Editorial—Devaluation

Eventually, the devaluation of the Australian dollar was inevitable. The harsh truth is that the Australian currency had been grossly over-valued for a considerable time. This situation eventually precipitated a powerful wave of speculation against the dollar. The consequent rundown of overseas reserves in recent months, notwithstanding substantial overseas borrowings, has been so alarming that the Government had to choose between devaluation and borrowing some $1000 million from overseas sources.

The devaluation, however, should be understood for what it is. It is, without question, clear evidence of a weak, even dangerously sick economy. It is emphatically not (as the Treasurer claimed in the final sentence of his statement announcing the devaluation) an indication that Australia is now set firmly on the path to full recovery of economic health.

Devaluation is not an easy path to riches. For a short period it will give much needed relief to the strategic rural and mining export industries and to manufacturing industries competing with imports. It will, too, encourage a renewal of interest in the Australian economy by overseas investors.

All this is good. But there is a considerable cost to be paid, and the cost lies in the ominous prospect of an quickening rate of inflation. The prices of most imports must rise substantially. For manufacturing industries, devaluation will in due course lead to steep increases in the costs of any imported materials and components used and of imported capital equipment. The money supply, which has played such a large part in the Government's thinking on inflation, will be swollen by the return of capital temporarily held abroad, increased overseas investment (which will be slow) and higher incomes for exporters. In order to help neutralise the effects of this addition to liquidity, the Government has already given an indication that interest rates, which represent a significant cost to many industries, will increase. If the mistaken indexation formula in adhered to, wage costs will rise even more steeply than in the earlier quarters of this year. The unpalatable fact is that
devaluation, by its very nature, immediately sets in motion forces that tend eventually to whittle away the substantial short-term gains accruing to some sections of the economy.

The enforced devaluation thus represents a set-back to the Government's hopes of defeating inflation, particularly as its policies were achieving some modest success in reducing the rate of increase of costs and prices. Devaluation is, in its effects, an inflationary measure. There is no escape from that.

The seeds of the devaluation of the Australian dollar were sown by the irresponsible policies pursued in the years of the Whitlam administration — in the encouragement that the Labor Government gave to utterly absurd and un-economic increases in wages and other incomes (those of women even much more dramatically than those of men); in the profligate expansion of Government spending; in the virtual destruction of enterprise by punitive and ill-conceived taxes; in the hostility to overseas capital; in the spreading of the false notion that money could be had easily and that higher and higher incomes could be earned by less and less work; and in the inculcation of the idea that people only had to ask and the Government would be there, like Father Christmas, to grant their requests.

But that having been said, the bitter reality is that the policies of the Fraser Government in its first 12 months of office, have not succeeded sufficiently to avert the devaluation of the Australian dollar. In view of the appalling legacy left it by the Whitlam administration, perhaps the task was impossible.

Nevertheless, the Government has persisted in pursuing orthodox measures in a situation of grave crisis where a departure from orthodoxy was inevitable if there were to be any hope of success. In particular, the Government looked to the Commonwealth Arbitration Commission to end the destructive wage spiral which was undermining the foundations of the economy. This was probably a vain hope. The premier wage-fixing authority has never, throughout its history, given any warrant to believe that it would be prepared to subordinate its legislative role in preserving industrial peace to the requirements of economic policy. The Government's policies have thus been constantly frustrated by the decisions of the Arbitration Commission. In the early months of office the Government should have taken the bull by the horns, solicited the co-operation of the States, and imposed a temporary ceiling on annual increases in wages and other incomes. This was what the Institute proposed at the time and we now believe that our contention has proved correct. When incomes are rising at the rate of 15 to 20 per cent a year, and when the production of the nation is almost stationary, desperate measures are needed if the situation is to be brought into sensible balance. In these circumstances orthodox policies are impotent.

Moreover, in spite of strenuous efforts, the Government has not managed to convey to the people the critical nature of the situation which the economy is confronting and thus has failed to gain the public understanding and co-operation essential for the success of its policies. This has by no means been entirely its own fault. It has been hampered by the attitudes and reporting of the media which has not conveyed, clearly and accurately, to the people the meaning and purport of Government policies.
The benefits arising from the devaluation will be short-lived unless the Government now embarks on stringent measures to halt the acceleration in wages, salaries and other costs which devaluation will itself precipitate. It is no great exaggeration to say that unless such measures are taken the inflationary record of the Government, possibly even by the end of this financial year, or if not certainly by the end of 1977, will, on the sheer statistics, look little better than that of their predecessors. This, of course, does not mean that its economic policies have not been infinitely superior to those of the Labor Government on practically every count. It inherited a hideous mess and has battled manfully, if so far not entirely successfully, to clean it up.

One measure that has been widely proposed to offset the inflationary effects of devaluation is an across-the-board tariff cut. This is dangerous nonsense. Manufacturing industry is already hardly in a state of robust health and there is, in addition, the threat of increased unemployment in the months ahead. In any event, a general reduction in tariffs would be unlikely to be very effective in retaining costs. Moreover, the experience of the Labor Government should surely have demonstrated that tariff policy should not be regarded as an instrument of short-term economic management.

Importers and local manufacturers dependent on imported materials and components should accept a responsibility for curbing selling prices on goods whose costs were determined by pre-devaluation import prices.

When all is said and done, there is really only one course open to the Government which will avoid continued rampant inflation, and very likely a series of successive devaluations on the British model: that is to impose a strict limit on annual wage increases. Practically all of us who work are “wage-earners” and wages, in this context, means not just blue-collar earnings, but salaries, managerial remuneration, professional fees (lawyers, doctors and the rest). With everyone treated equally, there should be no cause for griping. We propose therefore a national ceiling on “wage” increases for the next 12 months of 4 per cent. Nothing else will save the economy.

If the Government does not act directly to limit wage rises it will be placing its economic and political fate in the hands of the Arbitration Commission.
Mr. Kemp's Retirement as Director

Few men in the post-World War II period have exerted an influence in economic affairs in Australia as wide as that achieved by Mr. C. D. Kemp, C.B.E., who is retiring as Director of the Institute of Public Affairs after 34 years in this position.

Mr. Kemp came to the Institute after seven years as a personal assistant and economic adviser to Sir Herbert Gepp. Herbert Gepp was a great industrial innovator and business statesman, and the leading adviser and consultant to Governments on Australian development. While in that position Mr. Kemp played a vital role in the establishment of the I.P.A. In his long years of service to the Institute he tirelessly promoted its objectives of publicising the facts of the national economy and supporting the principles of free enterprise. In conjunction with its first President, Sir George Coles, during the early years of the I.P.A. Mr. Kemp devised and laid down the foundations of the thinking and methods which enabled the Institute to attain a unique position of public acceptance and influence in the Australian scene.

His writings in "Review" have consistently been read with the greatest interest by leaders in all walks of life in this country, and in overseas countries too, and of every shade of
political opinion. No doubt this results from the fact that in addition to being extremely well versed in economic theory, Mr. Kemp has the very rare faculty of being able to comprehend economic behaviour in the real, practical world.

He has been fearless in his attitudes and comments on events and has demonstrated, in addition to a great ability to write persuasively, a balanced and intelligent judgment in his approach to the trends and problems facing governments and business organisations.

One of the outstanding results of his writings is the support they have received from schools and colleges. They are keenly studied by teachers and students, who find them penetrating and full of wise assurance. This is a particularly valuable area into which Mr. Kemp has extended his influence.

Political leaders from different parties have been generous in their praise of Mr. Kemp's work. His views and opinions on a wide variety of economic and business issues have been sought and valued by many people of eminence in the course of his career, with whom he has had close personal associations.

In 1959 he was awarded the C.B.E. in recognition of his outstanding contribution to public affairs.

With his retirement the I.P.A. passes into a new era but the foundations laid and the reputation built by Mr. Kemp will carry it forward.

All those who have been associated with the Institute, whether as members of the Council or of the Executive and Editorial Committee, or as financial supporters, will wish Mr. Kemp good health and happiness as he moves into a more relaxed life in the days ahead.

NEW APPOINTMENTS

As from the 1st January, 1977, the Secretary of the Institute, Mr. H. N. Warren, B.Com., A.C.I.S., has been appointed Director of the Institute.

Mr. Roger Neave, M.A. (Oxon) has been appointed Deputy Director.
Owing to shortage of space we are unable to follow our usual practice of publishing in the December number of "Review" the full text of the President's Address. The following are some of the main points.

The great obstacle in the way of a healthy recovery of the economy is the level of Australian costs, which are far above those of most other Western countries and still rising rapidly.

Our course is clear. Inflation must be defeated; otherwise there is no future. But the defeat of inflation is not the responsibility of the Australian Government alone, as some appear to think. It will need the combined efforts, the single-minded determination, of all the Australian community.

The defeat of inflation requires restraint and good sense from every section of the community, whether employers or employees, university staffs or school teachers, doctors, airline pilots, or businessmen. A willingness to accept some minor restraints now will pay off in good dividends for everyone in the long run. Nations have to stay competitive if they are to succeed.

As we watch, month by month, quarter by quarter, the sorry tale of continuing increases in the various price indices, some of us may be tempted to jump to the conclusion that the Australian Government is failing in its purpose of arresting inflation. It is not the Government that is failing. It is we, the people, still pandering to the easy way, who are failing.

Governments cannot work miracles. The wisest economic strategy must fail to achieve its purpose unless all sections of the community weigh in and make their contribution. Governments cannot cure inflation, for instance, if many people demand, and succeed in getting wage, salary or professional fee rises far out of line with the productivity of the nation. The truth of the matter is that standards of living, in the final analysis, depend not on Governments but on the efforts of the people themselves. We get what we deserve and rarely more than we deserve.

Businessmen everywhere are realising that business prosperity and a sound economy depend upon a widespread understanding of the simple truths and facts which govern our economic life. The Institute stands ready now, as in the past, to give practical advice and assistance, if called upon to do so by you, its individual supporters, and, likewise, it looks to you to give it the financial backing which it needs to fulfil its functions of spreading economic knowledge and education throughout the community.
Professor F. A. Hayek's Australian Visit

No one among the 200 people who attended the I.P.A. Annual Meeting on October 20th will readily forget the standing ovation which greeted Professor Hayek at the conclusion of his Address. This was the spontaneous response of an audience, the members of which sensed themselves to be in the presence of a truly great mind.

Although 77 years of age, Professor Hayek willingly undertook a programme of engagements in his month in Australia which would have taxed the resources of a man in the prime of life. The I.P.A. was privileged to participate in the sponsorship of his visit and in the arrangements for the Victorian end of his programme. But the credit for the visit of Professor Hayek and his wife to Australia must go largely to Mr. Roger Randerson, a Sydney economics consultant, who conceived the project and carried it through with imagination and with painstaking attention to detail.

Professor Hayek is, without question, one of the great minds of the Western world. It is a rare intellectual treat to
hear him speak or to have the opportunity of personal discussion with him.

Hayek, it needs to be said, is very much more than an economist. Indeed, many would judge his most significant contributions to knowledge to be in the field of political science and philosophy. His tremendous work, “The Constitution of Liberty”, must rank among the greatest books on liberty ever written. Hayek’s eminence as an economist undoubtedly derives, in part, from the exceptional range and depth of his intellectual interests. As he has said himself, “An economist who is only an economist is not a good economist”.

Professor Hayek came to Australia at a peculiarly appropriate time. It is clear that this country has reached a grand climacteric, a fateful parting of the ways so far as its political and economic future is concerned. The momentous question is whether, in the years ahead, libertarian values are to prevail, enterprise, both corporate and individual, is to be properly rewarded, and the market is to be allowed to perform its traditional function of allocating the resources of the community in the most effective manner in the interests of all; or whether Government as such is to assume an ever larger role in the distribution of resources and income, in the provision of so-called Welfare and in the general direction of the lives of the people. In short, what is ultimately at stake is the survival of individual freedom.

The threat to freedom in the economic sphere Hayek sees as only part of a wider threat to the whole of our civilisation, to morals, conventions and institutions laboriously evolved, not deliberately planned, over centuries of trial and error.

Professor Hayek must have convinced all people of intellectual detachment, those who have not prostituted themselves before some ideological God, that there is only one possible choice before Australia if it wishes to remain both democratic and efficient; that the increasing reliance on Government, which means increasing demands on Government, must lead to the destruction of true democracy and to economic decay.
As an exponent of the economics of “the market” on the pure scholastic level, Hayek is in the great line of Adam Smith and Alfred Marshall. He demonstrates that the market is the only effective, indeed the only democratic, means by which an economy can be conducted. This had led him to oppose all forms of central planning, the concept of Governments deciding, through deliberate design, the way in which the resources of the community shall be employed.

For the last 30 years the views of Hayek have not been fashionable. The ideas which have prevailed in intellectual circles and in the corridors of power have been a curious marriage of Keynesian and socialist concepts. Through these years, notwithstanding great personal frustration, he has continued to propound a philosophy that has been decidedly unpopular. This has not deterred him. He has insisted that the central Keynesian notion, namely that aggregate demand must always be expanded to absorb the supply of labour at the ruling level of wages must inevitably lead in the end to the cancer of inflation; and that inflation, in turn, will not only fail to preserve full employment but eventually give rise to serious unemployment. The co-existence in most Western economies in recent years of inflation along with unemployment — the condition now known as “stagflation” — has given rise to a renewed interest throughout the world in Professor Hayek’s ideas, particularly in intellectual quarters where it is most needed. His award of the Nobel Prize in Economics in 1974 is itself evidence of this changing attitude.

No one would pretend that Professor Hayek is easy reading, even to those in esoteric intellectual circles, let alone to ordinary people. This is, paradoxically, partly because he is concerned to achieve such meticulous accuracy in the expression of his ideas, as well as because of the profundity and subtlety of his thought. His argument moves on a plane which not all can reach and which must be persevered and grappled with if it is to be thoroughly comprehended. (This, after all, has always been true of the path-finding contributions to knowledge). But those who are prepared — and at least all economists and political scientists should be — to
make the attempt will be richly rewarded. They will quickly come to recognise how much is superficial, indeed one might say trivial, in many of the concepts and notions that have hitherto ruled their thinking. Furthermore they will have embarked on an enthralling adventure of the mind.

Hayek today, and especially today, is indeed essential study for all those concerned to understand the world of the final quarter of the 20th Century. They will come to see, and with deep alarm, that the real threat to our Western civilisation is inherent in many of our prevailing values and commonly accepted ideas.

Perhaps Hayek's central notion is that the source of most of our contemporary error lies in the widespread belief that the solution of all problems lies in the application of the methods appropriate to the physical sciences to human affairs — to economics, for instance — a field where these methods are not applicable and where they can do immense harm.

Professor Hayek has left us much to ponder upon. It is to be hoped that Australia, and especially its educational institutions, will not lightly disregard the ideas of this great man, but give to them the thought and study they deserve. As a contribution towards the fulfilment of that hope we have called this “Review” “The F. A. Hayek Issue” and, through the publication of two of the many papers he gave in Australia, have devoted the number largely to him. This is the least we can do.
Address at the 33rd Annual Meeting
of The
Institute of Public Affairs

Professor F. A. HAYEK — Nobel Laureate

Professor Hayek's address was delivered ex tempore. The following is a transcript of a tape made of the address. Although the recording was imperfect we believe this is a substantially accurate representation of Professor Hayek's speech.

It is indeed a great and unexpected pleasure that I should have the opportunity in person to meet a body which many years ago played a considerable role in the development of my writings. It is just a little over 26 years ago that I received an invitation to contribute an article to your Review. I wrote up for that purpose, which otherwise I would never have done, a diagnosis of the then existing situation under the title, which may sound to you surprisingly topical today, "Full Employment, Planning and Inflation". I have, because of this article, a perhaps undeserved reputation for considerable foresight because, to my great regret, things have gone very much the way that I then feared they would go.

I will, to give you an idea, read out the sentence with which the article concludes. You may agree that this sentence is not a bad account of the manner in which policies have developed.

"But it must appear more than doubtful whether, in the nature of democratic institutions, it is possible that democratic governments will ever learn to exercise that restraint, which is the essence of economic wisdom, of not using palliatives for present evils which not only create worse problems later but also constantly restrict the freedom of further action".

I think this is essentially what we have seen happen.

I was very pleased by the invitation to address your Annual Meeting because it has given me an opportunity to talk about the problems which most concern me at the moment. They are not of a topical character but entail some philosophic examination of the trends of human institutions.

I have come to the conclusion that one of the greatest dangers to our civilisation is what I have called "the destruction of values by scientific error". I believe that this manifests itself in the fact that people believe that, by deliberate and conscious design, we can always and everywhere improve on developed institutions. It is an attitude which in my earlier writings I described as "rationalism", but that was a very misleading expression. The term "rationalism", which could be taken to mean the best possible use of human reason, also covers so many different
philosophical and moral traditions that only the lack of a better term would justify its use.

I now come to what I think is a better term, although it has its drawbacks because many people like the word as a term of praise, "constructivism". By "constructivism" I mean not the sensible and justified use of design of plant and machinery and so on, not just inventiveness, but the belief that everything which has been deliberately designed and created by the human mind is mostly better than what we have unconsciously developed without quite understanding it. Now the fact is, of course, that we owe the growth of civilisation, most of our successes, to a very large extent to the institutions and practices and habits which nobody has ever invented and which nobody understands how they work. All our morals, all our conventions, many of our institutions, owe their origin not to design but to a gradual evolution and to the survival of what, since Darwin, we call the more fit against the less fit. These products of a long process of evolution still serve us without our understanding how they function and what we owe to them.

Now that is frequently intolerable to a certain type of mind, which believes that the only thing which can be good, is what has been consciously and deliberately designed by man. These people want to free us of all the inheritance of what they regard as irrational, perhaps superstition, because they have not been designed, or have not been invented. That is the cause of what I have, in my opening remarks, called the destruction of values by scientific error.

The destruction of values goes on in much of our activities. But in most of the circumstances which secure the smooth functioning of society we achieve a degree of order only because we are guided and are observing certain values the rationale of which we do not know. Nor do we really know the extent of the benefits we derive from them. These values still serve to guide us. Without them we would never have been able to build up a modern civilised society. An example of the opposition to these inherited values, which I personally encountered, came from one of the most famous teachers of economics at Columbia University. He argued that since the human mind has built up civilisation we can therefore always change it to our convenience. We can always reorganise things, he claimed, so that we can make them better. This view made a great impression on me at the time although I immediately developed doubts because I had the great advantage of developing my ideas under the influence of a tradition which stressed the fact that most human institutions were the result of a gradual growth, that they serve us without our quite understanding how, and that we had to discover the service they render us before we could sensibly deal with them. I find that this is a most widespread phenomenon extending from law to economics, to morals, to education and to a great many other things.

I can illustrate the destruction of our inherited values by scientific error by selecting examples from three fields.

The first one in which I encountered this tendency was the firm belief that deliberate planning of all economic activity, because it made fuller use of reason, would produce better and more satisfactory results than the chaos of competition, or, as it was called, the accidental interplay of market forces. Now, economic analysis shows, of course, that, in fact, the apparently undirected and irrational system of the market is a highly
sensitive instrument of recording and conveying information which initially is dispersed among hundreds of thousands of people, that prices are symbols which guide us and in them are reflected facts which nobody knows as a whole, indeed all the facts known by all the people who are interested in the particular circumstances. We have, without ever understanding it, developed in this way a marvellous system of recording information which only those who have come to understand it can defend and explain, but which to the typical designing mind, which does not approve of anything which is not the product of constructive human reason, seems not to be so. We economists were accused of pretending to some miracle, a harmony of interests, where in fact what happened is that over hundreds of thousands of years forms of human intercourse survived in competition with other forms, those groups succeeded which had tentatively, without quite understanding why, adopted habits and institutions which work better than others.

I may just insert here that I am not deriving my ideas from Darwin. It was really the other way round. Darwin got his idea of natural selection from the earlier development of the historical schools in language and law which had found out that the most complex and efficient structures in society had not been invented by anyone but had been the result of a gradual process of evolution.

Now here we have one field, the economic, in which the severely “scientific” approach has led very intelligent men to fight institutions and arrangements that in fact enabled us to achieve things which we could otherwise never have achieved but which you can only defend if you investigate them very closely. The history of economic thought is still a short history comparatively. It is only in the last hundred years or so that we have begun to understand this guiding function of the market order, and I am afraid very few people have yet come to understand it.

Another example that I can give in the short time at my disposal is a similar development in law. The legal historians understand very well that legal systems have not been created by designing minds who conceive in advance all the effects of particular laws, but by a process of selective evolution, and that there was hidden in them, the effects of past tests and experiments which were embodied in the resulting institutions. Legal positivism argues that there is no inherent wisdom in the law, that there is no more wisdom than the legislator has deliberately put into it. The founder of this whole tradition, indeed the founder of this whole modern fashion of “constructivism”, the great philosopher Descartes, argued that if you want good laws destroy those you have and institute new ones.

I became most concerned about all this when I discovered the same tendency was also playing a great role in the very sensitive field of social life, that of psychology and education, that there the psychiatrists and psychologists were tending to develop the conception that all moral traditions, all these intuitive beliefs and ways which we have developed, are just ridiculous superstition and that we could construct a better system of morals than that which we have. I am not exaggerating. I will give you an example which finally convinced me that this whole tendency needs careful examination.

I must first say a few words about the person of the author I shall quote, lest it be suspected that in order to exaggerate I have chosen some unrepresentative
figure. The international reputation of the Canadian scientist, the late Brock Chisholm, is illustrated by the fact that he had been entrusted with building up the World Health Organisation, acted for five years as its first Secretary-General, and was finally selected President of the World Federation of Mental Health. Just before he embarked on this international career he wrote:

"The reinterpretation and eventual eradication of the concept of right and wrong which has been the basis of child training, the substitution of intelligent and rational thinking for faith in the certainties of the old people, these are the belated objectives of practically all effective psychotherapy . . . . The suggestion that we should stop teaching children moralities and right and wrong and instead protect their original intellectual integrity has of course to be met by an outcry of heretic or iconoclast, such as was raised against Galileo for finding another planet, and against the truth of evolution, and against Christ's interpretation of the Hebrew Gods, and against any attempt to change the mistaken old ways and ideas. The pretence is made, as it has been made in relation to the finding of any extension of truth, that to do away with right and wrong would produce uncivilised people, immorality, lawlessness and social chaos. The fact is that most psychiatrists and psychologists and many other respectable people have escaped from these moral chains and are able to observe and think freely . . . . If the race is to be freed from its crippling burden of good and evil it must be psychiatrists who take the original responsibility. This is a challenge which must be met . . . . With the other human sciences, psychiatry must now decide what is to be the immediate future of the human race. No one else can. And this is the prime responsibility of psychiatry".

It never seemed to occur to Chisholm that the rules of morals do not directly serve the satisfaction of individual wishes, but that they are required to assist the functioning of an order; and even to tame some instincts, which man has inherited from his life in small groups where he passed most of his evolution. It may well be that the incorrigible barbarian in our midst resents these restraints. But are psychiatrists really the competent authorities to give us a new system of morals?

Chisholm finally expresses the hope that two or three million trained psychiatrists, with the assistance of appropriate salesmanship — these are his own words — will soon succeed in freeing man from the "perverse" concept of right and wrong. It sometimes seems as if they have already had too much success in this direction.

I have quoted this rather alarming and shocking instance to make you aware how far this tendency I call "constructivism", which believes it can make everything anew, has gone, how far what I initially called the destruction of values by scientific error is actually proceeding.

It is a question of scientific error. It is a false interpretation both of the origin and the rule of institutions of law, of morals, and indeed everything, but it is increasingly governing the thinking of the great majority, the thinking in particular of those second-hand dealers in ideas whom I like to call "the intellectuals". It is a grave danger indeed. We must become aware that the particular threats which we encounter in the field which concerns us most, that is in economic policy, is really part of a much wider threat to our civilisation overall. It is a tendency which, I believe, threatens to destroy the foundations of our civilisation, not only its amenities but also its moral fabric.
Socialism and Science

by

Professor F. A. HAYEK

A Lecture delivered to The Economic Society of Australia and New Zealand (Canberra Branch) on October 19, 1976.

This paper is published with the kind permission of Dr. C. Higgins, the President of the Canberra Branch of the Society.

Socialism is related to Science in various ways. Probably the least interesting relation today is that from which Marxism lays claim to the name of "scientific socialism"; and according to which by an inner necessity, and without men doing anything about it, capitalism develops into socialism. This may still impress some novices, but it is hardly any longer taken seriously by competent thinkers in either camp. Socialists certainly do not act as if they believe that the transition from capitalism to socialism will be brought about by an ineluctable law of social evolution. Few people now believe in the existence of any "historical laws".

Experience has certainly refuted the predictions Marx made concerning the particular developments of capitalism.

There is, secondly, the undeniable propensity of scientifically-trained minds, as well as of engineers, to prefer a deliberately created orderly arrangement to the results of spontaneous growth — an influential and widespread attitude, which frequently attracts intellectuals to socialist schemes. This is a widespread and important phenomenon which has had a profound effect on the development of political thought. However, I have already on several occasions discussed the significance of these attitudes, calling them "scientism" and "constructivism" respectively, so that it is unnecessary to revert to these questions.

What I want to examine today is rather the peculiar manner in which most socialists attempt to shield their doctrines against scientific criticism, by claiming differences from opponents are of a nature which precludes scientific refutation. Indeed, they frequently succeed in conveying the impression that any use of science to criticise socialist proposals is ipso facto proof of political prejudice, because the differences are wholly based on different value judgements, which the rules of scientific procedure prohibit, so that it is even indecent to introduce them into scientific discussions.

Two experiences have long made me impatient with these contentions. One is that not only I myself, but I believe the majority of my contemporary libertarian economists, were originally led to economics by our more or less strong socialist beliefs — or at least dissatisfaction with existing society — which we felt in our youth, and which turned us by the study of economics into radical anti-socialists. The other experience is that my concrete differences with socialist fellow-economists on particular issues of social policy turn inevitably, not on differences of value, but invariably on differences as to the effects particular measures will have.

It is true that in such discussions we frequently end up with differences about the probable magnitude of certain effects of the alternative policies. With regard to
this both parties must often honestly admit that they have no conclusive proof. Perhaps I ought probably also admit that my conviction that ordinary common-sense clearly supports my position is often matched by an equally strong conviction of my opponents that ordinary common-sense supports theirs.

Yet, when we survey the history of the results of the application of scientific analysis to socialist proposals, it seems abundantly clear that not only has it been shown that the methods advocated by socialists can never achieve what they promise, but also that the different values they hope or claim to serve cannot by any possible procedure be all realized at the same time, because they are mutually contradictory.

I will begin by considering the second of these questions which, in the present state of the discussion, appears to be the more interesting one — first, because it makes it necessary to clear up certain prevailing confusions concerning the inadmissibility of value judgements in scientific discussions. These are often used to represent scientific arguments against socialism as illegitimate or scientifically suspect, and secondly such an examination raises important and interesting questions as to the possibility of the scientific treatment of moral beliefs, which have been unduly neglected. Economists, whose daily bread is the analysis of those conflicts of value which all economic activity has constantly to solve have fought shy of frankly and systematically facing the task. It is as if they feared to soil their scientific purity by going beyond questions of cause and effect and critically evaluating the desirability of certain popular measures. They usually maintain that they can merely "postulate" values without examining their validity. (So long as measures for the benefit of some supposedly "underprivileged" group are tacitly assumed to be good, such limitations are, however, usually not mentioned.)

It is indeed necessary in this connection to be very careful, and even pedantic, with regard to the expressions one chooses, because there exists admittedly a real danger of inadvertently slipping value judgements into a scientific discussion in an illegitimate manner, and also because those defending their socialist ideals are now mostly trained to use "freedom from value judgements" as a sort of paradoxical defence mechanism for their creed, and are constantly on the look-out to catch their critics out in some incautious formulations. What play has not been made with occasional passages in the work of the greatest scientific critic of socialism, Ludwig von Mises, in which he described socialism as "impossible"; Mises obviously meant that the proposed methods of socialism could not achieve what they were supposed to do! We can, of course, try any course of action, but what is questioned is whether any such course of action will produce the effects claimed to follow from it. This undoubtedly is a scientific question.

So let me for a moment be pedantic and try to state precisely the kinds of value judgements which are admissible in a scientific discussion and the kinds that are not. Our starting-point has to be the logical truism that from premises containing only statements about cause and effect, we can derive no conclusions about what ought to be. No consequences for action whatever follow from such a statement, so long as we do not know (or agree) which consequences are desirable and which are undesirable. But once we include among our accepted premises any
statement about the importance or harmfulness of different ends or consequences of action, all manner of different norms of action can be derived from it. Meaningful discussion about public affairs is clearly possible only with persons with whom we share at least some values. I doubt if we could even fully understand what someone says if we had no values whatever in common with him. This means, however, that in practically any discussion it will be in principle possible to show that some of the policies one person advocates are inconsistent or irreconcilable with some other beliefs he holds.

This brings me to a very fundamental difference in the general attitudes to moral problems which seems to be characteristic of the now common political positions. The conservative is generally happy to cling to his belief in absolute values. While I envy him, I cannot share his beliefs. It is the fate of the economist continually to encounter true conflicts of value; indeed, to analyse the manner in which such conflicts can be resolved is his professional task. The conflicts I have in mind here are not so much the obvious conflicts between the values held by different persons, or the gaps between their individual systems, but the conflicts and gaps within the system of values of any one person. However much we dislike it, we are again and again forced to recognise that there are no truly absolute values whatever. Not even human life itself. This again and again we are prepared to sacrifice, and must sacrifice, for some other higher values, even if it be only one life to save a large number of other lives.

(I cannot here consider the interesting point that, though we may never feel entitled to sacrifice a particular known human life, we constantly take decisions which we know will cause the death of some unknown person.)

But the libertarians or true libertarians or true liberals — not those pink socialists who, as Josef Schumpeter said, “as a supreme but unintended compliment . . . have thought it wise to appropriate this label” — therefore do not fall into the opposite extreme of believing, like the socialists, that they can hedonistically construct some other new system of morals which they like, because they think that it will most increase human happiness, but who in fact merely hark back to the primitive instincts inherited from the tribal society. Though the liberal must claim the right critically to examine every single value or moral rule of his society, he knows that he can and must do this while accepting as given for that purpose most of the other moral values of his society, and examine the one about which he has doubts in terms of its compatibility with the rest of the dominant system of values.

Our moral task must indeed be a constant struggle to resolve moral conflicts, or to fill gaps in our moral code — a responsibility we can discharge only if we learn to understand that order of peace and mutually-adjusted efforts, which is the ultimate value that our moral conduct enhances. Our moral rules must be constantly tested against, and if necessary adjusted to each other, in order to eliminate direct conflicts between the different rules, and also so as to make them serve the same functioning order of human actions.

Moral tasks are individual tasks, and moral advance by some groups results from their members adopting rules which are more conducive to the preservation and welfare of the group. Moral progress demands the possibility of individual
experimentation. In particular, that within a limited frame-work of compulsory abstract rules the individual is free to use his own knowledge for his own purposes. The growth of what we call civilisation is due to this principle of a person's responsibility for his own actions and their consequences, and the freedom to pursue one's own ends without having to obey the leader of the band to which one belongs. It is true that our moral beliefs are still somewhat split, as I tried to show on an earlier occasion, between instincts inherited from the primitive band, and rules of just conduct which have made the open society possible. The morality of individual responsibility of the able adult for the welfare of himself and his family is still the basis for most moral judgements of action. Thus it is the indispensable frame-work for the peaceful working of any complex society.

Call it science or not, no objective analysis of those basic beliefs on which our existing morals rest, and without the acceptance of which any communication on moral issues becomes impossible—namely, recognition of the responsibility of the individual and of the general grounds on which we esteem the actions of others—can leave any doubt that they are irreconcilable with the socialist demand for a forcible re-distribution of incomes by authority. Such an assignment of a particular share according to the views of some authority as to the merits or needs of the different persons is immoral. Not simply because I say so, but because it is in conflict with certain basic moral values which those who advocate it also share. The mere fact that commonly accepted ethics have no generally recognised solutions to the conflicts of values which undeniably arise in this sphere is, of course, of the greatest significance for the political problems which arise here, and for the moral evaluation of the use of coercion in enforcing any particular solution.

That collectivist economic planning, which used earlier to be thought to require the nationalisation of the means of "production distribution and exchange", leads inevitably to totalitarian tyranny has come to be fairly generally recognised in the West since I analysed the process in some detail in *The Road to Serfdom* more than forty years ago. I do not know if it was partly for this reason, or because socialists increasingly recognised the incurable economic inefficiency of central planning, about which I shall have to say a few words later, or whether they simply discovered that re-distribution through taxation and aimed financial benefits was an easier and quicker method of achieving their aims. But, in any event, socialist parties in the West have almost all for the time being abandoned the most obviously dangerous demands for a centrally planned economy. Left-wing doctrinaires in some countries, and the communist parties, still press for it, and may of course sooner or later gain power. But the supposedly moderate leaders who at present guide most of the socialist parties of the free world, claim—or have it claimed by the media on their behalf—that as good democrats they can be trusted to prevent any such developments.

But can they? I do not mean to question their good faith. Nevertheless, I greatly doubt their capacity to combine their aim of a thorough governmental distribution of wealth with the preservation of a modicum of personal freedom, even if they succeed in preserving the forms of democracy. It is true that the substitution of cold socialism has much slowed down the process which I
had predicted hot socialism would bring about. But can it lastingly avoid the same effects? There are strong reasons for doubting that cold socialism can avoid them.

Governments, to be successful, would at the same time have to preserve functioning markets, on which depends the possibility of competition so determining prices of all products and factors of production as to serve as reliable guides to production, and also somehow so to influence at least the prices of labour (obviously including that of the farmer and other "self-employed") as to satisfy demands for just or equitable remuneration. To satisfy both of these requirements in full is entirely impossible. Governments can aim at best at some kind of compromise, and refrain from many interventions in the market which would be necessary if it were even approximately to satisfy the most pressing demands. But governments bowing to the inevitabilities of the market, after commencing to manipulate the results of the market to favour some groups, would clearly be embarking on a political impossibility. Once claims for interference with the market in favour of particular groups have come to be frequently recognised, a democratic government cannot refuse to comply with similar demands of any groups, on the votes of which it depends. Though the process may be slow and gradual a government which begins to control prices to secure popular conceptions of justice is bound to be driven step by step towards the control of all prices; and, since this must destroy the functioning of the market, to a central direction of the economy. Even if governments try not to use such central planning as an instrument, if they persist in the pursuit of creating a just distribution they will be driven to use central direction as the only instrument by which it is possible to determine the overall distribution of remunerations (without making it just) — and thus driven to establish an essentially totalitarian system.

It took a long time to convince socialists that central planning is inefficient. Practical men were probably convinced not by argument but only by the warning example of the Russian system; contemporary theoreticians, however, retreated only slowly from the position laid down by the founders of Marxism and generally maintained by their leading theoreticians until fifty years ago. Somehow, however, they nevertheless managed, as they gave up successive positions and attempted new solutions of the problem to convey the impression that they had victoriously beaten off the onslaughts of hostile critics.

The founders of socialism, including Marx and Engels, did not even understand that any central direction of the machinery of production owned by society required, if resources were to be effectively used, calculations in terms of value. As Friedrich Engels put it, the social plan of production "will be settled very simply without the intervention of the famous value". Even when discussion of the problem was seriously started, immediately after World War I, it was caused by the social science expert among the Vienna school of logical positivists claiming that all calculations of the efficiency of social production could be carried out in natura, — that is, without relying on any variable rates of conversion between the different physical units used. It was against this position that Ludwig von Mises and some of his contemporaries (including Max Weber) developed the first decisive critique against the socialist position on this point.
The crucial point here, which, it must be admitted, even the leading classical economists down to John Stuart Mill, did not fully understand, — is the universal significance of changing rates of substitution between different commodities. This simple insight which helped us at last to understand the differences and variability of the prices of different commodities, began slowly to develop with the recognition — I will not say the discovery, since of course every simple peasant knew the facts if not their theoretical significance — of decreasing returns from successive application of labour and capital to land. It was found next to govern, under the name of decreasing marginal utility, the rates of marginal substitution between different consumers' goods. And it was finally discovered to be the universal relation prevailing between all useful resources, determining at once if they are economically the same or different, and if they are scarce or not. Only when it was understood that changing supplies of the different factors of production (or means of satisfaction) determine their variable marginal rates of substitution, was the indispensability of known rates of equivalence (or rates of marginal substitution) for any efficient calculation fully understood. Only when it was at last seen that through market prices this rate of equivalence in all their different uses, mostly known only to a few of the many persons who would like to use them, could be made equal to the rates at which any pair of commodities could be substituted in any of its countless uses, was the indispensable function of prices in a complex economy fully understood.

Variable "marginal rates of substitution" for different commodities, to which I have previously referred, naturally mean their temporary rates of equivalence determined by the situation at the moment, and at which these things must be substitutably at the margin in all their possible uses — if we are to get their full capacity out of them.

It was both — the understanding of the calculating function of changing rates of equivalence between physically defined objects, and the communication function of prices which combined into a single signal all the information on these circumstances divided among large numbers of people — which at last made it fully clear to every person who could follow the argument that rational calculation in a complex economy is possible only in terms of values or prices, and that these values will be adequate guides only if they reflect, such as the values formed on the market, all the knowledge of potential suppliers or consumers about their possible uses and availability.

First reaction of the socialist theoreticians, once they no longer could refuse to admit this fact, was to suggest that their socialist planning boards should determine prices by the same system of simultaneous equations by which mathematical economists had attempted to explain market prices in equilibrium. They even tried to suggest that Wieser, Pareto, and Barone had long ago pointed out the possibility of this. In fact, these three scholars had pointed out what a socialist planning board would have to try to do in order to equal the efficiency of the market — not, as the socialist theoreticians incorrectly suggested, how such an impossible result could be achieved. Pareto, in particular, had made clear that the system of simultaneous equations, development of which made him famous, was intended to show only the general pattern (as we would express this now), but could never be used to determine particular prices, because any central authority could never know all the
circumstances of time and place which guide the actions of individuals, such actions being the information fed into the communication-machine which we call the market.

So the first attempt by the socialists to answer the critique by Mises and others soon collapsed. The next step, by which particularly Oscar Lange, but also others, are supposed to have refuted Mises, consisted in various attempts more or less to diminish the idea of central planning and to re-introduce some of the market under the name of “socialist competition”. I will not dwell here on how great an intellectual reversal this meant in all those who for so long had emphasized the great superiority of central direction over the so-called “chaos of competition”. This self-contradictory approach raised new problems of an altogether new kind. However, it could in no way overcome two crucial difficulties: The socialist authority could not, as long as all the industrial equipment and other capital belonged to “society” (that is, the government), let competition or the market decide how much capital each enterprise was to have, or what risks the manager would be allowed to incur — both decisive points if a market is to operate properly. Furthermore, if the government were otherwise to let the market operate freely, it could do nothing to secure that the remuneration the market gave to each participant would correspond to what the government regarded as socially just. Yet to achieve such a so-called “just” remuneration was, after all, the whole intended purpose of the socialist revolution!

The answers to the three questions we have been discussing do not depend on particular value judgements, except the answer to the first question, in which certain values (such as personal liberty and responsibility) were taken for granted. It can be assumed that such values would be shared by all persons with whom one cared to discuss such problems. The fundamental problem was always whether socialism could achieve what it promised. This is a purely scientific problem, even if the answer may in part depend on points on which we cannot strictly demonstrate the correctness of our answer. Naturally, the answers at which we have arrived on all three counts are purely negative.

On the moral side, socialism cannot but destroy the basis of all morals, personal freedom and responsibility. On the political side, it leads sooner or later to totalitarian government. On the material side it will greatly impede the production of wealth, if it does not actually cause impoverishment. All these objections to socialism were raised a long time ago on purely intellectual grounds, which in the course of time have been elaborated and refined. There have been no serious attempts to refute these objections to socialism rationally. Indeed, the most surprising thing about the treatment of these problems by the majority of professional economists is how little they have made them the central point of their discussions. One would think that nothing could be of more important concern for economists than the relative efficiency and conduciveness to general welfare of alternative orders of economic affairs. Instead they have fought shy of the topic, as if fearing to soil their hands by concerning themselves with “political” topics. They have left the discussion to specialists in “economic systems” who in their text-books provide stale accounts of discussions of long ago, carefully avoiding to take sides. It is as if the circumstance that that issue had become the
subject of political dispute were a cause for silence of the scientists who knew they could definitely refute at least some of the arguments of one side. This kind of neutrality seems to me not discretion but cowardice. Surely it is high time for us to cry from the house-tops that the intellectual foundations of socialism have all collapsed.

I have to admit that, after vainly waiting for upwards of forty years to find a respectably intellectual defence against objections raised to socialist proposals, I am becoming a little impatient. Since I have always acknowledged that the socialist camp includes many people of good will, I have tried to deal with their doctrines gently. But the time is overdue to proclaim loudly that intellectually the foundations of socialism are as hollow as can be, and that opposition to socialism is based, not on different values or on prejudice, but on unfuted logical argument. This must be openly said, especially in view of the tactics so frequently employed by most advocates and defenders of socialism. Instead of reasoning logically to meet the substantial objections they have to answer, socialists impugn the motives and throw suspicion on the good faith of defenders of what they choose to call “capitalism”. Such crude efforts to turn discussion from whether a belief is true to why it is being held seems to me itself an outgrowth of the weakness of the intellectual position of the socialists. Quite generally, the socialist counter-critique seems often to be more concerned to discredit the author than to refute his arguments. At least the counter-critiques is to warn the young against taking the author or his book seriously. This technique indeed has been developed to a certain mastership. What young man will bother with such a book as my Constitution of Liberty, which he is told by a “progressive” British political science don is one of those “dinosaurs that still occasionally stalk on the scene, apparently impervious to natural selection”? The principle seems generally: if you can’t refute the argument, defame the author. That the argument against them may be genuine, honest and perhaps true, these left-wing intellectuals do not seem prepared to consider even as a possibility, since it might mean that they themselves are entirely wrong.

Certainly, political differences are frequently based on differences of ultimate values, on which science has little or nothing to say. But the crucial differences which exist today at least between the socialist intellectuals, who, after all, invented socialism, and their opponents are not of this kind. They are intellectual differences which between people not irredeemably wed to a muddled dream can be sorted out and decided by logical reasoning. I have never belonged to any political party. Long ago I shocked many of my friends by explaining why I cannot be a conservative. Insight into the nature of the economic problems of society turned me into a radical anti-socialist, I can honestly say. Moreover, it convinced me that as an economist I can do more for my fellow-men by explaining the reasons for opposing socialism than in any other manner. Anti-socialism means here opposition to all direct government interference with the market, no matter in whose interest such interference may be exercised.

It is not correct to describe this as a laissez faire attitude — another of the smear-words so frequently substituted for argument — because a functioning market requires a framework of appropriate rules within which the market will operate smoothly. Strong reasons exist for wishing government to render outside
the market various services, which for one reason or another the market cannot supply. But the state certainly ought never to have the monopoly of any such service, especially not of postal services, broadcasting, or the issue of money.

Some signs are appearing of a return to sanity. But I do not really feel hopeful about prospects for the future. There is much talk about countries becoming "ungovernable", but little realisation that attempts to govern too much are at the root of the trouble, and even less awareness of how deeply the evil has already become entrenched in prevailing institutions. For progress towards its aims, socialism needs government with unlimited powers, and has already got this. In such a system various groups must be given, not what a majority thinks they deserve, but what those groups themselves think they are entitled to. Granting these groups what they think they deserve therefore becomes the price that must be paid so that some groups will join together to become a majority. Omnipotent democracy indeed leads of necessity to a kind of socialism, but to a socialism which nobody foresaw or probably wanted: a position in which the individual elected representative as well as the governing majority must work to redress every imagined grievance which it has power to redress, however little justified the claim may be. It is not the assessment of the merits of persons or groups by a majority, but their power to extort special benefits from the government, which now determine the distribution of incomes.

The paradox is that the all-powerful government which socialism needs, must, if it is to be democratic, aim at remedying all such dissatisfaction, and to remove all dissatisfaction means that it must reward groups at their own estimates of their deserts. But no viable society can reward everyone at his own valuation. A society in which a few can use power to extort what they feel they are entitled to may be highly unpleasant for the others, but would at least be viable. A society in which everyone is organised as a member of some group to force government to help him get what they want is self-destructive. There is no way of preventing some from feeling that they have been treated unjustly — that is bound to be widespread in any social order — but arrangements which enable groups of disgruntled people to extort satisfaction of these claims — or the recognition of an "entitlement", to use this new-fangled phrase — make any society unmanageable.

There is no limit to the wishes of the people which an unlimited democratic government is obliged to try and satisfy. We have indeed the considered opinion of a leading British labour politician that he regards it as his task to remedy all dissatisfaction! It would be unfair, however, to blame the politicians too much for being unable to say "no". Under prevailing arrangements perhaps an established leader could afford occasionally to do so, but the ordinary representative cannot say "no" to any large number of his constituents, however unjust their demands, and still hope to be re-elected.

In a society whose wealth rests on prompt adaptation to constantly changing circumstances, the individual can be left free to choose the directions of his efforts only if rewards fluctuate with the value of the services he can contribute to the society's common pool of resources. If his income is politically determined, he loses not merely the incentive but also the possibility of deciding what he ought to not know himself what he must do to make his services valuable to his fellows,
he must be commanded to do what is required. To suffer disappointment, adversity and hardship is a discipline to which in any society most must submit, and it is a discipline by which it is desirable that all able persons ought to have to submit. What mitigates these hardships in a free society is that no arbitrary human will impose them, but that their incidence is determined by an impersonal process and unforeseeable chance.

I believe that, after a little socialism, people generally recognize that it is preferable for one's well-being and relative status to depend on the outcome of the game of the market than on the will of a superior, to whom one is assigned by authority. Present trends, however, make it seem likely that, before such an insight spreads widely enough, existing political institutions will break down under stresses which they cannot bear. Unless people learn to accept that many of their grievances are unjustified, and give them no claims on others, and that in this world government cannot effectively assume responsibility for how well off particular groups of people are to be, it will be impossible to build a decent society. Indeed, the most idealistic among the socialists will be forced to destroy democracy to serve their idealistic socialist vision of the future. What present trends point to is the emergence of ever larger numbers, for whose welfare and status government has assumed a responsibility it cannot discharge, and whose revolt when they are not paid enough, or asked to do more work than they like, will have to be subdued with the knout and the machine-gun: This too, by the very people who genuinely intended to grant all their wishes.

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1. To inform the Australian public of the facts of our economic system and to raise the level of economic literacy in Australia.
2. To work always for a full and friendly understanding between employers and employees and for good relations throughout Industry.
3. To study the means by which private business enterprise can be made to operate better in the interests of all sections of the Australian people.

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President’s Address —

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

Last year the I.P.A. Annual Meeting took place at a time of grave crisis in Australian affairs. The economy was in a desperate state, and business and community confidence at a lower ebb than at any time since the Great Depression.

This year, I am glad to say, the situation is much more hopeful. Do not misunderstand me: the task is barely started. There is still a long way to go and many problems have to be surmounted before the foundations of growth and progress are re-established. The damage inflicted on the Australian economy by the policies of the previous Government was so great that the restoration operation is necessarily protracted.

The new Government is, in the I.P.A. view, proceeding wisely. Notwithstanding all the criticisms made of it, the Government has refused to be diverted from its primary objective of trying to slow down the rate of inflation. It has its priorities right. This must take precedence over everything else. The great obstacle in the way of a healthy recovery of the economy is the level of Australian costs, which are far above those of most other Western countries and still rising rapidly.

It would be very easy for the Government to stimulate an early revival of activity and employment. Larger Government deficits, more spending in the public sector, lower taxes, would all contribute temporarily to this objective. But “pump-priming”, “printing more money”, would almost certainly be self-defeating. The revival would be short-lived. Rapid inflation would be given a new lease of life, and, in the space of a few months, we would find ourselves back in the terrible mire of last year. Confidence would sink and a feeling of general hopelessness would spread through the Australian community.

Our course is clear. Inflation must be defeated; otherwise there is no future. But the defeat of inflation is not the responsibility of the Australian Government alone, as some appear to think. It will need the combined efforts, the single-minded determination, of all the Australian community. It requires a proper restraint on the part of the State Governments and their many instrumentalities. To be fully effective, it needs co-operation from Opposition parties; both Commonwealth and State. It needs the co-operation of the media, which at times is all too ready to criticize, but does not do as much as most of us would like to educate people on what is necessary. It will demand courage and understanding on the part of the Commonwealth Arbitration Commission and other wage-fixing tribunals to say “not yet”. Above all, it needs a sense of responsibility that is at present conspicuously lacking.
in some trade union leaders. These leaders purport to be acting in the interest of their members. They are, in fact, often acting against those interests. Finally, the defeat of inflation requires restraint and good sense from every section of the community, whether employers or employees, university staffs or school teachers, doctors, airline pilots, or businessmen. A willingness to accept some minor restraints now will pay off in good dividends for everyone in the long run. A nation where the average national wage cost is some 20% higher than the U.S.A. — the greatest and basically the richest nation in the world today — hardly warrants so-called meaningful discussions to raise the level of incomes here still further. Nations have to stay competitive if they are to succeed.

As we watch, month by month, quarter by quarter, the sorry tale of continuing increases in the various price indices, some of us may be tempted to jump to the conclusion that the Australian Government is failing in its purpose of arresting inflation. It is not the Government that is failing. It is we, the people, still pandering to the easy way, who are failing, even when the results of such a course are evident elsewhere. We forget that a democratic Government cannot succeed unless it has the encouragement and support of the people it leads. The captain of the ship is helpless unless the crew acts sensibly and with a common purpose.

Most of us, I believe, have come to expect far too much of the economic policies and measures devised by Governments. Good management and wise policies are, of course, essential. Bad policies and lack of management, as we have seen to our cost, can lead to disaster. Governments cannot work miracles. The wisest economic strategy must fail to achieve its purpose unless all sections of the community weigh in and make their contribution. Governments cannot cure inflation, for instance, if many people demand, and succeed in getting wage, salary or professional fee rises far out of line with the productivity of the nation. A Government cannot restore strength to the economy if production is constantly disrupted by large-scale stoppages of work. A Government, whatever its complexion, cannot provide better health and education services and more welfare from thin air. It calls for the efforts and additional work inputs of the individual members of the community to be increased to support such improvements. The truth of the matter is that standards of living, in the final analysis, depend not on Governments but on the efforts of the people themselves. We get what we deserve and rarely more than we deserve. Unless these simple truths are realised, and widely acted upon, Australia will not progress and the economy will not be able to provide the kind of life most of us seem to be seeking. It is no good blaming Governments for the things which are of our making or choosing.

It hardly needs to be said that leaders of business, industry or the professions, as so well-represented here at this meeting today, have a particular responsibility to assist the Commonwealth Government in its objectives of overcoming inflation by first restoring stability as a necessary preliminary base on which to build a sound and strong
recovery. In the present critical times especially, the national interest should occupy a very important part in every leader's thinking and planning. The I.P.A. has stressed, right from its inception, that the free enterprise system, its preservation and advancement, depend very largely at all times on the understanding and actions of its leaders.

Last year I drew attention to the urgent need for businessmen to do a great deal more to help inform and educate their employees about the conditions essential for the success of their enterprises, and indeed of the free enterprise system generally. I am glad to report that there are some promising signs and developments. We appear to be at the beginning of great changes. Within the next few years, I believe that most companies will come to regard education of this kind as an indispensable routine part of their operations. The lessons of the last few years have bitten deep. Businessmen everywhere are realising that business prosperity and a sound economy depend upon a widespread understanding of the simple truths and facts which govern our economic life. The Institute stands ready now, as in the past, to give practical advice and assistance, if called upon to do so by you, its individual supporters, and, likewise, it looks to you to give it the financial backing which it needs to fulfil its functions of spreading economic knowledge and education throughout the community.

Mr. H. F. Clarke, who gave loyal and valuable service to the Institute for nearly 20 years, has resigned from the Council. The I.P.A. greatly benefited from his helpful co-operation over the years.

I am pleased to say that the following gentlemen have agreed to join the I.P.A. Council.

Mr. D. W. STRIDE —
Managing Director, The Commercial Bank of Australia Ltd.

Mr. NORMAN SAVAGE —
Brisbane Company Director and President, I.P.A. (Queensland).

I am sure the Institute will benefit by having these gentlemen directly associated with us.
Report of the Chairman of the Executive Committee

Mr. W. A. Beattie, M.A. (Cantab.), B.A., LL.B., M.A.I.A.S.

It is nearly twelve months since I assumed the Chairmanship of the Executive and Editorial Committee following the retirement of Angus Jones, who served as Chairman with great distinction for eighteen years. I have enjoyed working with the members of this Committee and especially my close relationships with Messrs. Kemp, Warren and Abrahami. I hope you will agree that the I.P.A. publications have maintained their high standard.

The circulation of our regular publications has increased during the year. We now print 22,000 copies of the "I.P.A. Review" and 58,500 copies of "Facts". Judging by comments we receive by letter and telephone, reader interest in both publications is increasing. This appears to indicate a greater concern by people with the state of the economy, especially with the damage being caused by inflation, and the challenges to free enterprise we have recently been experiencing from many directions.

We have always had at the forefront of our minds the impact of our ideas on the thoughts of younger people. The fact that I.P.A. publications are used in senior classes in over 1,200 schools throughout Australia is a unique achievement for an organisation formed by businessmen and flying the banner of free enterprise and freedom for the individual. As you know, some schools take hundreds of copies of our publications for regular use in their classes.

For many years the "I.P.A. Review" and "Facts" were sent to schools free of charge. Unfortunately inflation has changed all that. For financial reasons the I.P.A. cannot meet all the heavy demands received from the schools for free copies. We have introduced a concessional charge for schools and students. About 150 schools are now paying annual subscriptions at concessional rates. It is very desirable that our circulation in the schools should be greatly increased.

We have a large circulation of I.P.A. publications, especially "Facts", in offices and factories throughout Australia, among junior executives, office trainees, apprentices and management cadets. Several companies have furnished us with the names of selected employees for direct mailing of Institute publications to their homes.

The I.P.A.'s work also has an important influence on the older generation — businessmen, professional people, members of Parliament, public servants, employees at all levels and leaders of thought in many fields. Every M.P. in Australia, both Federal and State, receives copies of our publications. Every issue of the "I.P.A. Review" seems to con-
tain one article which creates special interest, resulting in requests for additional copies and attention by the media. Among these articles in the last 12 months were those on “Economic Recovery”, “Poverty in Australia”, “Progress Under Free Enterprise 1900-1975” and an editorial “A Communication Gap”.

In the last-named article we tried to point out the enormous difficulties of informing millions of people about the case for free enterprise. The I.P.A. stated that:

“Every employer, every management of a business of any proportions, should in these turbulent times, add to their list of customary functions, the responsibility of providing their employees with the facts and information needed for an understanding of the free enterprise market economy. If the task is not undertaken by employers, it will not be done at all. In that event, the case for free enterprise will continue to go by default.”

You will be interested to know that we have had many messages from people saying that they whole-heartedly agree with this viewpoint. Several companies have sought the I.P.A.’s assistance in preparing simply presented Annual Reports for their employees.

“Facts” has continued to be very popular. It compresses a great deal of basic information about the economy and free enterprise into 8 small pages. It can be read in ten minutes. “Facts” contains basic information about business, profits, wages, costs, prices, taxation, the ownership of industry, productivity and international trade and all the matters which affect economic progress and the standard of living of the average Australian.

We have had many inquiries from companies for extra copies of the June/July 1976 issue of “Facts”. The article on “Rising Costs and Low Productivity” created widespread attention. One leading company ordered 1,000 additional copies for employee distribution.

In each of the last four years the I.P.A. has published a special booklet. The titles have been:

<table>
<thead>
<tr>
<th>Title</th>
<th>Circulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973 “Profits and Prices”</td>
<td>62,000</td>
</tr>
<tr>
<td>1974 “INFLATION — Everybody’s Responsibility”</td>
<td>200,000</td>
</tr>
<tr>
<td>1975 “Free Enterprise”</td>
<td>126,000</td>
</tr>
<tr>
<td>1976 “What Went Wrong? How to Put It Right!”</td>
<td>125,000 (to date)</td>
</tr>
</tbody>
</table>

The large circulation of each of these booklets indicates how much they have been appreciated. Most of the copies were purchased by companies for wide employee distribution. A number of companies have contributed to the cost of making copies available free of charge to schools for use in economics classes. And several companies have sent these booklets with their periodical reports to shareholders.

Orders for our latest booklet, “What Went Wrong? How to Put It Right!”, are still coming in. We have achieved a valuable distribution
of 125,000 copies among people in all walks of life. But there are still many companies with big work forces which have not ordered copies. There have been many diverse outlets for the booklet. One of some interest is a substantial distribution among waterside workers in Darwin and among meat-workers, railway and timber employees in Casino, New South Wales.

Further information about this booklet appears on Page 7 of the Report.

Mr. John Merriam, Director, Information & Public Affairs of The World Bank, Washington, visited Australia in July. At short notice the I.P.A. was asked to provide a Forum to give Mr. Merriam an opportunity to meet a representative group of people.

Mr. Merriam gave an excellent address on 8th July, 1976 to a capacity audience in the National Mutual Theatrette on “The World Bank and the Rich and the Poor Worlds”. We wish to thank the National Bank of Australasia for joining the I.P.A. as sponsors of this function. The gathering was attended by business people and a good cross-section of representatives from community groups and education.

The World Bank provides the I.P.A. with much valuable literature including copies of the prestigious World Bank Atlas which is made available via the I.P.A. to teachers for use in economics classes.

To maintain the Institute in a sound financial position in a period of rapid inflation is not an easy task. Yearly increases in income are clearly essential. The Institute operates on a relatively small budget and notwithstanding the utmost efforts to make economies, costs rise disturbingly every year. The big increases in printing and postage costs are a particularly heavy burden on the Institute’s Budget.

In the coming year we shall incur additional expenditure because we are endeavouring to expand our circulation in the universities. This is very important as a recent survey has shown that over two-thirds of academics appear to support left-of-centre ideologies and there is a very close relationship between the views of students and those of the academic staff.

It is therefore important for us to attract new company subscribers and to retain all our existing subscribers and to place our material in the hands of all sections of the public irrespective of their political affiliations.

I wish to thank all our subscribers for their support and particularly those companies which increased their subscriptions during the past year.
NEW I.P.A. BOOKLET:

"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. Five prints have been necessary. Orders have reached 125,000 copies.

The current year is a critical one for the rehabilitation of the economy. Success in restraining wage increases, checking inflation and reducing Government spending depends a great deal on a recognition of the importance of these matters by the Australian people.

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.

Most of the copies of the booklet which have been ordered to date have been distributed to employees. Twenty-seven companies have purchased over 1,000 copies each for this purpose and two have taken 5,000 copies. One company ordered 25,000. Several companies have asked the I.P.A. to mail copies to the home addresses of employees. A number of companies have contributed to the cost of making class sets available to teachers. We have over 4,000 copies available for free distribution to schools. We hope that companies will consider distributing the booklet to their shareholders along with their annual or periodical reports.

A few comments on the booklet:

Sir Robert Norman,
Chief General Manager, Bank of New South Wales —
"I like the booklet very much and congratulate those concerned with its preparation."

Mr. Peter Cairns,
Director, Public Relations, A.N.Z. Banking Group Ltd. —
"We believe the basic message you are trying to impart is important and well worth saying."

Mr. Peter J. Derham,
Managing Director, Nylex Corporation Ltd. —
"The booklet is excellent."

Mr. J. F. Blaxland,
General Manager, Personnel, C.S.R. Limited —
"It does indeed make a competent and convincing case."
THE I.P.A. EXTENDS ITS INFLUENCE

The Institute's educational work has always been national in its scope and I.P.A. publications are distributed in all States of Australia. We now have a close liaison with I.P.A. N.S.W. and for some years the I.P.A. has been very well represented in Sydney by Sir Robert Norman, Director and Chief General Manager, Bank of New South Wales.

During the last two years I.P.A. Committees and branches or organisations have been formed in States outside Victoria. Very good progress has been made. Having I.P.A. representatives in each State should greatly increase the effectiveness of our work.

Some brief details of these organizations are:—

**Institute of Public Affairs (Queensland)**
Mr. Norman Savage, President
The I.P.A. Queensland was formed on 18th August, 1976 in Brisbane. Its establishment was supported by more than 40 community leaders from the fields of business, education and the professions. An initial aim of the Queensland Institute is to increase the penetration of I.P.A. publications in schools and other educational institutions.

**Western Australian Committee**
Mr. L. C. Brodie-Hall, C.M.G., Chairman
Director, Western Mining Corporation Limited and other companies.

**South Australian Committee**
Mr. R. A. Simpson, Chairman
Director, Simpson Pope Limited, and other companies.

**Tasmanian Free Enterprise Association**
Mr. G. E. Hampel, Chairman, former member of the Australian Industries Assistance Commission

**Papua New Guinea**
The Institute of National Affairs
Convenor, Mr. N. Nicklason,
Managing Director, Steamships Trading Company Limited, Port Moresby
The Institute of National Affairs is a non-profit organisation dedicated to the sound development of Papua New Guinea by the Government and the people in conjunction with responsible business enterprise.

The I.P.A. is delighted to be associated with this newly formed body which will promote the free enterprise philosophy on Australia's northern frontier.

**South Africa and New Zealand**
During the year the President of the I.P.A., Mr. W. D. Brookes, has provided interested businessmen in both South Africa and New Zealand with basic information about the modus operandi of the I.P.A., which it is hoped will assist in the eventual formation of free enterprise educational organisations in these two countries.

ANALYSIS OF I.P.A. MAILING LIST

<table>
<thead>
<tr>
<th>State</th>
<th>I.P.A. Review</th>
<th>Facts</th>
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<tbody>
<tr>
<td>VICTORIA</td>
<td>10,98</td>
<td>22,897</td>
</tr>
<tr>
<td>NEW SOUTH WALES</td>
<td>5,807</td>
<td>17,742</td>
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<tr>
<td>QUEENSLAND</td>
<td>1,326</td>
<td>4,354</td>
</tr>
<tr>
<td>SOUTH AUSTRALIA</td>
<td>1,548</td>
<td>3,337</td>
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<tr>
<td>WESTERN AUSTRALIA</td>
<td>1,896</td>
<td>6,171</td>
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<tr>
<td>TASMANIA</td>
<td>359</td>
<td>771</td>
</tr>
<tr>
<td>OVERSEAS</td>
<td>231</td>
<td>440</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21,265</strong></td>
<td><strong>55,712</strong></td>
</tr>
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</table>

The total number of copies printed is somewhat higher than the above figures to allow for office stock and the demand for extra copies.
**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.

**I.P.A., THE SCHOOLS AND UNIVERSITIES**

One of the most significant features of the I.P.A.'s educational work is the heavy demand by teachers and students for I.P.A. publications. These are being used in economics and social studies classes in schools in all States.

There are about 1,200 Government and private schools on our mailing list. A few examples of the schools which have requested a substantial number of copies of each issue of the I.P.A. Review and Facts for use in their classes are:—

<table>
<thead>
<tr>
<th>STATE</th>
<th>NO. OF COPIES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IPA REVIEW</td>
</tr>
<tr>
<td></td>
<td>FACTS</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
</tr>
<tr>
<td><strong>VICTORIA</strong></td>
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</tr>
<tr>
<td>Altona North High School</td>
<td>50</td>
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<tr>
<td>Dandenong High School</td>
<td>140</td>
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<tr>
<td>Lalor High School</td>
<td>240</td>
</tr>
<tr>
<td>Melbourne High School</td>
<td>270</td>
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<tr>
<td>Methodist Ladies College</td>
<td>100</td>
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<tr>
<td>Prahran High School</td>
<td>180</td>
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<tr>
<td>Xavier College</td>
<td></td>
</tr>
<tr>
<td><strong>N.S.W. &amp; A.C.T.</strong></td>
<td></td>
</tr>
<tr>
<td>Canberra Grammar School (A.C.T.)</td>
<td>60</td>
</tr>
<tr>
<td>Fort Street High School</td>
<td>75</td>
</tr>
<tr>
<td>Paramatta Marist High School</td>
<td>200</td>
</tr>
<tr>
<td>Sydney Boys High School</td>
<td>50</td>
</tr>
<tr>
<td>Sydney C. of E. Grammar School</td>
<td>100</td>
</tr>
<tr>
<td><strong>WESTERN AUSTRALIA</strong></td>
<td></td>
</tr>
<tr>
<td>Esperance Senior High School</td>
<td>52</td>
</tr>
<tr>
<td>Loreto Convent Senior School</td>
<td>50</td>
</tr>
<tr>
<td><strong>QUEENSLAND</strong></td>
<td></td>
</tr>
<tr>
<td>North Rockhampton State High School</td>
<td>50</td>
</tr>
</tbody>
</table>

9
We send to teachers and students about 5,000 copies of each issue of the “I.P.A. Review”, and over 10,000 copies of “Facts”. A large part of this school circulation is free of charge but an increasing number of schools are contributing to the I.P.A. at concessional rates. The Board of Senior School Studies in N.S.W. used an article published in “Facts” in one of its examination papers.

The “I.P.A. Review” is being considered by the Education Department of W.A. for inclusion in the list of periodicals recommended for school libraries.

Some 5,000 copies of two I.P.A. special booklets “INFLATION — Everybody’s Responsibility” and “Free Enterprise” were made available free of charge to schools in all States. 1,400 copies of the “Free Enterprise” booklet were sent free of charge to the Economics and Commercial Teachers’ Association of N.S.W. This is one to each teacher member of the Association. The Victorian Commercial Teachers’ Association requested 500 copies of this booklet.

The following is a comment from Dr. Naomi Moldofsky, Faculty of Economics, University of Melbourne:

“I found it comforting to note that your publications are reaching at least some high school teachers and students. My personal contacts with first year university students lead me to conclude that the spreading of accurate information concerning the unhampered market generally, and especially among high school students is of utmost importance.”

Copies of I.P.A. publications for some years have been sent to academics in all 17 Australian universities. We would like to increase our university circulation considerably.

During Orientation Week this year some hundreds of copies of I.P.A. publications were distributed on campuses in Victoria and Western Australia.

A large parcel of I.P.A. special booklets, “Facts” and the “I.P.A. Review” was sent to Hobart in August for distribution to delegates to the 8th Annual Conference of the Economics and Commercial Teachers’ Association.

If the I.P.A. succeeds in giving the citizens of tomorrow a better understanding of private enterprise and of the economic principles basic to Australia’s welfare and progress, it is fair to say that the nation should derive great future benefit. This kind of education is clearly a continuous task.
EXTRACTS FROM RECENT CORRESPONDENCE

Mr. J. McC. Doyle,
Secretary, Victorian Brick Manufacturers' Association —
"The Association appreciates and strongly supports the activities of your Institute."

Mr. H. H. von Brockhusen,
Mercedes-Benz (Australia) —
"There is no doubt in my mind about the great value of I.P.A.'s activities and publications."

Mr. N. K. Angus,
Secretary, Repco Limited —
"Your publications are most interesting and informative and we consider the work of the Institute is certainly worthy of wide support."

Mr. C. A. Vaughan,
Rheem Australia Limited —
"The 'Free Enterprise' booklet has been very well received. We have only heard two or three 'anti' reactions to the exercise."

Mr. R. G. Ogilvie,
Deputy Principal, Numurkah High School —
"I.P.A. 'Facts' is an invaluable aid in the teaching of subjects in the commercial area."

Miss A. P. Holbrook,
Economics Co-ordinator Santa Maria College —
"I am economics co-ordinator here and personally find the booklets extremely constructive and would like my form 5 and 6 students to have access to this material."

Mr. E. N. Drury,
"Brucedale", Toowong, Queensland —
"I have followed these publications very closely for many years and have found in every issue material of very great importance. I believe the service which you render is of tremendous value to the community at large."

Mr. Brian Walsh,
The University of New England —
"I can see you are trying to do a real job of education. Instead of spending so extravagantly on irrelevancies we should be trying to teach unionists some economics. I have now had time to examine all the publications you sent me and I find them well-produced and thoroughly sound in their content. Thank you for making me aware of the activities of the Institute, you are badly needed, for there is an Augean Stable to be cleansed. Keep up the good work."

Mr. M. C. Teasdale,
Company Secretary, Kalamazoo (Aust.) Ltd. —
"In the present economic climate your work has particular importance and we trust that your publications will continue to receive wide acceptance."
Dr. Alan Gregory,
Sub-Dean, Faculty of Education, Monash University —
"We can only preserve our social order and economic system by having it work well — and for this people need to know about it. The I.P.A. plays a vital role in presenting important information and viewpoints on the Australian economy. The generous provision of materials for schools is not only useful and appreciated by teachers and pupils, it is most worthwhile. I.P.A. publications combine clear communication with sound economics."

Hon. Murray Byrne, LL.B., J.P.,
Barrister and Solicitor —
“As a former Cabinet Minister, I have had tremendous pleasure reading your bulletins. Now that I have retired from politics, I would be most grateful if you would put me on your mailing list.”

Mrs. Heather Logan,
Ipswich, Queensland —
“I.P.A. publications are very interesting and would certainly be of use to me in my work with teenagers at the school.”

Fr. Roderick,
Economics Master, Padua College, Kedron, Queensland —
“The Economics syllabus this coming term is about domestic economic management, and I feel your booklet could well be the basis for well-informed discussion among my students, if supplies reach me early enough.”

Mr. E. E. Smith,
Economics Co-ordinator, Templestowe High School —
“Your statement that 'much criticism of free enterprise is due to lack of understanding' is quite true. I too, have been aware of uninformed comment by both students and teachers. The booklet should be of great value to students.”

Mr. F. B. Menadue,
Canterbury, Victoria —
“It was a very satisfying thing to read your article giving advice to employers to 'speak up' in regard to understanding the free enterprise market economy. I would like to express my appreciation of the forthright and factual approach that your journal gives to matters of importance.”

Mr. J. K. Luker,
New Norfolk, Tasmania —
“. . . . by constantly putting good arguments in favour of the Western system, you are making a worthwhile contribution to the fight against those who work towards its destruction.”

Mr. G. B. Johnson,
Managing Director, J. E. Riley Pty. Ltd., Melbourne —
“Having been a regular reader of your publication for the past 25 years, it never ceases to amaze me how you have maintained such a high standard over a long period of time. No doubt many readers like myself have come to regard it as their Economic Bible. Had the Governments of recent years paid more attention to the advice of the Institute, we would not be in the position we find ourselves today.”
**FINANCIAL SUPPORT**

The I.P.A. is deeply appreciative of the contributions received from its subscribers. In the last financial year we received support from 1977 contributors as follows:

- **Companies**
  - 527
- **Individuals and Sundry Subscribers**
  - 1300
- **Schools (Concessional Rates)**
  - 150

Owing to inflation the cost of every item needed to maintain the Institute has increased. Printing and postage costs are a major concern. It will be necessary for us to increase our income by at least 20 per cent this year. We therefore ask all our old and valued supporters to maintain and if possible increase their annual contributions. We shall be looking also to many other companies which are not subscribers. All businesses, and especially companies listed on the Stock Exchanges, have a big stake in our economic system. We believe they should shoulder some of the responsibility for economic education on behalf of free enterprise. You can each help by suggesting firms, societies or individuals who you have reason to believe might become contributors.

### I.P.A. SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>Companies</th>
<th>Entitlement</th>
<th>No. of copies of each issue</th>
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<tbody>
<tr>
<td>$50.00 per annum</td>
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</tr>
<tr>
<td>Individuals</td>
<td>I.P.A. Review</td>
<td>1</td>
</tr>
</tbody>
</table>

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