lessons of thirty years’ neglect and error.

Foremost among these is the wrong interpretation of “full employment” to mean lifelong security in one and the same job or firm or organisation; for we badly need transfusions of skills from older to newer productive industries and, above all, services; and this means a nationwide, ambitious system of retraining and re-development of organised labour, with the unions helping it on. Our economy is suffering from arthritis and arterial sclerosis, economically. We are too “set”, paralysed by overmanning, rigid with institutional and organised restrictive practices, fully paid-for by consumers; and this, while we all demand faster growth, more investment in more efficient (i.e. more labour-saving) equipment and technology! This is the real “English disease”: a form of collective stupidity scarcely paralleled anywhere else on earth. We are a wondrous kindly people to live among; a wondrously stupid people, intellectually. But I have the impression our collective patience is running out fast, and that great changes are about to occur in a typically sober, quiet British way. May it prove so.

I would end by emphasising that leading German, American, (yes!) even Australian commentators have recently judged that their own societies and economic systems already show symptoms of the “English disease”. Let their leaders arrest it in time. If it progresses too far, no end is possible but an authoritarian State. Hayek was right in 1944 with his The Road to Serfdom. The British in 1975 can vouch for it, as they try to get off that road.