Editorial —

A FRIGHTENING POWER

Events of recent times have served to underline again the enormous powers which reside in the “media”. In these days the “media” means, preponderantly, the daily press and television.

It might be contended that, historically, this power is nothing new. Over a century ago the London “Times” wielded an influence so great that it came to be regarded as a Fourth Estate of the Constitution. It was known as “The Thunderer” and governments trembled at its voice. It could make or unmake the reputations of public figures. If it called for far-reaching amendments to projected legislation, the amendments were usually made. The unique authority of this great newspaper derived from the quality of its thought, its total absence of party or sectional bias, its incorruptibility and unquestioned honesty and objectivity in the reporting and interpretation of affairs. Its influence did not depend on mass circulation, for in those times a large proportion of the population were wholly or semi illiterate.

These days are different. Newspapers and readers have multiplied a thousandfold. The daily press is ubiquitous. Like bread it enters every day — even on Sundays — into every home. Although editorials and interpretative articles may be read only by a minority, the way a newspaper presents the news — the
headlines, the space allotted, the position in the paper — can exert a powerful influence on what the people think, not just about politics but about every facet of public affairs.

And now there is a T.V. set in every living room. It is impossible to escape its baleful eye. With all its virtues, television hasn’t added to the sum of human serenity. The T.V. set is an unequalled purveyor of the sensational and of plain bad news. In some respects it is more potent in its influence on the public state of mind and on community values than the daily press. One can select what one reads in one’s newspaper. With T.V. there is little choice. One is virtually compelled to eat the whole meal, the bad along with the good.

The representatives of the media act on the assumption that they have a vested interest in sensationalism and controversy. This may be a tenable standpoint. But it is one thing to highlight the sensational events and highly controversial viewpoints, and quite another to endeavour consiously to create sensation or controversy where none really exists. To do this is to contribute unnecessarily to the feelings of instability or disturbance which are in any case such prominent features of today’s world. Indeed the media has become “the great stirrer” of the 20th Century. Far from contributing to social stability and public confidence, it frequently acts in such a manner as to create a climate of concern and alarm by distorting the true significance of economic political social happenings.

The impact of the media on standards, values and opinions is quite frightening. More and more people are becoming uneasy about it; but what can they do? They feel themselves to be in the grip of some gigantic, omnipresent, by no means always benign, force.

These enormous powers are exercised, let it be remembered, by the few (who control and manage and are employed by the media) to the benefit or detriment of the millions. No other institution, outside Government, exerts a remotely comparable influence for good or evil.

The essence of the whole democratic concept lies in the avoidance of the over-concentration of power in any individual or group or institution, even in Government itself. We hear almost every day about the undemocratic authority wielded by
giant unions or multinational companies. Indeed, the media constantly, and rightly, draw our attention to the abuses which may, and sometimes do, stem from their actions. But, paradoxically, we never hear about the abuses of the media itself. Yet a little thought will show that a mass circulation daily paper, or a T.V. network, is infinitely more potent in its impact on the life and well-being of the community than any labour union or industrial enterprise.

The media is the one industry that seems to escape public evaluation of its contribution to the national well-being. No royal commission has ever subjected it to an inquisition. The media is a ferocious critic of everyone and everything, except itself. It is, indeed, inordinately sensitive to the slightest suggestion that it is failing in its duty to report accurately or to interpret impartially the daily diet of events. Let any one dare to criticise the standards of the media and he will be told that these standards merely reflect those of the community. Let any one claim that a newspaper or T.V. station is guilty of blatant political bias, then he will be condemned in terms of self-righteous anger. The media is not backward in urging the exercise of controls over business, labour, the professions, or other sections of the community. But any suggestion that the media itself should be subject to a modicum of public supervision and it will scream to High Heaven about the sacred “freedom of the press”.

But freedom must be earned and justified. And it can be earned and justified only if it is used wisely, responsibly, justly. Great power imposes on those who possess it correspondingly great responsibilities. There can be no escape from that.

The responsibility of the media is clear. It is not enough to claim that it is obliged to do no more than give the people what they want, than to reflect the general standards and tastes of the community at large. For one thing it cannot be sure what the public really wants: perhaps the public wants higher quality products than it is often given. It is not enough that the media should provide good entertainment, or that it should achieve huge circulation or listener ratings, or pay good dividends to its shareholders. People will buy inferior bread if there is nothing else offering. As the legendary editor, Scott of the famous “Manchester Guardian” contended many years ago;
"A newspaper is much more than a business; it is an institution; it reflects and it influences the life of a whole community; it may affect even wider destinies".

The media cannot, if it is to continue to be free, avoid the responsibility of leading and guiding and endeavouring to raise the standards and tone of the life of the community. No one, of course, expects the media to play God. What people are entitled to expect is that those who control or write for it will do so with a sense of fair play, with a regard for decent values, with sobriety, with mature intelligence, with balance and moderation and with an acceptance of their obligation to serve and advance the best interests of the community. The much-vaunted freedom of the media can be justified on terms no less than these.

"Freedom of the press" should not be construed as license for the press and its writers. There can be no gainsaying the fact that the all-important, prevailing "climate of opinion" is very largely determined by the media. Indeed, the poor public image of business, the fact that its structure, activities and contribution to the national well-being are so little understood may well lie at the door of the media — the failure to report the business viewpoint adequately and objectively and without prejudice. The free enterprise case receives, by and large, little sympathy from the daily press. Indeed, some prominent newspapers almost ignore it entirely; they seem to regard any encouragement of free enterprise as special pleading. This long-continued bias against business must be accounted as one reason why the Governments in the past, particularly the recent Labor Government were able to pursue policies destructive of enterprise and investment and thus of employment opportunities and living standards.

It has now been announced that an Australian Press Council is to be formed, presumably to act as a watchdog of the public interest. The Council is expected to include 13 members, in addition to the Chairman, Sir Frank Kitto, an eminent legal authority. Four members are to represent the public, six the newspaper publishing companies and three the Australian Journalists Association. There is a possibility of including, in addition, members of the Television and Radio media. This would certainly be desirable, even essential.
The formation of such a Council could be an important forward step, heralding and ensuring the acceptance by the media of a greater public responsibility. The value of the Council will, however, necessarily depend upon its performance. Since a majority may consist of media representatives, the real need is clearly a change of heart by the media itself.

"Freedom of the press" is, without question, an integral part of the democratic process, but this does not mean that the media should be above criticism, free from intelligent evaluation, indeed from some degree of public oversight in the national interest.
Economic Recovery

By far the most critical decision affecting the economy since December 11 has been taken not by the Commonwealth Government (which is responsible for economic recovery) but by the Arbitration Commission. The 6.4 per cent increase in wages in the Indexation Case will add some $3,000 million to the costs of employers in the already harassed private sector. This will clearly enormously complicate the problems of the Government in checking inflation and promoting economic recovery.

The Government will nevertheless be judged by its success — or lack of it — in restoring health to the ailing economy. Within the coming six to twelve months it must implement its broad strategy of resuscitation. Most crucially, this involves the future of wage indexation and the content of the vital 1976-77 Budget. Unavoidably the Government will face basic and difficult and very likely unpopular decisions.

The objectives of policy are clear enough — to stamp out inflation, to restore full employment (about a statistical 2.5 per cent unemployment) and to set the economy again on the path of growth. The flagging private sector, still weak and psychologically distressed from the mauling it received at the hands of the Labor Government, must be revitalised.

Inflation is the supreme problem. Business and community confidence will be restored only when there are unmistakable signs that the Government is on the way to bringing about the eventual overthrow of inflation. This simple truth does not yet seem to be appreciated by the trade union movement and by some economists, although it is well understood by the Government and its senior advisers.

While inflation continues at a rapid rate, businessmen will not commit themselves to large-scale plans for new investment, because they have no secure basis by which to assess their feasibility. The ground under their feet is shifting all the time. They do not know, even approximately, what a projected expansion will eventually cost; nor do they know, even approximately, what their operating costs are likely to be. These uncertainties are the most serious in industries which have only limited, or perhaps no control over their selling prices — namely, those selling the bulk of their products on export markets. Unfortunately, these happen to be the industries which offer the most spectacular opportunities — in terms of the size of investment — for expansion. Thus, the resource industries, which were the catalyst of economic growth in the
The defeat of inflation also seems necessary to a strong lift in consumer spending. The unprecedented stacking away of money in savings accounts over the last 12 months appears to be attributable to a deep-seated uneasiness about the future. Until this experience, economists were prone to assume that inflation, the expectation of higher prices in the future, would lead people to spend more in the present. This seemed a tenable and logical assumption, but, as so often in economics, practice has confounded theory. The general atmosphere of uncertainty, the fear about where we are heading, engendered by rapid inflation, appears to have led the consumer to retire into his shell and to conserve his resources against unknown and feared eventualities.

Unfortunately, there are no signs of an early end to inflation, or even that it will slow down. Indeed, 1976 could be a bad year for costs and prices. Official circles expect that prices will rise by more than 3 per cent and possibly closer to 4 per cent in the current quarter. The full effects of the 6.4 per cent increase under wage indexation will not be felt until the June quarter. Thus, inflation has presented a strong underlying momentum which could only be arrested by the abandonment of indexation or at the least its severe modification.

There is a growing body of thought which argues that the main, almost the sole, attack on inflation must come through strict control over the money supply. This is the monetarist school — the most eminent exponent of which is Milton Friedman. An article (“Financial Review” 14/1/76) by Professor Michael Parkin (a visiting Research Economist at the Australian Reserve Bank in 1973 and now at Ontario University) applies this doctrine to the current Australian predicament. With brash confidence, he says that the policy to be followed by the Liberal Government is really extremely clear and simple. (That should be good news for the Government). Parkin advocates a 5-year plan to reduce the budgetary deficit by $500 million a year and the money supply by 2 per cent a year. By 1980, he tells us, inflation will be close to zero and unemployment around 2.5 per cent. Parkin must be living in the pure and tidy world of mathematics, not in the unruly and unpredictable world of reality. Anything could happen during 5 years. We can dismiss his prescription as nonsensical.

This does not mean that control of the money supply has no part to play in the attack on inflation. Although excess demand is not at present a threat — rather the contrary — the Government’s attempt to reduce liquidity is a justifiable precautionary measure. The 10 1/2 per cent special Bonds have been almost successful in achieving the Government’s purpose and have been criticised by businessmen and economists for diverting funds away from institutions concerned with housing finance.

It would be dangerous to push the monetarist doctrine too far in the current situation where the economy is operating at well under capacity.

The task confronting the Government can be usefully conceived in the following terms. In the 3 years of the Labor Government there was an unprecedented transfer of resources; on the one hand from profits to wages and recipients of welfare payments, and on the other from the private to the public sector. The present sickness of the economy is almost wholly traceable to the acute structural imbalance thus created. The problem of the
Fraser administration is to right the balance, a balance which is necessary to the healthy functioning of a "mixed" economy in which the private sector is nevertheless the predominant partner the major source of productivity and living standard improvements, and of economic growth and expanding employment opportunities.

It seems highly unlikely that a too exclusive reliance on the monetary and fiscal instruments would bring about the necessary re-allocation of resources and the restoration of economic balance. In fact, it might well work to inhibit the transfer of resources and indeed even to maintain the status quo.

The normal response to under-capacity operation of the economy is to ease the monetary and fiscal restraints. Over-concentration on the money supply would also seem to obstruct the needed movement of resources away from the public to the private sector, since it is the latter which depends on adequate access to credit facilities to expand its activities. If the public sector is to be curbed and the deficit reduced, *at the same time* as restraints are imposed on the increase in private sector spending (through monetary measures) then there is a clear danger not merely of delaying economic recovery but of aggravating the problem of under-employment.

Exclusive reliance on "monetarism" (which embraces fiscal policy) will not solve Australia's inflationary problem, when the main impetus is coming from wage and salary increases far in excess of productivity gains. The central goal of the Government's policy must be to restore the wage-productivity relationship. Eventually this means wage and salary increases of an average 3 per cent a year — and no more. Increases above that are simply not compatible with price stability. Whether we like it or not, whether we accept it or not, this is one of the inescapable, harsh facts of economics.

The reduction in the size of the budget deficit, may not, *immediately*, be so important as many seem to suppose. Reductions in public expenditure there must of course be. Indeed they must be sizeable and the sooner they are made the better. But it is also of paramount importance to make further tax reductions in order to encourage the private sector and, most important of all, in order to make more acceptable the policy of limited wage increases related to productivity. Public support for a non-inflationary wages policy would clearly be more readily forthcoming if take-home pay were augmented by tax reductions. This, of course, would also be consistent with the desirable pattern of economic policy. Tax reductions would require complementary reductions in public spending and would be a major means of achieving a transfer of resources from the public to the private sector. They would restore incentives on the one hand, and stimulate consumption spending on the other, a necessary condition for the revival of the economy.

The Government seems to be pinning its faith to tax indexation as advocated by the Matthews Committee. The arguments in favour of tax indexation are, however, by no means conclusive. The purpose of such a measure is to protect the worker's take-home pay from the higher marginal tax rates resulting from increases in his income due to inflation. He would only pay higher taxes on increases in his real income as opposed to his money income.

Tax indexation could introduce an undesirable inflexibility into the management of fiscal policy. Moreover it is quite inequitable. Why should the wage-earner
protected against inflation, both through wage and tax indexation, any more than any other section of the community.

Indeed, the sooner the ugly word "indexation" (apparently a Brazilian import) is banished altogether from the current economic jargon, the sooner we will be on the way to solving the central problem of inflation. The over-riding argument against "indexation", of all varieties, is that it tends to weaken the will of both Government and people to really get to grips with the monster. It is a drug which makes inflation less painful, but does nothing to attack the causes.

The cuts in Government spending so far, amounting to about $360 million in 1975/76 (but more than double that in a full year), have been directed mainly at what might be called "extravagances". To illustrate the difficulties confronting the Government in lopping back the public sector, even these cuts have been foolishly attacked by a group of Adelaide economists (The National Times, 15th February) who profess to see dire consequences for the economy as a result. But the big test will come in the 1976/77 Budget later in the year when, if any large inroads are to be made into the size of the public sector, the Government will have to deal ruthlessly with some sacred cows.

The whole core of the problem of inflation and thus of the total economic problem lies in the annual rate of increase in incomes. This must be brought into line with productivity increases — about an average 3 per cent a year. Those who suggested that the best outcome of the wage indexation case from the standpoint of economic recovery would have been no increase were perfectly right, even though, in present circumstances, this was unreal. Think, however, what "no increase" would have done! It would have dealt a crippling blow, almost a knock-out punch, at inflation. It would have given a massive boost to business and consumer confidence that, at long last, inflation had been virtually defeated. As it is, the future continues to be fraught with uncertainty. The decision of the Commission has given a further powerful impetus to rapid inflation which may continue for the great part of 1976, at least. And what has been gained? Recovery has been delayed. The wage and salary earners receiving the increase can benefit only at the expense of others — people in retirement, the unemployed, and businesses unable to meet additional costs by raising prices. Indeed the best interests of wage and salary earners themselves will be damaged, not advanced, by the decision, because those interests will be determined, in the end, by the health and stability of the economy.

All economic policy measures should now be assessed in light of their contribution to non-inflationary wage increases. But economic measures will, in themselves, not be enough. Of prime importance is the matter of national leadership to prepare the ground for and to gain general public acceptance of the economic policies required.

*What this really amounts to is that the people must be somehow persuaded to be content with wage increases that are related to productivity. That will, in any case, have to come in one way or another, in the end. And eventually, step by step and as uncontentiously as possible, the public has got to be brought to its acceptance. It is a problem of statesmanship rather than economics.*

As this must be the essential goal, the continued support of wage indexation, of course, becomes untenable. The Government and its senior advisers are probably aware of this. The precise moment that the Government can move
Economic Recovery (continued)

away from wage indexation is a matter of timing. But the time must be almost here. The grounds for the ultimate rejection of wage indexation should now be methodically prepared.

One would hope that there will be no further increases in indirect taxes—at least for some time to come—so that the argument as to whether or not the effects of these taxes on prices should be excluded from wage indexation seems now to be rather theoretical. In the December quarter adjustment, however, indirect taxes and charges probably added over 2 per cent to the price rise, and it was surprising that the Government did not press harder for their exclusion: particularly as the Labor Government—in the Hayden Budget—had itself accepted the principle that wage indexation should be discounted for the effects of indirect taxes.

Wage indexation has the serious disadvantage (seen clearly some months ago, but now apparently conveniently forgotten) of tending to preserve the current ratio of wages to profits, when the clear need is to restore the balance between costs and prices, and thus shift resources back to corporate and business incomes.

What happened under the Labor administration is quite startling. In the two years, 1973/74 and 1974/75, total payments to wage and salary earners in real terms increased by 19 per cent; total gross profit after allowing for inflation declined by 26 per cent. Average male weekly earnings rose by 46 per cent against a price increase of 32 per cent. It is hardly surprising that the economy folded up, that new investment and growth disappeared, that inflation ran riot, and unemployment soared.

The hitching of wages to prices must tend to perpetuate this situation and thus the sickness that afflicts the economy. Indeed there are encouraging signs that the people are beginning to realise that something is wrong. It may not be too much to hope that a majority would support, if not the abandonment, at least the severe scaling down of the wage indexation process. Those old enough will remember that the climate of opinion which developed right through the community against the quarterly cost-of-living adjustments in the early 1950's, during the Korean inflation, was one of the underlying reasons which led the Arbitration Court to decide on their termination. In its February Judgment, the Commission may have been mistaken in giving so much weight to the factor of "expectations". The rather weak, indeed economically irresponsible, attitude of the States which supported the full adjustment may also have been attributable to a mistaken assessment of "expectations".

What, then, are the steps required to win public acceptance for productivity as the only basis for all-round wage increases?

At a time when the reputation of Government as such has seldom been lower, the public credibility of the Fraser administration is a matter of supreme importance. It must be 100 per cent. There is nothing more vital than the trust and confidence of the people in the Government, because this will determine the extent to which the community will be prepared to accept its leadership and follow it along the unavoidably hard and difficult road of economic recovery. Absolute frankness, absolute honesty are the ingredients needed. Without the cooperation of the people the economic policies of the Government cannot possibly succeed.

The main need is political statesmanship. At the appropriate time,
the Prime Minister should address the na-
tion on T.V., explaining in straight, sim-
ples terms the essential facts of the
conomy, and the conditions necessary to
covery, to the eventual maintenance of
ability and high employment, and the
gressive improvement of living stan-
dards. The people should be told, in
tems which brook of no argument, that
there is an unavoidable clash between the
ount of take-home pay and the
elfare and other services which can be
vided by governments. More Welfare
ans less take-home pay. More take-
home pay means less Welfare. It would
be dishonest for the Government to sug-
gest that improved Welfare can be pro-
vided without the people paying for it.
That means inflation and is what the
abor Government did. Governments
don't pay for Welfare. They merely pre-
t the bills. The people pay the bills.

The people should be told also that
the economy cannot recover, cannot pro-
vide more jobs, cannot provide the basis
for better living standards, unless
usinesses, large and small, can see the
prospect of earning reasonable profits;
that good profits are not at the expense of
good wages; on the contrary, that good
profits are a necessary pre-condition of
good wages.

The Prime Minister should tell the
people that their living standards depend
on their own efforts more than on those of
Government. Governments don't, for the
most part, produce; the people do. The
ole of Government is to encourage the
people to give of their best. The Prime
Minister's Address should outline the
basic constituents of the Government's
economic strategy and appeal for the ac-
cptance of those measures by the people
and their co-operation in making them
ork. Without that co-operation the
Government is virtually helpless.

The Address could be supple-
mented by a brief pamphlet to be put in
every letter box in Australia. This would
follow the recent initiative by the Wilson
Government in England, in its attempt to
gain support for the compulsory ceiling
on annual income increases. The benefits
which will accrue to the people from a
successful outcome of the battle against
age and price inflation should be stated
in the pamphlet; the penalties of failure
also.

Until Australia rids itself entirely of
"the money illusion" — the belief that
living standards can be raised just be put-
ing more dollars in pay envelopes —
there is no prospect of a return to a
vigorous progressive economy from
which all can benefit in real improve-
ments in their standards of life.
Poverty in Australia

The debate about poverty in Australia has centred largely on the appropriate policies to alleviate poverty. Little attention has been given to the more fundamental question of the extent of poverty. As a consequence of this neglect, many of the policies pursued have been wasteful and inappropriate.

That this is so becomes abundantly clear from the published figures of government expenditure on social security. The Priorities Review Staff attached to the Prime Minister's Department has estimated that social security expenditure by the Federal Government in 1974/75, including expenditure on Housing and Health, approached $5,700 million; this was around 32 per cent of total budget outlays and amounted to an average expenditure of over $1,500 per family. In addition to that of the Federal Government, there is social security expenditure by State and Local Governments and by private voluntary organisations. All told, this year (1975/76) social security expenditure will be in the vicinity of $7,000 million; well over 10 per cent of expected Gross Domestic Product.

Despite this huge expenditure, poverty has, by no means, been eliminated. The rational explanation is that the money is being spent on inappropriate policies.

A major exception to the tendency to ignore fundamentals is the work of Professor R.F. Henderson — originally in his 1966 study of poverty in Melbourne and more recently in his capacity as Chairman of the Commission of Inquiry into Poverty. In both studies Professor Henderson precedes his policy recommendations with a detailed analysis of the extent and, to a lesser degree, the nature of poverty.

Surprisingly, there has been little critical evaluation of Professor Henderson's methods of estimating the extent of poverty. This is possibly because of the pioneering nature of the study and also because of the tedious work required to evaluate the mass of statistical detail which forms the basis of the Henderson Report.

Whatever the reason, the lack of rigorous analysis of the methods has resulted in the published figures being commonly misunderstood and wrongly used. A critical examination of the section of the Henderson Report dealing with the extent of poverty is therefore vitally important as a prelude to policy discussions.

HOW MANY POOR

Poverty, it has been said, like beauty, is in the eyes of the beholder. What, precisely, did Professor Henderson see when he concluded that there were 701,000 very poor or rather poor adult income units* and 117,000 poor

* An income unit usually consists of parents, plus dependent children.
juveniles, as well as 18,200 poor self-employed persons and 31,000 poor farming income units? All told, this is something in the vicinity of an incredible 1,500,000 people or about one in every ten Australians.

Clearly Professor Henderson did not see the kind of poverty common in India with millions of people sleeping in the streets and dying of hunger. Nor, obviously, did he see people living in the manner of the poor of 100 years ago. A poor person at one time and place may be regarded as well off at a different time or place. Failure to emphasize this point, that poverty is a relative and not absolute state of deprivation has detracted substantially from the statistical evidence in the Report.

Even at the one place and time there clearly exist various degrees of poverty. Professor Henderson has allowed for this by classifying his poor into two groups, the “very poor” and the “rather poor”, the latter having an income not more than 20 per cent above that of the least poor of the very poor. The reasons for setting the “rather poor” line at an income level 20 per cent above the “very poor” line, instead of at some other level, remains unexplained.

The extent of poverty perceived depends not only on the time and place but also on the political, social and moral values of the observer, as well as on the methods used by him to identify poverty. It is important to remember that estimations of the number of poor can never be entirely free of subjective bias.

An examination of the income poverty line (the indicator by which poverty is identified) the income unit, and the period of measurement, will show how choices made by Professor Henderson have resulted in a particularly high estimate of the extent of poverty. An examination of the accuracy of income survey data also confirms the view that Professor Henderson’s figures are high.

THE POVERTY LINE

Professor Henderson’s analysis begins with the setting of a poverty line for what he calls a standard family — a working man, non-working wife plus two school-age children. Such a family was said to be very poor during 1973 (the year in which Professor Henderson conducted his inquiry into poverty) if its net weekly income was less than $62.70; or rather poor if its net weekly income was higher than $62.70 but less than $75.20.

The figure of $62.70 was obtained by up-dating the poverty line used in the 1966 study of poverty by adjusting the 1966 figure in accordance with the movement in average weekly earnings between 1966 and 1973.

Having set a poverty line for a standard family, Professor Henderson applies what is called an “equivalence scale” to arrive at the poverty lines for families differing in size and composition from the standard family. An “equivalence scale” sets out in index form what are thought to be the expenditure needs of various income units relative to that of the standard family. For example, the index, which is usually constructed primarily on the basis of expenditure survey data, shows that a single person needs 43 per cent of the income of a standard family to maintain an equivalent standard of living. Hence, if the standard family poverty line is $62.70, the single person’s poverty line is $27.00 (.43 x 62.70). Similarly, a family of two adults and four children, according to Professor Henderson’s equivalence scale, needs 129 per cent of the income of the standard family to maintain the same standard of living. The poverty line for such a family is therefore $80.90 (1.29 x 62.70).
Three features of this procedure for arriving at the poverty line combine to produce a misleadingly large number of poor. These are the choice of the original standard family poverty line and the two indexes applied to this line — the adjustment for the increase in average weekly earnings since 1966, and the “equivalence scale” indexes.

Professor Henderson’s choice of an income line below which poverty prevails is unnecessarily arbitrary. It is not related to some existing average nor is it based on need. The original 1966 standard family poverty line represented the basic wage plus child endowment for two and rounded up from $32.20 to $33.00. There is no rational justification for this line, especially since many years earlier (in the 1950’s) the Arbitration Court had discarded the “needs” principle in determining the basic wage. The basic wage today has really become the minimum pre-tax wage which the present-day Commission thinks the economy can bear and which would reduce conflict between employer and employee. Unlike the old basic wage, today’s minimum wage does not purport to measure the concept of minimum need.

Professor Henderson compounds the arbitrary character of his assessment of what constitutes poverty through the application of his two indexes to his initial figure.

The average weekly earnings index records movements in earnings before tax. Because of the progressive income tax schedule, the pre-tax and after-tax earnings time series do not move in a parallel fashion; that is, the gap between the two is continually increasing. Yet Professor Henderson inconsistently applies the pre-tax index to a disposable (after-tax) income level, causing the poverty line to increase as a percentage of disposable average weekly earnings. The 1973 poverty line is thus, inadvertently, a far more generous line than the 1966 poverty line. Whereas he remarks that in both years the poverty line equalled 56.5 per cent of average pre-tax weekly earnings, he fails to note that the line, which in 1966 was about 60 per cent of disposable average earnings, had risen to about 64 per cent in 1973. As a consequence, while Professor Henderson points out the similarity between the number of poor in 1966 and 1973, his results suggest a fall in the number of poor.

The use of the second index, the “equivalence scale” based on need, seems somewhat inconsistent because Professor Henderson’s original poverty line is itself not based on need. However, a more important criticism of the equivalence scale chosen by Professor Henderson is that it was constructed on the basis of an expenditure survey carried out in New York some twenty years ago. It is difficult to believe that comparative needs of families differing in size and composition in New York of 1954 adequately reflected comparative expenditure needs in Australia of 1973. This index has some odd aspects to it, for example, it gives greater weight to the needs of a 15-year old boy than to the needs of a girl of the same age. The justification for the use of this index is that it is the best available.

An example incorporating the points just discussed may be useful in illustrating the significance of the choices made by Professor Henderson in measuring the extent of poverty.

Instead of the arbitrary rounding up of the original poverty line to $33.20 let us leave it at $32.20 and let us also correct the inconsistency of updating the poverty line in accordance with average weekly earnings before tax by using the after-tax figure. Since $32.20 was 58.2%
of disposable average weekly earnings in 1966 then the updated poverty line for a standard family in 1973 must be 58.2% of the 1973 disposable average weekly earnings of $98.70, that is $57.40. Professor Henderson's figure is $62.70. Using the given "equivalence scale" for an aged couple we arrive at a poverty line of .61 x 57.40 i.e. $35.00 compared with Professor Henderson's figure of $38.30. This $3.30 drop in the poverty line for an aged couple is enough to bring the poverty line from above the pension rate of $37.50, for a couple in August 1973, to below it. As a consequence, all the many thousands of couples on the pension recorded as living in poverty would no longer be so recorded.

INDICATORS OF POVERTY

Income alone is, in any case, a misleadingly narrow measure of poverty. One recent study of poverty in New Zealand used several indicators of poverty including income, wealth and adequacy of accommodation (e.g. number of persons per room). Although the study revealed some degree of correlation between income level and other indicators, there were clear cases of poverty not revealed by all indicators.

A study initiated for the purpose of making policy recommendations within a reasonable period of time cannot consider all facets of poverty. Nevertheless, Professor Henderson has been unnecessarily restrictive in considering income only. In particular, the neglect to take account of wealth seriously distorts the picture.

Wealth can contribute to personal welfare in two ways. Firstly, some assets, particularly dwellings and consumer durables, provide income in kind thus reducing the need for money income. Second, assets can often be used to augment current expenditure.

The first characteristic of wealth (the provision of income in kind) is accounted for by Professor Henderson when he adjusts the number of poor by taking account of the financial advantage of owning a home. That this is important becomes clear in the resulting 34% reduction in the number of very poor income units from 399,000 to 262,000.

The second characteristic of wealth (as a source of consumption) is especially important for the aged, many of whom had spent a lifetime accumulating assets. Yet in the recent Henderson Report which showed that over 25% of the poor are aged, it was totally ignored. In the 1966 study of poverty this matter was given some attention in the section by the late Professor Downing. He noted that of the 15.2% aged income units recorded as poor by virtue of their low income, 9.4% were not in need — 6.5% because of their housing advantage and 2.9% because of ownership of other assets — leaving only 5.8% in need. The application of a similar adjustment to the 1973 figures reduces the number very poor aged persons from about 180,000 to 41,000.

The failure to consider asset accumulation is carried over into the policy recommendation section of the report where Professor Henderson discards the wealth test in assessing eligibility for government assistance. This, of course, adds to the number of potential social security recipients and to the cost of the recommendations.

We have seen that the measurement of poverty in terms of income only, exaggerates the number of poor. Paradoxically, the use of income as the sole indicator results also in the non-detection
of some people who live in poverty — those said to be in secondary poverty.

Poverty can be of two types, primary, where poverty is due to lack of resources (usually income) and secondary, where poverty arises from the misuse of resources (usually the mis-spending of income). Secondary poverty appears to be particularly prevalent amongst low income families who rarely spend their income in a way that will best meet their needs. One study in South Africa, using a poverty line based on need, revealed that income must be one and a half times that required to purchase the minimum needs before these are in fact purchased.

We have shown that Professor Henderson's estimate of the extent of poverty fails to consider wealth and omits secondary poverty. But how reliable is his estimate in terms of the one indicator used i.e. income?

Income in the Henderson Report is defined as "receipts (net of tax) ... in the form of earnings, pensions and benefits, superannuation, rent, scholarships, dividends, business income, child endowment etc". It excludes subsidies and income in kind such as pensioner medical services, concessional bus fares, meals-on-wheels and gifts in cash or kind from friends and family.

In the 1966 study Professor Downing argued that of the 5.8 per cent poor adult income units remaining after the adjustments for ownership of houses and other assets, another 3.5 per cent were not in need because they had income not included in the figures collected by the Survey. Once again applying these percentages to results of the 1973 Survey the number of aged poor fell from 41,000 to 16,000.

THE INCOME UNIT

Data about the distribution of income amongst individuals tells us little about their welfare, principally because income earners are seldom the sole spenders of their income. People normally live in groups, pool their resources and share expenses. Thus, when assessing the adequacy of income we are more concerned with "spending units" than with "income units". The problem is to identify the "spending unit" which may be a family, a household or some other grouping of persons.

Professor Henderson's choice of a "spending unit", which he prefers to call an income unit, is once again an arbitrary choice which does not seem to reflect the usual arrangement in our society. His "income unit", in his own words, "often consists of a man, wife and dependent children. Other members of a household were excluded and treated separately because it was felt that aged relatives, for instance, should (our emphasis) have a right to an income of their own...". It may well be that all sorts of people should have their own income, but this should not interfere with an assessment of the numbers of people actually living in poverty.

The choice of spending unit by Professor Henderson is the one that will maximize the number of poor. He gives the following examples: "a household consisting of a man, wife (both working), two school children, an unemployed 28 year old son, an 18 year old daughter attending university full-time, and an aged mother comprises four income units. (1) Husband, wife and two school children, (2) unemployed son, (3) university daughter and (4) aged mother". It is very difficult to justify this separation of children (particularly the 18 year old university student) living at home and the
aged parent into separate income units. Such a division can be highly misleading about the real economic well-being of the members of the household. If the two working members of the household are receiving a good income then it is unreasonable to assume that they will allow other members of the household to live in poverty.

**ACCURACY OF DATA**

One way of checking the accuracy of the income figures gathered in a survey to compare them with expenditure figures gathered at the same time. If, after allowing for saving and dis-saving, the two sets of figures coincide, then the income figures can be accepted with some confidence. In Australia we have, unfortunately, only one published survey of both income and expenditure by households. This is the survey made of income and expenditure patterns in the Sydney area in 1966/67. The following is a summary of the income and expenditure figures gathered for the low income groups.

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Reported Average Expenditure $</th>
<th>Reported Average Income $</th>
<th>Income as % of Expenditure %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 — 999</td>
<td>1,037</td>
<td>670</td>
<td>65</td>
</tr>
<tr>
<td>1,000 — 1,999</td>
<td>1,922</td>
<td>1,432</td>
<td>75</td>
</tr>
<tr>
<td>2,000 — 2,999</td>
<td>2,915</td>
<td>2,564</td>
<td>88</td>
</tr>
<tr>
<td>3,000 — 3,999</td>
<td>3,331</td>
<td>3,467</td>
<td>104</td>
</tr>
</tbody>
</table>

Some of the difference between income and expenditure is undoubtedly due to factors previously noted, such as the non-exhaustive definition of income (i.e. excluding gifts) and expenditure by the running down of assets. Nevertheless, the magnitude of the difference suggests a consistent downward bias in income reported. Some of the bias is probably unintentional — for example, when the householder reporting the income is not aware of the total household income. But some of the bias is probably due to the fact that many people are unwilling to disclose their full income.

Whatever the weight given to the various explanation for the difference between reported income and expenditure, it is obvious that income figures gathered in a survey underestimate actual incomes.

**PERIOD OF MEASUREMENT**

Some people are poor for long periods of their life — sometimes even for their whole life — but, more commonly, people are poor for relatively short periods. Professor Henderson's figures tend to support this picture. They show that during the week of the survey of poverty, 807,000 income units were poor in the sense that they lacked sufficient income; but that on an annual basis there were 106,000 fewer poor income units than in the week of the survey. As Professor Henderson points out, the reason for the difference is that a week may be unrepresentative where people may have had a particularly low income because they were changing jobs or on strike. Hence, Professor Henderson chose to do his analysis in terms of yearly income. But even an annual figure may not be the most suitable for all purposes.

It appears that most of the poor are very old or very young. Many of the old can look back over a relatively comfortable life while most of the young can expect a comfortable future. For policy making this kind of detail is obviously
more useful than merely knowing the total number of poor.

Professor Henderson’s choice of income as virtually the sole indicator of poverty, the level of income at which he set the poverty line, the spending unit, and time period over which to measure poverty, as well as other features of his procedure, have resulted in the recording of a misleadingly large number of people living in poverty.

Our criticisms have been of two types. On some points, such as the use of the average weekly earnings index to update the poverty line, we believe Professor Henderson has erred.

On the other issues, and these are by far the most important, our criticism is not that Professor Henderson is wrong. Rather it is that while most people think of poverty as being a state of need, Professor Henderson has adopted much broader definitions of poverty which he fails to make explicitly clear. One instance where Professor Henderson does make the distinction clear is in discussing single males with income equal to or less than 40 per cent of the poverty line. Of these, he says, that while they are recorded as poor, “not all of them are necessarily in need”. Hence, people confronted with Professor Henderson’s conclusion that there are around 1,500,000 poor persons in Australia are likely to form a quite horrific picture of poverty in Australia unless they are aware of the details of Professor Henderson’s procedure for estimating the number of poor.

Finally, Professor Henderson expressed the view that “an important aim of the Commission is to discover who were the poorest (our emphasis) people and how best the can be assisted”. In pursuit of this aim he would have done better to use a definition of income more closely related to real need. In an affluent community such as Australia, there is no justification for people living in genuine need. As a nation, one of our prime aims should be to erase this blot from our society.
"Free Enterprise" Booklet

In these difficult days for business enterprise, it is vital that the story of free enterprise achievements and its potential should be broadcast as widely as possible among office and factory employees, in schools and among people in all walks of life.

The I.P.A.'s educational illustrated booklet "Free Enterprise", published in August 1975 has now sold over 120,000 copies. Sixteen companies have ordered 1,000 or more copies for distribution among staff and employees. Three of Australia's largest companies, I.C.I., A.P.P.M., and Ansett, have reproduced the booklet in their employee journals, which reach collectively over 30,000 people. We believe this to be a most important way of obtaining a wide coverage for the message contained in the booklet.

A number of companies have contributed to the cost of making copies of the booklet available free of charge to teachers and schools. We have 7,000 copies available for free distribution to schools. This will provide class sets for a large number of schools while supplies last. Among the requests for copies from educational centres already received are: Economics & Commercial Teachers' Association N.S.W. 1,400 copies

Victorian Commercial Teachers' Association 500 copies

We believe many companies could profitably consider the distribution of the booklet to their shareholders along with their annual or periodical reports.

Concessional rates for large quantities are as follows:—

Up to 2,500 copies ................. 25 cents per copy
2,500-5,000 copies .................. 20 cents per copy
Over 5,000 copies ................... 17.5 cents per copy

It is now being increasingly realized in business circles that much of the criticism of free enterprise is due to lack of understanding, arising from the failure of managements to educate the people about the great contribution of business to the development of their country and to the provision of better living standards for all. Too many people are extraordinarily ignorant of the way in which the free enterprise system operates, and of the contributions it makes to Government revenues and thus to the improvement of Government services in the fields of housing, education, health and welfare.

The booklet, "Free Enterprise", provides business with an opportunity to remedy these deficiencies and thus help to establish the free enterprise system in public esteem. Needless to say, education in these matters must be continuous if it is to achieve worthwhile results.
Visit of Professor F.A. Hayek

This year Australia is to be honoured by a visit from the world-famous economist and joint Nobel Prize winner in 1974, Professor F. A. Hayek. Professor Hayek will be in Australia for most of October. He will be accompanied by his wife.

Professor Hayek will be visiting several States. The I.P.A. has been invited by his sponsors, Mr. Roger Randerson, economics consultant and publisher and other sponsors, to organise arrangements for his visit to Victoria. He will be the Guest of Honour at a number of important functions throughout Australia. In Victoria, it is intended that he should address a combined Universities meeting and also be Guest Speaker at the Annual Meeting of the I.P.A. at the Windsor Hotel. The details for these functions have yet to be finalised.

Professor Hayek is regarded as one of the world’s greatest minds. On the intellectual plane, he would probably be the leading exponent in the world of the liberal faith and of free enterprise economics. Around the end of World War II, at the time of the massive surge towards collectivism, he published his renowned book, “The Road to Serfdom”. This historic work became the Bible of those opposed to socialist policies. In logic difficult to refute, it warned the world that centralized economic planning would lead to the destruction of the liberal society. Hayek’s monumental work, “The Constitution of Liberty”, ranks among the classics of political philosophy and among the greatest books on “liberty” ever written. The second Volume of his triology, “Law, Legislation and Liberty” will soon appear. “Choice in Currency — A Way to Stop Inflation”, his latest work, may have a profound effect on monetary arrangements throughout the world.

An Austrian by birth, Professor Hayek became a naturalized British subject in 1938. In 1931 he was invited to take a Chair at the London School of Economics where he remained until 1950. From 1950 until 1962 he occupied a Chair at the University of Chicago. From 1962 to 1969 he taught at a leading German University. He now lives in Salzburg.

Few, if any, scholars of our time have made contributions to the social sciences rivalling those of Hayek’s. He is the author
of 15 books and countless articles and papers for learned journals.

His visit to Australia is an event of great importance. Professor Hayek has been out of sympathy with the predominant academic fashions of the times. He has always been, for instance, an unrelenting opponent of inflationary policies. He argues that, among other things, it makes more unemployment inevitable.

"Most people still believe mistakenly that an increase in aggregate demand will remove unemployment for some time. Nothing therefore short of the realisation that this remedy, though usually effective in the short run, produces much more unemployment later will prevent the public from exerting irresistible pressure to resume inflation as soon as unemployment substantially increases.

To understand this basic truth is to recognise that the majority of economists, whose advice governments have been following everywhere in Britain and the rest of the Western world during this period, have thoroughly discredited themselves and ought to do penance in sackcloth and ashes."

Hayek's championship of the market economy arises from his conviction that a free market is essential to political freedom, as well as to economic efficiency.

"The whole idea of 'guiding' private industry by announcing beforehand what quantities of different goods firms ought to produce over a long period of the future is a muddle from beginning to end, wholly ineffective and misleading if left without sanctions constraining industry to do what it is predicted that it will do, destructive of the competitive market and free enterprise, and leading by its inherent logic straight to a socialist system."

Hayek has always been at great pains to draw a clear distinction — one forgotten by many economists — between the physical or natural sciences and economics, and consequently between the qualities required say, by the physicist as compared with the economist. He is at one with Lord Keynes in emphasising the dangers of narrow specialisation.

"The physicist who is only a physicist can still be a first-class physicist and a most valuable member of society. But nobody can be a great economist who is only an economist — and I am even tempted to add that the economist who is only an economist is likely to become a nuisance if not a positive danger."

We have had much evidence in recent times of the truth of this view.
The role of business enterprise in society is a topic which has received a great deal of attention from many sides. Books, articles and management seminars have been devoted to finding answers to questions as to what this role is, what it should be, and how it is to be played.

When invited to write the contributed article for this review I was unable to resist the temptation to give my personal point of view limiting myself to the social responsibility aspect of the rôle. Hopefully this will not add to the existing confusion.

The goose that lays the golden eggs of our wealth is the efficient production of goods and services by business enterprise. If collectively we want to continue to increase wealth then the primary task of business enterprise is efficient production.

However, society puts constraints on behaviour with the objective of preventing that which is deemed undesirable. It is all rather simple then: business is free to behave in any manner
which is not forbidden. Does this suffice as a guide line for corporate management when dealing with the problem of social responsibility? My answer is a whole hearted: No! That would be a much too short-sighted attitude. Experience over the last century in western Europe and the U.S.A. has shown that behaviour which is considered unacceptable only solicits counter measures.

It is therefore in the interest of both society and free enterprise that management should make responsible use of its power. Enlightened i.e. long-term self interest is the best available guide line.

Not only is its motivating capacity more lasting than some vague sense of “social” responsibility, it is also the only alternative to (future) compulsion frequently resulting in over-regulation with the implicit costs borne by all. For day to day decision making the following question has been suggested as a practical yard-stick: would you be happy to render an honest and full account of the contemplated action on television?

Another question which crops up is whether business enterprise ought to try to influence the political choice between economic efficiency and social desirability. If the objective is to prevent the electorate from being sold balloons inflated with economic impossibilities the answer is: by all means yes. If, however, the objective is to (re)gain a privileged position then the effort is bound to be self-defeating in the long run. And although an illustrious economist has said that in the long run we’re all dead the pace of change is such that the long run may be shorter than one thinks.

I would want to end these brief remarks on social responsibility of business enterprise and dwell for a moment on the social responsibility of managers.

To me, free enterprise is a necessary but not sufficient condition for democracy with the liberties of the individual we so easily take for granted. Churchill’s comment that “democracy is far from ideal, the alternatives are just much worse”, is also valid for free enterprise. This is not merely coincidence since both work, admittedly imperfectly, because they are based on realistic assumptions about imperfect human behaviour. The
alternatives to free enterprise being based on unrealistic assumptions about the innate "goodness" of human nature can only be made to function by means of coercion; and even when coercion is used without scruples they perform badly.

This leads to the conclusion that part of managers' social responsibility in a much wider sense is the active defence of free enterprise lest it become the victim, and with it the liberties, of well meaning do-badgers.