A State Within a State

In recent months public concern over the activities of some trade unions has been mounting. A Gallup Poll in July showed that 75 per cent of people were opposed to the national one-day Medibank strike and that 70 per cent thought union officials had too much power.

There is a growing fear that Australia may be on the way to becoming a union-dominated society. This would mean that elected governments would increasingly be compelled to seek the concurrence of the union movement in projected legislation or in economic and social measures, and to follow policies laid down by a few union officials. If this situation arose, as it apparently has done in Britain, the trade unions would have virtually become the de facto Government, a State within a State.

Some Australian unions are no longer content with exercising their formidable powers in the industrial field in order to achieve better conditions for their members. They are showing an increasing disposition to intervene in matters which should be the sole prerogative of the elected representatives of the people. This interference has grown to alarming proportions as the following list, by no means exhaustive, demonstrates.

- The refusal to construct the Newport Power Station in Victoria.
- The ban on the demolition of numerous city buildings, supposedly in the interests of conservation.
• The ban on the mining and transportation of uranium.
• The ban on the export of merino stud sheep and cattle, and on the export of wheat to Chile. (No union has suggested a ban on exports to the U.S.S.R.)
• The ban on the delivery of petrol to discount outlets in New South Wales.
• The refusal to connect telephones and handle mail for people opposed to the unions' political views.
• The ban on construction of the Omega Navigation Systems.
• The water-side strike in Melbourne over the visit of the American cruiser "Truxtun".

In modern society the trade union movement is so powerful that its activities affect not merely its members but, directly and intimately, the entire community. Significantly, union leaders seldom, if ever, use the phrase "the public interest"; they invariably refer narrowly to the interests of their members. The trade unions are, indeed, one of the few organisations in our society which remain free of specific legislative provisions designed to protect the community against activities considered detrimental to the public good.

There is a striking contrast here with the position of public companies which are subject to a great deal of government control and scrutiny. For a start, there are the Company Acts. These are constantly under revision in the attempt to provide more effective control against possible abuses. From well back in the last century there have been factory acts laying down minimum terms and conditions of employment. There has been the common law relating to restraint of trade and, more recently, the trade practices legislation designed to prevent collusion on prices, the limitation of competition and abuses of monopoly power. In the last few years we have had the Prices Justification Tribunal; also consumer protection laws.

There is now legislation to protect the environment, particularly in relation to the disposal of industrial wastes. While industry is thus being brought under increasing control to guard the public interest, the trade unions have continued to
enjoy almost complete freedom from government supervision. The unions are able to exercise restraints of many kinds on production, to strike at the drop of a hat and to conduct their finances without public scrutiny, without fear of transgressing the law and thus of incurring penalties for activities which could often be regarded as blatantly against the public interest.

Through the unrestrained pursuit of higher wages, shorter hours and ever more lavish fringe benefits for their members, through their unthinking advocacy of greater public expenditure, particularly in the welfare field, along with their frequent refusal to co-operate in measures to achieve greater productivity, union policies have grievously damaged the Australian economy. Indeed, they must be accounted as largely responsible for creating the present shambles from which the Australian Government is trying to extricate the economy.

One ray of hope is that responsible union leaders are showing signs of becoming aware of the grave dangers involved in a continuation of these policies. The A.C.T.U. is at present taking a more sensible attitude toward future wage increases, although it has still some way to go. (In Britain, the unions have pushed the economy to the very brink of disaster; they have looked over the precipice and are beginning to draw back. They are now co-operating with the Government in arrangements designed to limit annual increases in incomes to 4½ per cent.) Australia can avoid the perilous plight of the British economy if the A.C.T.U. and certain key unions act responsibly and observe the inescapable economic truth that real benefits for their members, in whatever form, are necessarily limited by the productivity of the nation.

But much more will be required of the unions if the economy is to recover the strength and vigour which are necessary for progressive improvements in the standard of life of unionists and all other Australians. There is no point in union leaders bleating about the need for revolutionary changes in "the system" when it is quite clear that the overwhelming majority of Australians are not ready for such changes, indeed are averse to them. The only pragmatic question at the moment is how to make our traditional system of free enterprise work
more productively and more effectively for the benefit of everyone. This requires that the unions recognise — as their American counterparts do — the essential part that profits, and the prospect of profits, play in stimulating enterprise, investment and economic growth. It requires also that the unions accept the fact that repressive Government direction and control are no substitute for the mechanism of the market in ensuring the most efficient allocation of resources.

If the unions accept the principles of the free enterprise market economy they will still have plenty to do, plenty to protest about within that context. But this acceptance is an ineluctable condition of the kind of progress which all Australians want to see; except the purblind believers in the alien concepts of Eastern European socialism. Responsible union leaders will devote their energies to improving the free enterprise market system and opposing those who seek to destroy it.

The historic purpose of the trade unions is to raise the living standards of their members. But in recent years they have been acting in such a way as to do precisely the reverse. Claims for — and the power to enforce — wage increases far and away above any fair assessment of industry's capacity to pay have led to high inflation, unemployment, and the virtual cessation of large-scale new investment and consequently of economic growth.

It is true that, in the short-term, the position of the great bulk of wage-earners and, more especially, of the members of powerful unions has been improved. Real wages have increased and so have fringe benefits. But these gains have been achieved at the expense of unemployed fellow-workers, of hundreds of thousands of elderly people, middle-income salary-earners and, above all, of business profits. Union officials may be able to point proudly to the fact that the wage share of Gross Domestic Product has been substantially increased (from 54 per cent in 1971-72 to 60 per cent in 1974-75), whereas the share of profits has fallen from some 14 per cent to around 10 per cent. But the cost to the economy of such an unprecedented transfer of income has been quite catastrophic; it has
destroyed the basis of additional improvements, for the time being, in workers' standards.

In the early years of the 'seventies, and especially during the three years of the Labor Government, man-days lost through strikes reached record proportions causing disastrous losses of production and wages running into thousands of millions of dollars. This, despite the fact that during its election campaign in 1972 Labor had boasted of the improved industrial relations it would be able to engender. In these circumstances, many voices have been raised, understandably, against the unrestricted right to strike. It has been proposed, as it was under similar conditions a quarter of a century ago, that strikes causing major inconvenience to the community and disruption of the economy should be declared illegal. This would necessarily involve the imposition of substantial financial penalties on offending unions and the prosecution and possibly imprisonment of union officials.

Nearly 30 years ago the I.P.A. strongly opposed punitive measures of this kind. We believed that they would almost certainly give rise to worse evils than those they were designed to prevent. We hold to this view. Punitive industrial legislation is neither wise nor, in experience, has it proved to be practicable. In the end the ultimate protection against disruptive industrial action lies in an aroused public opinion, where those bent on disruption, for the sheer hell of it, would need to think twice.

There is, however, a less extreme course which should be considered. Following the one-day national strike on Medibank, the National Council of the 70,000-strong Federated Ironworkers Association decided that it would not take part in major strikes unless its rank and file were first consulted. This may require up to six weeks. Mr. Laurie Short, the respected Secretary of the Association, said that this concern about consulting union members on strike action was shared by other unions. He declared that the rank and file have made it clear that they want the opportunity on major strikes to register a vote.

Proposals to introduce legislation to provide for a secret union ballot on strike action have so far been rejected on the
grounds of impracticability. The views of Mr. Short and his fellow union officials should cause Governments to have second thoughts.

These arbitrarily imposed stoppages, often against the wishes of a large proportion of the members of the union, raise the fundamental question of the individual's right to work. There seems little doubt now that the Medibank strike was opposed by a majority of workers. On numerous occasions people who want to work have been discouraged from doing so by threats and intimidation. The term "scab" is freely brandished. A person branded as a "scab" can be expelled from union membership and be prohibited from working again in the industry concerned. An employer prepared to provide work for the victim may find that he is threatened with a union ban and declared "black". These dictatorial decisions are often taken by a few union officials, usually elected by only a handful of members. The freedom to work or not to work is a basic democratic right and in a democracy should be inviolable. But it is being infringed almost every day.

It is important that this right be restored and preserved. Those who suffer from arbitrarily imposed stoppages through loss of wages might ask whether the official instigators of the strike sacrifice their own salaries. In most cases they do not appear to do so.

What is certain is that a society in which unions become increasingly dominant ceases to be, in any real sense, a free society. A few union officials can determine not merely what their members shall or shall not do; they can and do, in many instances, determine in effect what the community shall or shall not do.

The over-riding need is to restore real democracy in the unions. This means that officials should be elected by properly conducted elections involving all union members. It means also that major work stoppages should not be called before the opinion of the members is clearly expressed through the opportunity to vote — as proposed by Mr. Laurie Short.

A clear distinction, of course, needs to be drawn between responsible union officials, of whom there are many, and the
left-wing extremists. The major stoppages and the politically-motivated strikes can invariably be traced to the latter; the moderates are not infrequently drawn to support these stoppages against their will. The strategy of Governments, should as far as possible, be directed at the isolation of the militants. Government spokesmen should be more outspoken in condemnation of extremist leaders and should not hesitate to identify them as the ultimate source of political stoppages. Governments should make clear that the real concern of these people is not with the improvement of the condition of their fellow unionists, but with the overthrow of our Australian way of life and the substitution of a revolutionary political and economic system in which democracy would have no place.

There are many signs that the Australian people are becoming increasingly disgusted with and alarmed by many of the activities of some trade union officials. This enhanced awareness has been aided by the increasing exposure of these activities by the media, particularly television. The media, indeed, have a role of surpassing importance. The more the people know what is going on, the more public opinion is likely to be outraged. This will cause militant leaders to tread more carefully and perhaps think twice before engaging in disruptive activities. One of the greatest responsibilities of "a free press" should be to ensure that freedoms everywhere, for all sections of the community (and not merely for itself) are properly protected.

A vigilant media, leading to a better informed and more indignant public opinion, may encourage over-timid Governments to take a stronger stand against strike-prone union leaders and against activities in callous disregard of the public interest. For instance, it remains a mystery to many why the Victorian Government has apparently submitted so abjectly to the union ban on the construction of the Newport Power Station. If, at some time in the future, Victoria is seriously short of electrical power for industrial or domestic purposes, the people who will suffer most are the workers themselves, mainly union members.

*   *   *
The situation in Britain stands as a vivid warning to the Australian people. It has caused one of the country's leading left-wing intellectuals, and incidentally a convinced socialist, Paul Johnson, to write in the following terms:

"Since 1945, the British working class has been desperately badly served by the trade union movement. Its standard of living has gone up with agonising slowness. Britain's growth rate has been the worst of any major power, indeed of any industrial power."

"Smug and self-assured, oblivious of any criticism, they (union leaders) have encouraged British industrial workers in habits and attitudes, in rules and procedures, in illusions and fantasies, which have turned the British working class into the coolies of the Western World, and Britain into a stinking, bankrupt industrial slum."

Condemnation could scarcely be stronger.

"WHAT WENT WRONG? — How to put it Right"

This booklet was designed for widespread distribution among office and factory employees, in schools and among people in all walks of life.

It was released on 17th June, 1976. There has been a heavy demand for copies. Four prints have been necessary. Orders have reached 120,000 copies.

The essential foundations for recovery are the cutting back of annual income increases to somewhere close to productivity gains, the transfer of resources from the public to the private sector of the economy, reduced taxation and the restoration of satisfactory levels of profitability. This booklet has been designed to help create a climate of public opinion favourable to the realisation of these objectives.

We believe businessmen should play a part in a national effort to educate people about these matters and that the booklet should be given maximum circulation.

The booklet is being sold for 25 cents per copy.
A Good Budget

The Budget has provoked the customary flood of criticism from press columnists, T.V. commentators, academic economists, trade union officials and, naturally, from spokesmen for the Federal Opposition. Everyone apparently knows better than the Government and its skilled, informed, long-experienced advisers in the Treasury and elsewhere what the Budget should have done.

Some of the media critics who have attacked the Budget appear to have no special qualifications in economics, certainly not in the practical sense. This has not deterred them from telling the Government in arrogant, self-opinionated terms where it has erred. As for some academic economists, their record in economic prediction and policy prescription is so appalling that one might think the wisest thing to do would be not to ignore them, but to listen carefully to what they say and then do precisely the reverse.

The best that can be said of many of the critics is that despite their pretensions to economic trendiness, they are in fact living in the distant past. Faced with a situation of unemployment and under-utilization of capital resources, the conventional responses used to be for Governments to spend more and for disposable incomes to be augmented by way of tax reductions. That might have worked long ago when unemployment was invariably associated with falling costs and prices and before, in the words of the Budget Speech, "the public sector became bloated beyond belief". Under today's conditions, where rapid inflation and unemployment are inseparable companions, these remedies have ceased to be valid. As the Budget Speech says, "... fiscal and monetary policies of what used to be known as the pump-priming kind, not only no longer prime the pump but turn off the flow of jobs even further." And again, "Whether they know it or not, those who, in the name of reducing unemployment, call for higher Government spending, or bigger deficits, or full wage indexation, or devaluation of the Australian dollar are calling for higher — not lower — unemployment in this country." This is one of the most significant sentences of the Budget Speech and it is a pity that the critics have not paid it the respect that it deserves.

The economic strategy behind the Budget is directed at the defeat of inflation — in words we used in an article in our last "Review", "that and almost nothing else". It has been clear for some time, indeed for some years, that unless inflation is arrested all else will fail and the economy will flounder from crisis to crisis. The Budget makes its contribution to this objective within the constraints imposed by the tight political realities.

Everything, then, hinges on the defeat of inflation. Until it is clear that inflation is being eradicated —

- Private investment will lag.
- People will not unlock their savings and spend.
- The underlying strength of the export industries will be further weakened.
- The disabilities of hard-pressed rural producers will be intensified.
- Imports will increasingly tend to replace home-produced goods.
- Increasing numbers of businessmen
will contemplate shifting operations to lower-cost countries.

- Overseas investors will regard the Australian economy with disfavour.
- The economy will not be able to provide the resources needed by Governments to strengthen those areas calling for improvement.
- The position of retired people depending on their personal savings will be further eroded.
- The confidence of the whole community will further decline.
- And, above all, employment will not recover and the job outlook will deteriorate.

Indeed, unless inflation is defeated the economy will be propelled into a major crisis situation in which harsh crisis measures will become inescapable.

The pace of recovery of the economy may be too slow for some — indeed, it is too slow for us all. But it will remain slow while inflation remains rapid. Recovery will speed up when the signs are unmistakable that the insane cost and price spiral which has plagued us for some years is at last being brought under control.

The Budget has been widely criticised for being "dull", "unadventurous" and for doing little to promote economic recovery. These criticisms ignore the substantial positive economic measures introduced by the Government over the last six months. The Budget cannot rightly be considered apart from "the interim Budget" of May 20th. In the latter document the Government introduced several major policy changes. It provided, courageously, for full tax indexation of wages and salaries at a cost of over $1,000 million a year, and for an unprecedented expansion of child endowment designed to benefit especially some 300,000 low-income families. It also announced sharp cutbacks in government expenditures in prospect for 1976/77. As a result of the August Budget, the increase in Commonwealth spending over 1975/76 will amount to 11.3 per cent (about zero growth in real terms) compared with an increase of 22.5 per cent in the preceding year and of over 40 per cent in the 1974/75 Budget. This will help to reduce the call of the public sector on total resources to around 30 per cent, compared with 31.4 per cent in 1975/76. (As a matter of interest, in 1973/74, before the explosion of Government spending, Commonwealth Government outlays as a proportion of Gross Domestic Product were a more realistic 24.1 per cent.)

There has been a tendency among all sections of the community to assume that every year there should be, as a matter of course, a real increase in government spending on practically every item covered by the Budget. This quite untenable assumption has, on several occasions, been firmly rejected by the Prime Minister.

As far as the private sector is concerned, it is true that the concessions granted to business will have little direct effect during the current year. For instance, the trading stock valuation provision and the allowances for exploration and capital expenditures in the mining industry may not produce exciting results in the current financial year. This does not mean, however, that they will do nothing to promote recovery in 1976/77 as has been alleged by the President of the ACTU, Mr. Hawke. If prices for minerals rise, the mining industries in particular will be able to make plans for the future in the knowledge that their finances will henceforth be treated on a more rational and encouraging basis for tax purposes. In the current year, specific
measures contained in the Budget will, in addition, provide some assistance to various sections of business. The part removal of the export levy on coal, which will reduce Commonwealth revenues by $33 million, will immediately benefit the industry; the income equalisation scheme for primary producers, the amendment to private company tax and the estate duty concessions will also provide some encouragement to the private sector.

While there has been disappointment in industry circles that depreciation of plant and equipment is being continued on the old basis instead of on replacement costs, the Government has at least indicated that this problem is under examination.

The Leader of the Opposition, who, to put it generously, has hardly an unblemished record in economic matters, has claimed that the Budget is a budget for business, not for the people. Can Mr. Whitlam still be unaware that business employs some 75 per cent of the workforce? And that the future standards of living of the people depend heavily on the recovery of the private sector to robust health?

The magnitude of the deficit planned for in a Budget must always be a matter of judgment, based largely on an assessment of the future course of the economy. In this case the projected deficit has been governed by the Government's over-riding concern with inflation. The estimated total deficit is $2,608 million and the all-important domestic deficit, $1,879 million. Many of the critics have suggested that the Government should have been prepared to accept a substantially larger deficit in order to stimulate a more rapid recovery of the economy. A larger deficit would have increased the Government's claim on the community's savings, thus putting pressure on interest rates and restricting the private sector. Early this year, in order to soak up excess liquidity flowing from the huge Government deficit, the Commonwealth Government made a series of issues of special bonds, initially at what proved, with hindsight, to be too high a rate of interest and, later, at rates more in accordance with market expectations. These issues succeeded in attracting a large volume of savings. Unfortunately, as might be expected, this had the effect of temporarily curtailing funds available for housing and other industries. One of the strongest possible incentives to recovery in all branches of the private sector would be to cheapen the cost of borrowing. This is not compatible with a continuation of the policy of massive deficits of the kind we have witnessed during the three years of the previous administration and for which some economists continue to argue.

Another criticism frequently heard is that the Budget does little or nothing to stimulate private consumption. The critics point to the fact that Government policy contemplates some reduction in real wages during 1976/77, meaning that wage-earners will have less to spend. This, however, ignores the large benefits accruing to many income-earners from tax indexation. It ignores the great assistance to the low income groups which will flow from the new system of child endowment. The Government is expecting, too, that as recovery proceeds, overtime earnings and employment will increase and this will bring about a modest improvement in average real earnings per person employed. To focus attention on real wages alone is to ignore the other components affecting real disposable income per household. The Government expects that this will increase at a faster rate than real earnings per man. Also,
the evident determination of the Government to eradicate inflation will inspire confidence through the community and hopefully lead consumers to unlock their savings and spend more freely.

Some academic economists have suggested that private consumption could have been stimulated by lowering indirect taxes. They argue, too, that this would have helped to reduce price increases and thus, under indexation, the rate of increase of wage costs. But lower indirect taxes would have meant either a larger deficit or additional reductions in planned Government spending. A larger deficit would have had the undesirable consequences to which we have already drawn attention. The Government has already come in for strong criticism from many sections of the community for its expenditure restraints. Spokesmen for the tertiary institutions, including the Vice-Chancellor of the A.N.U., have attacked the Budget for not providing sufficient funds to finance the expansion of Universities and Colleges of Advanced Education at a rate which they deem desirable. It doesn't seem to have occurred to many people in the educational field that Australia is battling with a cancerous inflation which is tearing the guts out of the economy and that the institutions which they represent have a responsibility to join in the fight. Apart from the over-liberal treatment given to education, it is not easy to see where further reductions could have been effected. Expenditure on education by the Australian Government has expanded from $1,670 million in 1974/5 to an estimated $2,200 for the current financial year.

Apart from that, it would require a very large reduction in indirect taxes to produce any noticeable effect on the general level of prices — some $400 million in revenue forgone for a 1 per cent decrease. Moreover, it would be a once-for-all effect. A further and even more important consideration is that Australia already raises a much smaller proportion of government revenues from indirect taxes than most other countries. This has meant that direct taxes, particularly personal taxes, are much higher than is desirable from the incentive standpoint. Marginal tax rates on personal incomes are still at punitive levels even on quite modest incomes. A person on average weekly earnings of $180 a week faces a marginal rate of 35 per cent. When further tax reductions become possible, there are therefore overwhelmingly strong reasons for applying them in the area of direct rather than indirect taxation. Those who have criticised the Budget for its failure to reduce indirect taxes do not appear to have thought through the matter in all its ramifications.

The figuring in the Budget contemplates a price rise over 1976/77 of some 12 per cent, although it is hoped that by the end of the year the rate of inflation will be under 10 per cent. Recovery is expected to be slow, with moderate increases in real terms in consumption expenditure and business investment, and a gradual reduction in unemployment. Gross non-farm product is expected to grow by about 4 per cent.

Even these rather modest expectations are contingent on a number of assumptions which may be invalidated by the course of events. Two vital ones are that there will be no new fiscal proposals, apart from those embodied in the Budget, during 1976/77 and that only partial indexation of wages will continue for the remainder of the financial year. The first assumption already looks rather
dubious. The second assumption is, however, by far the more crucial. As Statement No. 2 of the Budget papers says: "To the extent that the assumption of continuing partial indexation proves invalid — or to the extent that restraint in other wage increases and conditions of employment is not maintained — the speed of recovery will be diminished, new jobs will not be created or will be created more slowly, and the present high levels of unemployment will be prolonged."

It cannot be stressed too strongly that the future course of the economy, and its eventual return to a position of economic strength, will be governed, more than anything else, by the movement in money wages. Even partial indexation is far from ideal. The overriding weakness in the Australian economy is the level of costs which is already far out of line with comparative levels in other Western countries. Even under partial indexation, inflation in Australia will be continuing at a much faster rate than inflation in industrialised countries overseas.

As the Budget Paper, Statement No. 2, says in its concluding paragraph, "... the picture in all respects would be better, the more rapidly the present inflation rate were wound down". The Government's projections, however, do not envisage a rapid "winding down" of inflation. Wage rates, it should be realised, are determined not by the Government but by the Commonwealth Arbitration Commission and by union attitudes. The Commission will thus carry a tremendous responsibility for the economy during 1976/77. Unwise determinations on wages could undo the wise strategic planning of the Australian Government.

While it is difficult to see how the Government could do more than it is doing, a careful study of the Budget Speech and accompanying papers leaves the reader with some misgiving. This concerns the time-span of the strategy which the Government is compelled to follow. The Government strategy is necessarily based on the concept of a gradual recovery, extending over possibly three years. The trouble with long-term economic planning is that the plans and the arithmetic seldom, if ever, pan out according to hopes and intentions. So many things can happen in three years — metaphorically speaking, droughts, fires, floods or earthquakes — which can completely upset the apple-cart. The shorter the period over which the essential economic foundations can be established, the less is there the chance of this happening.

The philosophy of the "short sharp shock" may be impracticable, but, in circumstances such as the present, it could be by far the most effective. In the Australian institutional context "the shock" could hardly be administered by the Government, since it embraces a standstill on wages for, say, six months. But it could be administered by a courageous Arbitration Commission (backed by State wage-fixing tribunals) on the incontrovertible grounds that nothing could more effectively protect and, in the end, advance the standards of living of wage-earners and their families.
What is “Full Employment”?

The present level of unemployment, according to official figures, is 267,000. This amounts to 4.4 per cent of the total workforce.

These figures appear to be generally accepted as a measure, first, of the extent of economic hardship in the community (arising from unemployment) and, second, of the extent of the slack or under-demand in the economy.

The media, for instance, seems to tacitly assume that full employment means zero unemployment: in other words, if, say, official figures show that 300,000 people are registered as unemployed, this is taken to mean that 300,000 are looking for work and possibly in serious economic straits. This quite unwarranted assumption is confusing a great deal of current economic discussion, and has done so for many years. It is more than time that some attempt was made to put the matter right.

What, then, is full employment? Does it, in fact, mean zero unemployment; or 1 per cent or 2 per cent or perhaps 3 per cent unemployment? The economics profession has had little to say on this point which is quite crucial to economic management.

No doubt one of the reasons why so little attention has been given to this important question is the excellent record of Australia in employment policy over most of the post-war years. Between 1947 and 1974, the official percentage of unemployed averaged only 1.25 a year; this compared with a yearly average between 1919 and 1939 of 12 per cent. Now that we are experiencing statistical unemployment of close to 5 per cent, it seems an appropriate time to examine the concept and measurement of full employment more closely.

Some economists frequently reach unrealistic conclusions on economic questions by concentrating on aggregate figures and ignoring the details making up the aggregates. (Mr. Kenneth Davidson of “The Age” is one of the main offenders in this regard.) The unemployment statistics afford a good example of this practice; most discussions about unemployment are conducted in terms of the aggregate figure. The media especially is prone to scare headlines and to reach false conclusions on the state of the economy based on the total number of unemployed. To get a realistic picture it is necessary to look inside the aggregate, to examine its composition, and particularly to ascertain the average length of time which job-seekers are out of work.

For a start it is necessary to recognise that labour is not an homogeneous whole. The market for skilled workers and unskilled workers is not the one market; neither is the market for the old and experienced the same as the one for the young. Similarly, men and women operate, to a large extent, in separate markets. Over-employment in one section of the market is often accompanied by under-employment in another.
section. Even at the present time (4.4 per cent unemployment) there is ample evidence of a scarcity of skilled workers. And from the aspects both of social distress and demand pressure, there is clearly a vast difference between the unemployed labourer with no assets and the unemployed professional man or business executive.

Most economists have no doubt long been aware of the serious limitations of the aggregate figure, that it conceals much more than it reveals. But, in the main, they appear to have been slow, or reluctant, to draw public attention to these limitations and to show clearly the implications to which they lead.

Three broad types of unemployment are usually identified by economists — frictional, structural and cyclical.

**FRICTIONAL**

There are always people in the process of changing jobs or others having a break from work and living for a short time on their savings. Still others may have been laid-off temporarily, with every prospect of re-employment when the business picks up. An increase in this type of unemployment often accompanies a reasonably high level of economic activity (and thus, incidentally, a low general level of social distress as a consequence of unemployment). During periods of heavy demand for labour, some people, especially those with savings and hence not in need, are prepared to accept temporary unemployment in order to seek a better job. For instance, many will decline offers of shift or weekend work because they desire normal hours’ employment. School-leavers, too, are prepared to wait longer in order to obtain congenial work.

The extent of unemployment from frictional causes can be readily identified by examining the duration of unemployment and the expected employment prospects. For instance, in July, 1972, a survey showed that 20 per cent of those registered with the Department of Labour as unemployed had been registered for less than one month and expected to be placed within three months. A more recent survey by the Australian Bureau of Statistics in May this year revealed the startling fact that 42 per cent of wage and salary earners registered for employment had left their last job of their own accord.

**STRUCTURAL**

Structural unemployment may result from a change in the demand for and the supply of labour in a specific industry or locality. It may have nothing to do with unemployment arising from a general shortfall of demand.

Most employers need a “mix” of professional, technical, skilled, semi-skilled and unskilled workers. But this mix does not necessarily match that available in the workforce or in a particular area. The survey referred to above revealed that in July, 1972, three-quarters of the registered unemployed were either in the clerical or administrative group or the unskilled or semi-skilled group. Also, about 43 per cent were in non-metropolitan areas, which contain a much smaller proportion of the total workforce. Some examples of this kind of unemployment are given in a recent publication of the Department of Employment and Industrial Relations. For instance, there is a current shortage of librarians in some areas of Victoria but an over-supply of librarians in Sydney.

A quick glance at the “situations vacant” pages of a newspaper will reveal labour shortages at the present time in some occupations despite recorded un-
What is "Full Employment"? (continued)

employment of over 267,000. Many employers are experiencing difficulties in obtaining people to fill particular jobs available in their enterprises. Thus, at times of what is regarded as a "high" general level of unemployment, there is often an acute and persistent shortage of labour for specific kinds of work.

Technical changes and changes of consumer tastes also contribute to this type of unemployment.

CYCLICAL

This is unemployment due to an overall shortfall of demand and not to a specific lack of demand in particular areas or industries. However, total unemployment is usually taken to mean, and quite wrongly, cyclical unemployment and hence, inappropriate policies are often prescribed.

There are two groups of unemployed which need special attention.

First, there is the more or less permanently unemployable. They consist of the physically handicapped and those with personal characteristics that render them difficult to employ or, in some cases, virtually preclude them from employment. On the evidence available, this group amounts to some 30,000 persons — 60 per cent unemployable because of personal characteristics and 40 per cent because of other handicaps. These people clearly should not be classified together with other unemployed. This is not, of course, to say that they should not be given help.

The second group that needs to be considered separately is unemployed women. In November, 1975, there were 130,000 unemployed females out of a total of 279,000 unemployed persons — nearly half the total. Fifty-two thousand, or 40 per cent were married and, therefore, mostly second income-earners. Fifty-seven thousand were aged between 15 and 19. Most of these would be supported by their families and not necessarily in serious need. Of those neither under 19 nor married, some were looking for part-time work only. It would therefore appear that relatively few of the 130,000 women recorded as unemployed would be in serious economic straits due to lack of job opportunities.

The May Survey of the Australian Bureau of Statistics showed that, of 114,000 unemployed women, only 8000 were heads of families; another 13,000 were living by themselves.

In a survey conducted in 1975 by Dr. Lansbury of Monash University only one in three women looking for work said she was doing so for economic reasons; the other two were seeking a job for social or other reasons. Even wanting to work for economic reasons does not necessarily mean there is an economic need; it may simply mean a desire to improve an already high standard of living. What is conclusively revealed by Dr. Lansbury's survey is that unemployment amongst women does not by any means reflect a corresponding degree of economic hardship.

The preceding analysis can be used as a framework for analysing the current unemployment level in Australia. Clearly two separate figures will be needed: one as a measure of demand pressure, or the lack of it; the other as an indication of genuine economic distress traceable to unemployment.

In order to obtain realistic measures, the following minimum adjustments need to be made to the total unemployment figures:

(a) For measuring demand pressure we need to subtract from the total figure those in process of
changing jobs, the seasonally unemployed, those having a break from work, the unemployables, and those unemployed because there are insufficient jobs in their locality or for their type of skill.

(b) For the measurement of economic hardship we need to subtract from the total figure those unemployed from frictional causes, the unemployables (although they may be suffering hardship, unemployment is not the cause but a symptom of their problem), second breadwinners (mostly women) and dependent breadwinners (some of the young).

* * * * *

The preceding classification and analysis of unemployment figures are helpful in arriving at a reasonable definition of full employment.

From its inception around the end of World War II the concept of full employment was not intended by its originators to mean 100 per cent employment or zero unemployment. Lord Beveridge, who probably coined the phrase, suggested that full employment could be taken to mean about a statistical 3 per cent unemployment. He allowed 1 per cent for seasonal unemployment, 1 per cent for those in the process of changing jobs and 1 per cent to cover uncertainties in trading conditions. The 1944 British White Paper aimed not at full employment but at "a high and stable level of employment".

Similarly, the 1946 White Paper "Full Employment" produced, by the Chifley Labor Government suggested that the term "full employment" meant something less than 100 per cent employment. "This policy of full employment," it said, "will maintain such a pressure of demand on resources that, for the economy as a whole, there will be a tendency towards a shortage of men instead of a shortage of jobs. This does not, of course, mean that at any particular time everybody will be at work; some people will be away from work because of sickness, some will be taking a spell between seasonal or periodic employment, some will be in the process of changing from one employment to another offering better prospects, some will take time at acquiring new training to equip them for other employment." It also said "... full employment ... is a convenient short title for a high and stable level of employment."

Clearly full employment does not mean zero unemployment, which is unattainable. Full employment may be taken to mean that level of employment which can be maintained without cost and price inflation due to an excess demand for labour.

Admittedly, the numbers of unemployed may be reduced in the short term by inflationary fiscal and monetary policies. However, in time this decline will, through the impact of inflation on employment, be reversed, and ultimately the economy may find itself in a situation of both high unemployment and high (and possibly accelerating) inflation — as in Australia in 1974 and 1975. The original advocates of "full employment" thus correctly emphasized a high and stable level of employment rather than 100 per cent full employment as the goal at which to aim.

An alternative way (other than inflationary expansion) of reducing unemployment is by directly removing structural unemployment, as is done in totalitarian states where Government forcibly directs people to shift between
areas and occupations. In a democracy this is an unacceptable solution because it entails the loss of freedom of choice of occupation and of place of living. A democratic Government may promote occupational and regional mobility but it cannot order such mobility. The Government has now moved to provide financial assistance for people prepared to change their place of residence in order to obtain employment.

What, then, is the lowest rate of unemployment consistent with stable prices and individual freedom? A precise figure cannot be placed on this rate, but it is clearly higher than the 1.5 per cent which many economists have taken as a benchmark in the past. Experience shows that unemployment of less than 2.5 per cent has been achieved only at the cost of rising prices. Our earlier analysis suggests that a reasonable measure of demand pressure should allow for something between 150,000 and 200,000 unemployed. Thus, with a workforce of six million the percentage of unemployed consistent with price stability and the maximum long run level of employment would be around 3 per cent.

There are, however, good reasons for thinking that the non-inflationary level of unemployment has increased in recent years. First, because of increasing specialization, people are becoming more reluctant to accept work other than that for which they are trained. In other words, occupational mobility has declined.

Second, higher social security payments and unemployment benefits have made it increasingly attractive for people to become and remain unemployed, thus increasing the numbers voluntarily unemployed. Not only have unemployment benefits risen, but they can now be obtained more easily. In February, 1972, only 30 per cent of the registered unemployed received benefits whereas in February, 1976, the figure had risen to 70 per cent and the benefits they received were on a much more generous scale.

Third, in the longer term, the accelerating rate of progress and technical innovation has probably increased the rate of unemployment compatible with stability.

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It is clear that the commonly accepted measure of unemployment does not accurately reflect either of the two things it is widely taken to reflect. It greatly overestimates the "social distress" caused by unemployment; and also the deficiency of demand in the economy. It is therefore a misleading figure, especially since many in government and the media persist in using it as if it truly represented the extent both of economic privation and the shortfall of demand.

The unemployment percentage may become particularly significant in the next year or two as the expected economic recovery gets under way. If, when unemployment falls to around a statistical 3 per cent, attempts are made to stimulate the economy by means of monetary and fiscal expansion, we might easily launch the economy into an excess demand situation. Once again we would find ourselves caught up in an inflationary spiral of the kind from which we are now struggling so hard to escape.
VIDEO TAPE ON PROFITS

The Australian Chamber of Commerce and the I.P.A. have co-operated in the production of a colour video tape on Profits. It runs for 18 minutes. The Narrator is Tony Charlton, well known T.V. personality.

There has been a great deal of misunderstanding about the function of profits and their size. This video tape endeavours to correct many misconceptions. It shows that the average profit after tax on each dollar of sales is around 4 cents, 2 cents of which is distributed as dividends. Profits are widely distributed in the community, among many hundreds of thousands of shareholders, holders of life assurance policies and members of pension funds. The tape emphasises that the prospect of profit encourages people to start businesses and companies to expand their operations and provide employment.

This video tape is aimed mainly at schools. Copies of the tape are held by audio-visual libraries and regional libraries of the Education Department in all States, where they can be borrowed by individual schools for use in senior classes.

The I.P.A. believes many companies will find it worthwhile having a copy of this video tape for use in their employee education programmes.

Copies of the tape are available from the I.P.A. and Chambers of Commerce.

The price is $55.00.
The Threat to the Individual

This article was written by the Director of the Institute and published in "Review" in 1949. Today, over a quarter of a century later, the central issue with which it is concerned — the State and the individual — is still very much alive. Accordingly we have decided that it should be republished.

The perennial problem of political states is to find a right and just balance between the claims of the individual and the claims of society. The great conflict of our times between free enterprise and socialism is just one facet of this larger problem.

To those of the Western tradition, complete individualism, which means anarchy, makes no more sense than complete socialism, which means totalitarianism. The individual cannot express himself except through the society to which he belongs; in countless ways he is dependent for his welfare on the actions of his fellow men. On the other hand, the strength of a society is in the end determined by the intellectual and moral stature of the units of which it is comprised. No matter how nobly designed and efficiently planned, the edifice will totter and crumble unless its member parts are made of sturdy material.

The doctrine of free enterprise, while not denying the claims of society or the advantages of social organisation, stresses the fundamental importance of the individual man and woman. The doctrines of socialism, on the other hand, place society first and reject the claims of the individual where they conflict, or appear in the socialist view to conflict, with the interests of the larger entity.

Individualism and Socialism

In the late 19th century, the doctrines of individualism, under the inspiration of philosophers such as Adam Smith, Bentham and Mill*, held supreme sway, and the interests of the majority were often ruthlessly trampled upon in the more or less unbridled pursuit of self-interest. The central principle of this theory lay in the idea that the individual in looking after his own affairs to his own best advantage, would at the same time, and all unconsciously, further the well-being of the community at large. In practice it did not work out quite like this, and the abuses of individualism sometimes ran riot with unhappy consequences for the mass of the people.

The socialistic tendencies of the 20th century represent a reaction, and a not unnatural reaction, from the uncurbed individualism of the 19th century. And today, the idea of the community, the state, the social conscience, the public good, has succeeded the idea of the individual as the predominant political, economic and social conception of our times. Instead of assuming, as the leading 19th century thinkers did, that what is good for the individual must be good for society, we now too readily assume that what is good, or what appears to be good, for society must be good for the individual. We tend to think in aggregates, and mostly in very large aggregates, rather than in units, and in our enthusiasm for schemes of large-scale social improvement we forget sometimes to consider the effect of these schemes on individual personality and character.

*James Mill, father of John Stuart Mill.
Too Much Planning!

If the fault of the 19th century was that there was too little social organisation, too little economic planning, too much stress on the individual, the danger of our times — and it has now become a grave and imminent danger — is that there will be too much organisation, too much planning, too little regard for men and women as individuals. The reaction from 19th century individualism, which, up to a point, was a necessary and wholesome corrective tendency, now threatens to over-reach itself. If the era of self-regarding and selfish individualism is to be succeeded by the era of the domination of the mass, expressing itself through the omnipotent and omnipresent state, then our last condition may be no better, may even be worse, than our first. Those with a passion for organising their fellow humans, even if their objective is the highly laudable one of advancing human welfare, would do well to reflect that over-organisation can be equally as bad and destructive as under-organisation. A society, like a business, can be brought to bankruptcy through the former just as surely as through the latter.

There are warnings and danger signals on every hand for those who have their eyes open.

The Mass Mentality

In every field of life, and not merely and perhaps not most vividly in that of economics, the mass is tending to absorb and suffocate individual personality. Mass opinions, mass tastes, mass desires, mass beliefs are in process of submerging individual opinions, individual tastes, individual desires, individual beliefs. The individual is fighting for his life in seas that threaten to engulf him, and to some his struggles appear to be growing weaker. Perhaps what we have got most to fear are not the concrete instances of the advance of socialism, in terms of nationalised industries or of the superimposition of another government control, but the growth of the mass mentality, the mass mind and character, what some would call the socialist temperament. In some ways people seem more willing to be organised, more ready to let others form their opinions for them, than they used to be. And this development is the more to be feared because it is a not unnatural one; it represents what is, after all, the easy way.

“To Keep Out the Cold”

It is easy for a man to be one of the crowd; it is not easy, and it often needs a great deal of courage, to be different, to be true to oneself and to one’s own innermost beliefs. And it is man in the mass rather than man as an individual person that is in the ascendancy today. The spirit of the pioneer, the spirit that is prepared to attempt the impossible, to flout the world’s opinion, to tempt fate, is on the decline, and we are huddling together to keep out the cold. The doctrine of socialism, which is the doctrine of the mass, discourages the former process and encourages the latter, because it levels in more than an economic sense. It not only reduces the fastest runners to the pace of the field; it tends to produce uniform ways of life and thought, and anyone who doesn’t conform to majority opinion, to the dull, brutish, standard pattern, is looked upon almost as an outcast. Socialism, in its extreme manifestations, leads not merely to a uniform diet, but to a uniform mentality and morality and way of life.

It is this tendency toward uniformity, standardisation, the mass-production of identical minds, that is such a disturbing
feature of the present times. For the great achievements of man, no matter in what field we may choose — economics, industry, literature, scholarship, the arts — have their genesis in individual minds working in solitude apart from and uninfluenced by the crowd. The glory of life lies in its variety, in the encouragement of the different aptitudes and tastes and desires of millions of individuals, individuals because they all, in ways great and small, differ from one another. But you can't expect to submit man to the discipline of the mass, to the discipline of a too tight and all-embracing organisation, and at the same time retain this glory and preserve his divine individuality.

"The Uncommon Man"

It would be idle to deny that today the individual is suspect. Let him get out of step with his particular social group, let him break away from the accepted standards of his trade union or his business association or his local political body, let him try to blaze a new trail of his own devising, and he will quickly be brought to heel. He needs only to be "different" and he becomes an object not merely of doubt, but often of abuse and scorn.

This trend was becoming apparent in the politics of the decades between the wars. The men in demand were the "safe men", those whom the majority understood, or thought it understood. The great individualists, men such as David Lloyd George and Winston Churchill, men of a strong independence of mind and judgment, who refused to march with the crowd if they thought it was moving in the wrong direction, were scorned and rejected to the political wilderness. The disappearance of the great man, the dominating figure, and the rise of the masses and mediocrity are merely two aspects of the same process. We elevate the "common man" into a god and we automatically dethrone the "uncommon man" from the positions of leadership and influence. If we set all our standards by those of the ordinary man in the street, no matter how decent and how admirable he may be, we at the same time reject the highest standards by which to measure and appraise human conduct.

The Committee Atmosphere

Socialism is based on the organising principle; it carries the principles and methods appropriate to the technical sphere and the handling of inanimate materials and things into the handling of human beings. Social organisation and planning cannot be effective unless based on a rigid discipline. The individual must be bound by regulations; he must carry out his part strictly according to the rules. He cannot be permitted to deviate one degree from the adopted plan, otherwise he imperils the plan and the effectiveness of the work of all the others engaged in carrying it out. Large-scale planning has a superficial attractiveness. It appeals to our sense of tidiness and orderliness, and on the face of it appears to be efficient. But carried beyond a certain point the mass organisation fails to deliver the goods. It becomes, in fact, disastrously inefficient. The very multiplicity of rules and restrictions stultify initiative, deaden the mind, and cramp the individual. The "man with ideas" is not only not wanted; he becomes a damned nuisance.

The great works of men's minds from which our civilisation has sprung were not created in this atmosphere. This is fast becoming an age of committees and discussion groups. But, however desirable it is to allow the majority opinion
to make itself felt and to give scope for the expression of the views of the ordinary man, we should not overlook the fact that the great conceptions which have shaped our way of life were not the product of committees. Nor is the committee mentality conducive to the creation and acceptance of such ideas. If the exceptional theme has to run the gauntlet of the group judgment it is a million to one against its adoption. For the committee does not like the unusual, the idea out of step with commonly accepted notions. Because it does not care to take responsibility for something that stands a good chance of going astray, it prefers to play safe.

The Voice of Wisdom

It is, of course, of supreme importance to give the ordinary man a say in the shaping of events. This is of the very essence of democracy. But we must be careful to prevent the voice of the majority from drowning the voice of the individual. Aided by the modern popular press and radio there is today a babel of tongues, a deafening clamour and noise; there are more people than ever before telling other people what they should do: But where among it all can be discerned the unmistakable and irresistible voice of leadership and inspiration? Has the world ever been more confused, more self-distrustful, more in doubt about the paths it should choose to follow? The mass speaks, but not often with the voice of wisdom. There are more people than ever before writing and speaking, there are more avenues of expression by which their ideas can be conveyed to the multitude, but there is a singular shortage of noble themes, a singular absence of divine inspiration. There is a vast noise, but no great harmonies. Instead of true individual thought and opinion, we have a parrot-like repetition of ready-made creeds, of well-worn dogmas and platitudes, of potted ideas, lacking freshness, originality and inspiration.

Obviously, there is a curious paradox here. For while the ordinary person has apparently a far greater voice than ever before in the conduct of affairs, what he utters is not often his own ideas, not often the product of his own independent thinking and of his own private judgment; rather it is the commonly accepted ideas and dogmas of the group in whose name he speaks. He is often a slave to some narrow creed to which he has given an unthinking acceptance. It is not the voice of the individual we hear, but the voice of the mass by which he is dominated. One of the great dangers of our times is that men tend to think that loyalty to a group or party relieves them of the necessity of thinking for themselves. This applies as much to the trade unionist, to whom solidarity of thought and action is the highest good, as to those who acclaim private enterprise in all its manifestations, blindly and uncritically.

The world is deluged and confused with the propagation of half-digested ideas, murky generalisations, with the dogmas of pressure groups accepted often unquestionably and slavishly by their adherents. The members of these pressure groups, and most of us today belong to such groups, turn away unthinkingly from any truth that is not to their liking and that does not conform to their own hard-and-fast preconceptions.

The Independent Thinker

The pure, independent thinker is becoming a rarer and rarer phenomenon; and yet in the complex hotly-partisan world of our day he was never more necessary. The world was seldom in
greater need of the guidance and intellectual leadership and inspiration of lofty impartial minds. The University scholar is not satisfied to remain within the four walls of learning and search for ultimate truth; he, like all of us, feels the urge to be one of the crowd and he comes forth to participate in the partisan hurly-burly. He feels he must take sides and, once he has, his teaching, consciously or unconsciously, becomes coloured with the political views which he has over-hastily adopted. This tendency is greatly to be regretted, for in a world of pressure groups and ideological conflicts, the University at least should strive, more than ever, to be an oasis of individualism and of independent thought and judgment. It was never more necessary than it is today that there should exist on great public questions some final impartial arbiter of wisdom and truth, some final court to which the public can appeal. But where is it to be found?

"Less Than a Thing of Naught"

It would be wrong to ascribe these modern tendencies exclusively to the influence of socialistic ways of thought. But what cannot be gainsaid is that socialism by its very nature gives an impetus to mass thinking, mass ways of life, mass standards, against which we need to be on our guard, and against which we need to set up counter forces. This is the conclusion of a great scholar, Alexander Gray, of Edinburgh, in a massive work in which he surveys the historical background and present content of modern socialist thought*:

“But, even if it be recognised that for all manner of reasons the tide is still flowing, and is likely to continue for some time to flow, so strongly in the direction of a more ubiquitous State and a less significant individual, it may just for that reason be all the more necessary to emphasise the other side in order that a proper balance may be maintained. It is of the essence of democracy that there should be someone to point out the dangers inherent in the views of the prevailing majority, and to draw attention to the pitfalls along the path by which we are being led. The great need of the present day is for a prophet of liberalism: not because liberalism any more than any other tenable political creed, is an exclusive repository of wisdom and truth, but precisely because liberalism, insofar as it stands for the pre-eminent worth of the individual, is an essential ingredient in any balanced view of things, and because liberalism at the present moment is dangerously in eclipse. For the strength of liberalism or individualism, or whatever it may be called, is that all great things are conceived in solitude — however they may be executed — by men who have relied on themselves, and not on their fellows or the State. There may be a divinely inspired man; there may even be a heaven-sent statesman; but there was never a divinely inspired State. In the great moments of life, man is necessarily, and perhaps lamentably, alone. For every life is a pilgrimage, and every true pilgrimage ends in solitude. As John Bunyan shrewdly observed, a man may have company when he sets out for heaven, and yet go thither alone. The danger involved in the drift or urge in the direction of an ever more actively controlling and intervening State, is that at the end of that path—however it may be disguised—lies totalitarianism, with the individual even less than the Guild Socialist’s manure, even less than a thing of naught.”

*“The Socialist Tradition”, by Alexander Gray.