THE 1977/78 BUDGET
A FRUSTRATED GOVERNMENT

It will be a unique day in Australian history when a national budget is enthusiastically acclaimed. The introduction of a budget invariably sparks off a crescendo of savage barking from all corners of the Continent. The 1977/78 Budget was no exception.

One can discount the predictable responses of spokesmen for the Opposition whose record in economic management was so catastrophic that their views hardly warrant serious consideration. The Budget has also been widely condemned by economic commentators including many press columnists and leader writers. What a pity it is that the control of our affairs is not in the hands of those critics who know so much better than the Government and its expert advisers what should have been done!

It is true that the Budget's projections for the next 12 months hardly hold out an exciting prospect — little change in unemployment, inflation over the 10 per cent mark, growth about a modest 2 per cent. But what else is possible? The Government has claimed for some time now — and does so with repeated emphasis in the Budget Speech — that the pace of recovery really rests with the Arbitration Commission. The Treasurer's contention — one with which we entirely agree — is that the reduction of unemployment and the return of the economy to the path of sustainable growth depends on the rate at which inflation can be wound down and on the restoration of the profit/wage shares in the Gross National Product to their normal relationship. Both, in turn, depend overwhelmingly on the decisions of the Arbitration Commission and its willingness to award wage increases substantially less than full indexation. The Commission's Judgement of August 22 amounts to a complete rejection of the Government's economic reasoning.

In the clash between the Government
and the Commission the sympathies of commentators lie mainly with the Commission. But the critics have not been able to show how it is possible for the Government to cut back inflation and restore employment while the economy continues to be subject to the indexation treadmill. The confrontation between the Government and the Commission is in fact the most critical issue in the economy at the moment and we will examine it more closely later in this article.

One would have thought that the far-reaching changes in the structure and scale of personal income tax would have been generally welcomed. Far from it. With few exceptions they have been assailed as non-egalitarian. There have been tortuous attempts to show that the apparent reductions in tax are not real deductions — at least for some income brackets. They have even been criticised as inappropriate under present circumstances.

In light of the Government's previously expressed attitudes (namely, that the reform of the income tax structure, whilst it was all-important, would have to wait until inflation was under control, and its adamant insistence on the need to contain the Budget deficit) the tax reductions at this juncture came as a surprise — and, one would have thought, a not unpleasant one. After all, the main criticism of the Government's pre-Budget policies had centred around its reluctance to contemplate tax reductions as a means of stimulating consumer spending, and of moderating demands for wage increases and thus of slowing inflation. But now that the Government has done what was widely advocated (and, at the same time, by some ingenious budgeting, avoided sacrificing its objective of cutting back the deficit) the critics remain unappeased.

One of the most influential economic columnists claims, on the contrary, that the Government should not have reduced taxes at all. In an article in 'The National Times' (August 22-27) he asserts that the Government's emphasis on tax reform in this and the preceding Budget is the main cause behind the rising level of unemployment. His argument appears to be that if taxes had not been reduced, the Government would have been in a position to spend more on employment-creating measures and would also have been better placed to reduce interest rates.

He dismisses the Government view that lower marginal rates of tax will encourage enterprise and cause people to work harder and longer, and thus stimulate economic activity and growth. This extraordinary notion is one which had a certain credence among academic economists 15 or 20 years ago when the majority favoured a large expansion of the public sector. But it has long been confined to the scrap heap where it belongs, even by many of its former advocates.

One criticism made of the Government's personal tax measures is that when everything is brought into the reckoning — among other things the 3½ per cent increase in Company Tax and the higher price for crude oil — the ordinary income earner will be no better, and possibly worse, off than before. The increase in Company Tax has, understandably, not been popular in business circles. Nevertheless, the Government would argue that it was a price which had to be paid, if the personal tax reductions were to be consistent with the scaling down of the budget deficit. In support of its policy the Government has been able to point to the considerable concessions to business by way of
the investment allowance and the stock valuation adjustment. The Budget Speech states that in 1977/78 these measures will mean a saving to certain areas of business of some $600 million. Against that the Company Tax will provide an estimated addition to revenue of $203 million. It must also be realised that businessmen generally, and especially small businessmen, stand to benefit substantially from the reform of personal income tax.

The increase in the price of crude oil — the other major feature of the Budget — had to come, if not now then very soon. Time is running out. Unless new significant discoveries are made in the years immediately ahead, by the middle of the 1980's local supplies will cater for only 30 per cent of Australia's requirements. (Present local contribution is 70 per cent.) The fact that the price increase will put some 2½ cents a litre on the price of petrol, and will add to transport costs and thus inflation, is admittedly doubly unfortunate at the present juncture. Nevertheless the adjustment could not have been long delayed. The Government's timing may be questioned — it is after all a matter of judgement — but not its policy. In any case it is surely absurd for the critics to argue that a 2½ cents increase in the price of petrol should be taken into account in assessing the real benefits to income earners of the personal tax reductions. The higher price for crude is an unavoidable adjustment to our cost structure — a cost which Australians must pay in their own interest. It cannot fairly, or logically, be linked with the changes to personal income tax.

Notwithstanding these changes, the Government has been able to achieve a further sizeable reduction in the Budget deficit. The estimated deficit in 1977/78 of $2,217 million is $523 million less than the 1976/77 deficit of $2,740 million. The more significant domestic deficit will fall from $1,995 million in 1976/77 to $1,347 million in the current year. This has been achieved in the main by strict control over government outlays in order to hold real Commonwealth expenditure at the level of the previous year. The further scaling down of the deficit will ease the burden on monetary policy and contribute to the all-important goal of lower interest rates. A slight drop in interest rates has occurred, but sizeable reduction, while not at present in sight, is an essential precondition of full economic recovery. It will be achieved when inflation is clearly on the way to being defeated.

The Government has been assailed from all sides for failing to take more decisive measures to relieve unemployment. But what steps can it take that would not give rise to further inflationary pressures? From the standpoint of short-term political expediency the Government must have been sorely tempted to chance its arm on inflation. But it has wisely, and commendably, clung to the path of economic rectitude. There are many media critics who have been singularly unconstructive and unhelpful.

The Government stance on employment is made quite clear in the Budget Speech. The recovery of employment is conditional upon two things: first, the reduction of inflation and thus of inflationary expectations; and, second, the restoration of the balance between real wages, productivity and profits in order to induce investment on the scale needed. On the latter point the Budget Speech itself deserves to be quoted:

"The grave imbalance between real wages and productivity resulting from the 1974 wage explosion still remains
Australia's major economic problem. That problem can only be solved by winding down real wages relative to productivity; while it persists it makes all talk of quickly reducing unemployment merely hollow rhetoric." (The italics are ours.)

This is an unambiguous, definitive statement of the dilemma confronting the Australian economy. It is one with which we entirely agree. It amounts to an abandonment of the Keynesian aggregate analysis in favour of Marshallian concepts. The problems of the present are not going to be solved by applying a form of simple arithmetic, by saying, as many economists do, that if private sector spending is not sufficient to absorb surplus resources then the obvious thing to do is expand spending in the public sector. This would give, at best, short-term relief at the expense of more inflation and a worsening of the underlying situation.

If the Treasury (and Government) diagnosis of the ills of the economy is correct, then it follows that the cure is, to quite a large extent, outside the Government's control. It rests, predominantly, with the Arbitration Commission. (Whilst not forgetting the industrial tribunals of the States.)

The Budget Speech and the supplementary papers attached repeatedly emphasise the responsibilities of the Commission.

"The Commission must be prepared to face, with a greater degree of reality, the employment consequences of its decisions."

"High labour costs have been deterring employers from taking on new workers. All too often the sums favour the alternatives — replacing men by machines or switching to foreign suppliers."

"Those trade union leaders and others clamouring for 'full indexation' might reflect on the results of their actions. So might our arbitral tribunals."

"If the Commission does make a contribution . . . by lower awards, the outlook for jobs . . . will be strengthened."

"That desirable outcome (i.e. lower unemployment) would be attainable more quickly were there to be greater moderation on the part of those demanding wage increases and on the part of those awarding them."

The Budget had hardly been brought down, when the Commission, in its judgement of August 22, rejected the Government's contentions and awarded "full indexation". In doing so it was running true to form. In its latest Judgement, as in previous ones, the Commission has shown little disposition to comply with the Government's recommendations. The strategy of the Government for promoting economy recovery and for the reduction of unemployment is thus being constantly frustrated by the decisions of the Commission. It is hardly surprising that Government leaders are now showing signs of acute exasperation with the wage-fixing authority — and not only because of economic policy reasons. They know only too well that every wage rise granted by the Commission does damage to electoral standing. If inflation is not reined in the Government will be blamed, not the Commission.

It is certainly a curious situation where the most crucial decisions affecting the economy are being made not by the Government itself but by an independent body which carries little or no responsibility for economic policy. One wonders how long this can continue and whether the Government will not feel compelled to seek some resolution of the impasse.
The question, of course, is “what”, and to this there is no obvious answer.

In recent years there has been a significant change in the attitudes of the Commission. On numerous occasions in the past the arbitral authority, it is true, has run counter to the wishes of the government of the day. But, in doing so, it invariably rested its case on the fact that its specific responsibility under the Law is the preservation of industrial peace. Economic policy, the Commission has said, is not its concern; that is a matter solely for the Government.

But now the Commission is showing an increasing tendency to question the economic credibility of the Government’s arguments. Indeed, the August Judgement seems to be based more on a rejection of the Government’s economic analysis than on considerations of industrial relations.

In taking this line, which carries the implication that the Commission knows better than the Government what is best for the economy, the wage-fixing authority would seem to be treading on very dangerous ground indeed. It is one thing for the Commission to claim that, regardless of what may or may not be in the best interests of the economy, its duty is to bring down an award which it believes to be consistent with the maintenance of industrial peace. It is quite another thing for the Commission to say, in effect, that the decision it has reached will be better medicine for the economy that which the Government would prescribe.

In disputing the Government’s economic analysis the Commission is, in effect, claiming for itself a superior understanding to that of the formidable economic might and expertise of the Commonwealth Treasury. This, of course, is palpably absurd, as the wage-fixing body would no doubt readily concede. But does the Commission fully realise the position it is assuming for itself through the terms of its August Judgement?

For instance, the Judgement says, “...it (the Commission) was not satisfied that simply reducing the real income of wage and salary earners would promote economic recovery.” (Numerous passages in the Budget Speech show that the Government regards the reduction of real wages as the crux of the whole problem.)

Again, the Judgement states, “We are unable to conclude that it is lack of profitability which is preventing a recovery taking place.” (Statement 2 of the Budget Papers argues, “...long-term sustainable recovery in the economy will be possible only if the profitability of investment is restored to an adequate level...the rate of return on invested funds would not appear to be sufficient to ensure an adequate level of investment in the medium term.”)

The Judgement again: “We question the view that the level of real wages is the most critical factor among the various influences currently affecting confidence.” (From the Budget Speech — “There can be no doubt that had the wage determination processes permitted real wages to decline in 1976/77, recovery would have been stronger and unemployment less.”)

Here is a stark difference of viewpoint! The Government says employment will improve only if the level of real wages is reduced. The Commission says the opposite — economic recovery is not contingent on reducing real incomes.

Which view is to prevail? Can the Government, in the interests of its own political future as well as that of the
economy, afford to do nothing, or at least nothing more than continue to put its arguments as forcibly as it can to the Commission, knowing that they will, on past experience, very likely be rejected.

There is perhaps a ray or two of hope for the Government. The changes in personal income tax in the Budget will increase take-home pay and this may be used as an additional and telling argument before the Commission for limiting wage rises. Also there is the inquiry into methods of wage-fixation. The Government might fairly contend that the indexation system has now served its purpose and should be replaced by some other method based predominantly on productivity improvements.

If all this fails, and the next quarterly Judgement frustrates once again the Government's policy objectives, the Government may, in desperation, have to resort to far-reaching emergency action. We hope this would not be necessary.

Whatever happens, the destruction of the voluntary wage-price pause, in which the Commission played a notable part, was a near-tragedy for the economy and the prospects of early recovery. In abandoning the "pause" the Commission showed itself, in our view, quite out of touch with the public mood.

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**LORD CASEY ORATION**

The I.P.A. is honoured to be associated with The Australia-Britain Society in holding the Inaugural Lord Casey Oration.

Lord Casey took a close interest in the work of the I.P.A. right from the foundation of the Institute over thirty years ago. He was a member of the I.P.A. Council for four years prior to his appointment as Governor-General in 1965.

The Inaugural Address will be given as follows:

**Speaker:** The Honourable D. J. Killen, M.P., Minister for Defence.

**Date:** Friday, 21st October, 1977, 8.15 p.m.

**Place:** Clunies Ross House, 191 Royal Parade, Parkville, Victoria.

Port and coffee will be served.

Charge for evening $3.00 per head.

Entree cards will be available at the door.

*Please send remittance to —*

Institute of Public Affairs,
289 Flinders Lane, Melbourne, 3000.
Those who equate mining with 'big business' interests apparently detrimental to Australia's welfare, are notoriously inaccurate in their claims that the industry has robbed Australians.

One such person was Dr. Stuart Holland, a visiting academic from Britain and an avowed socialist, who recently asserted on the television feature "Monday Conference", that Australian mining companies paid less than 1 per cent of their profits in tax. This thoroughly misconstrued statement was based upon the Fitzgerald Report which quoted Hamersley's experience in the seven years to 1973 — profits after depreciation of $264 million, tax payments less than $1 million. What Holland excluded in his vituperative critique were the corresponding figures for the next three years to 1976 — profits $169 million, current tax $66 million. These profits were undoubtedly a tax bonanza worth waiting for.

The full payment of company tax by mining companies may be deferred but not avoided. The principal justification for deferring tax on major new mining ventures lies in the financing difficulties and the need to meet repayment requirements of major international lenders. This would seem a small price to pay for the material benefits which flow directly to all Australians and indirectly to all those Australians working to supply the miners' requirements from beer to locomotives.

A brief study of the mining industry, its contribution to Australia's standard of living and its significance in the economy over the last decade should convince the sceptics that

*This figure does not include royalty payments to state government. In 1976 Hamersley paid $20 million in royalties."
mining has been a positive force for structural change in Australia since the mid 1960s.

At present 80,000 people work in Australia’s mining industry, representing a little over 1 per cent of the total civilian workforce. Although it has never employed more than 2 per cent of the workforce (even in the boom period of the late sixties) mining has contributed significantly to Australia’s economic development since the mid 1960s.

The economic achievements of the last decade that may be directly credited to the mining industry deserve review:

* A twofold increase in contribution to national product from under 2 per cent to over 4 per cent of total gross product.
* A massive rise in export earnings from $400 million, or 14 per cent of total export earnings to $3,700 million or 40 per cent of total export earnings.
* Construction of 10,700 homes, 12 ports, 24 new towns and 1,864 kilometres of railroad.
* Expenditure of $5,500 million on capital works.
* Payment of $1,500 million to federal and state governments in the form of taxes and royalties.
* A 13 per cent average annual growth rate in productivity compared with a 3 per cent average for all Australian industries.
* An increase of 234 per cent in average minimum weekly wage rates compared with an equivalent average increase for all industries of 214 per cent. (In the same period the Consumer Price Index rose 119 per cent.)

This simple statistical record, appreciative as it is of a decade of economic achievement by mining, may be insufficient to appease the critics of the industry. Those who play down the impact of mineral development on the Australian economy and those who believe that the future growth of the industry should be limited because of its presumed ill effects upon other producing sectors, might well consider the pervasive influence that mining has had in our economy over the last ten years.

Mining is a high-productivity, export-orientated, capital-intensive and income-generating industry. A brief analysis of
some statistical trends illustrates the positive impact that these salient features of the industry have had on Australia’s economic growth and standard of living over the last decade.

The following table shows a remarkable change in direction of Australian exports over a ten year period to 1973/74.

<table>
<thead>
<tr>
<th>Composition of Australian Exports, 1962/63 and 1973/74</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>1962/63</td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Manufactures</td>
</tr>
<tr>
<td>Non-mineral primary products</td>
</tr>
<tr>
<td>Mineral primary products</td>
</tr>
<tr>
<td>Other exports</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

This table underestimates the impact of minerals on Australia’s export earnings. For example, the classification includes iron and steel, petroleum and chemicals as manufactured products. Mineral primary products are made up of the following:

- Iron Ore
- Coal
- Copper, Lead and Zinc (unwrought)
- Lead, Zinc and other ores and concentrates
- Titanium and Zirconium

The composition of Australian exports changed from predominantly rural in origin in the early 1960s to a combination of rural, mineral and manufactured produce in the early 1970s. In only ten years minerals grew from insignificance into a dominant source of Australian exports. In 1973/74 they made up more than a fifth of total exports.

It is important to point out the change in the composition of exports of mineral primary products which took place in this period. In 1962/63, copper, lead and zinc accounted for half of total mineral exports while iron ore contributed nothing and coal one sixth. In 1973/74 iron ore and coal together made up well over half of total mineral exports. In the space of ten years Australia’s raw materials became a major source of exports.
Mineral Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Minerals as a Proportion of Value</th>
<th>Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>%</td>
</tr>
<tr>
<td>1965/66</td>
<td>400</td>
<td>14</td>
</tr>
<tr>
<td>1975/76</td>
<td>3,700</td>
<td>40</td>
</tr>
</tbody>
</table>

The substantial increase in the value of mineral exports from 1965/66 to 1975/76 improved Australia's living standards by adding to national product and contributing to our foreign exchange requirements.

Mineral development fostered a period which was free from foreign exchange crises. Without mining, Australia would have run large deficits on its balance of payments, precipitating downward adjustment of the dollar to restore its value and Australia’s competitiveness.

Given an exchange rate more favourable to Australia than it would have been had mining not developed, Australians benefited from a large inflow of capital and goods and services from abroad.

The development of our natural resources attracted massive amounts of foreign capital. It has been estimated that for the period 1966 to 1972, overseas capital used for expansion in mining and oil industries made up from 25-35 per cent of total private capital inflow. It was the belief in the strength of the Australian dollar, directly attributable to growth in mineral exports, which attracted overseas funds for investment in Australian projects.

The strength of the Australian dollar in the late sixties and early seventies meant that we could afford to spend more on imports and overseas activities. The large increase in mineral exports was complementary to an increase in the proportion of finished consumer goods in total imports from 16 per cent in 1965/66 to 26 per cent in 1975/76.
Import replacement too, through development of natural resources, was an important factor in increasing living standards of Australians. The discovery and subsequent development of Bass Strait Oil lowered petroleum imports to about a third of our needs. Such a saving strengthened Australia’s balance of payments and meant that the nation could afford to spend more on imports such as consumer goods.

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Since the middle of the 1960s there has been a significant shift in investment expenditure away from agriculture and manufacturing into mining (and some service industries).

### Non-Dwelling Private Gross Fixed Capital Expenditure

<table>
<thead>
<tr>
<th>Sector</th>
<th>1964/65</th>
<th>1967/68</th>
<th>1970/71</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>34.7</td>
<td>30.5</td>
<td>26.6</td>
</tr>
<tr>
<td>Mining</td>
<td>7.4</td>
<td>13.1</td>
<td>16.1</td>
</tr>
<tr>
<td>Agriculture, Forestry, etc.</td>
<td>18.8</td>
<td>15.0</td>
<td>11.6</td>
</tr>
<tr>
<td>Services and others</td>
<td>39.1</td>
<td>41.4</td>
<td>45.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

This table, extracted from the White Paper on Manufacturing Industry, shows the proportion of private non-dwelling investment accounted for by each sector of the Australian economy in three three-yearly periods to 1972/73.

It is estimated that the mining industry has spent $5,500 million on capital works in the last decade. In the period of 1970 to 1972, investment in mining made up nearly a fifth of total private investment or 3 per cent of non-farm Gross Domestic Product. After 1972 mining’s share of private investment declined and averaged about a tenth of total non-dwelling private investment to the years to 1976. The impact of such a solid capital addition to the economy took the form of:

* construction of wharves, railways and roads.
* creation of new towns in the North and West of Australia, complete with social infrastructure.
expenditure on machinery, equipment and new plant and processing facilities.

development of high-technology production.

The effect of this capital injection on the Australian economy was to increase real economic growth and hence real incomes through higher productivity in the mining industry, and through creating demand for products and services in other industries.

One way of increasing production per employed worker and thus the welfare of Australians, is to increase the amount of capital used per worker. The mining industry’s record in productivity has been excellent due to the large amount of investment in the form of machinery and equipment and advanced technology used per worker, and the skills and energies of all those employed in the industry.

Gross Domestic Product at Constant Prices Per Person Employed

<table>
<thead>
<tr>
<th>Industries</th>
<th>Trend rate of growth 1964/65 to 1975/76 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing and hunting</td>
<td>4.5</td>
</tr>
<tr>
<td>Mining</td>
<td>13.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.6</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>6.7</td>
</tr>
<tr>
<td>Construction</td>
<td>2.5</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>1.6</td>
</tr>
<tr>
<td>Transport and storage: communications</td>
<td>4.1</td>
</tr>
<tr>
<td>Average ALL Industries</td>
<td>2.9</td>
</tr>
</tbody>
</table>

This table shows that over the ten year period to 1975/76 the average yearly rate of growth in productivity in the mining industry was more than four times the growth rate for all industries. In terms of efficiency there can be no doubt that mining has been our best industry. It has been this remarkable productivity performance that has underwritten real wage increases for all those working in mining. For example, in the period from December 1969 to December 1976, the average
annual increase in hourly wage rates for males in real terms was 7 per cent compared with a corresponding increase for all industries of 4 per cent.

Recent criticism of the development of Australia’s natural resources has centred about the impact of rapid expansion of mineral exports on Australia’s foreign exchange rate.

The increase in the value of the Australian dollar attributable to mineral exports has generated pressures for change in the structure of the economy. While on the one hand stimulating the development of complementary industries such as transport and construction, mining has, at the same time, contributed to the decline in some producing sectors that have faced greater competition from imports. Those who distrust mining use such rationale to link the development of the industry with a decline in manufacturing and rural sectors. The staunchest critics presume that mining and other producing sectors have grown divergently. On the contrary the facts show that mining has added to rather than subtracted from demand in other industries.

Although the massive increase in mineral exports and capital spending, and the high productivity performance of the mining industry over the last decade have not significantly increased employment in the industry, such growth has generated new demand and therefore additional employment in other industries.

The rapid expansion of mining cannot be viewed in isolation from the growth of other sectors.

Rates of Growth in Gross Product, by Sector
Australia, 1962/63 to 1973/74

<table>
<thead>
<tr>
<th>Trend Rate of Growth of Gross Product (1968/69 prices)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>2.6</td>
</tr>
<tr>
<td>Mining</td>
<td>16.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.3</td>
</tr>
<tr>
<td>Services</td>
<td>5.7</td>
</tr>
<tr>
<td>All Sectors</td>
<td>5.6</td>
</tr>
</tbody>
</table>
This table indicates that positive real growth occurred in all sectors of the Australian economy from 1962/63 to 1973/74.

In its first two papers on structural change in Australia, the Industries Assistance Commission illustrated the interdependence of Australian industries in relation to their exchange of products. In the case of mining in its developing stages it required capital equipment and ancillary facilities. Much of the initial infrastructure at mine sites was supplied by Australian industries.

The link between mining and manufacturing has been strong. The expansion of mining provided a firm base for growth in metal and mineral-based industries. Demand for goods and services stimulated strong growth in chemicals, petroleum, coal, rubber and plastic products. Australian manufacturers have also been a major source of fertiliser and fuel.

It has been estimated that from 80-85 per cent of the capital and operating expenditures of the mining industry has been spent in Australia. In the case of Hamersley Iron Pty. Ltd., of the $750 million spent by this company on fixed assets in the period to 1974, $475 million, or nearly two thirds was spent on Australian goods and services. In the boom period when mining accounted for between 20-25 per cent of total private investment, a great stimulus was given to suppliers of machinery and equipment.

In the White Paper on Manufacturing Industry it was suggested that the relative importance of mining as a supplier to manufacturing had increased significantly since 1962/63. Throughout the 1960s, about a third of the output of the mining sector was sold directly for use as material in production by manufacturing. The development of Australia’s industries has required a supply of raw materials and mining has greatly contributed to such development.

Instead of detracting from the development in other sectors, the mining industry has contributed to and grown alongside the other producing industries in the Australian economy. Through its direct and positive impact on Australia’s foreign exchange rate, mining has been a major force for structural change over the last decade. It is this force which has significantly raised living standards of Australians.
THOUGHTS OF A
DISTINGUISHED AUSTRALIAN

In December of this year, Sir Zelman Cowen will become Australia’s nineteenth Governor-General and the sixth Australian to occupy that post.

The I.P.A. first established rapport with Sir Zelman in 1955 when he contributed an article entitled “The United States” to the April/June “I.P.A. Review”. Since that inaugural contribution, two additional articles from his pen — “The American Scene” and “The Private Man” — have appeared in the “I.P.A. Review” of January/March, 1964, and January/March, 1970, respectively.

It is worth recounting briefly some of the thoughts expressed in these articles for an appreciation of the insight of a most distinguished Australian.

As a visiting Professor at Harvard University Law School in 1953 and again in 1963, Sir Zelman observed America in two tumultuous periods. “Every visitor agrees about the pace, the competitiveness and the vitality of American life. It may be that the Puritan tradition of hard work survives; it may be that in the grim struggles of earlier years when the masses in the melting pot were battling for survival, the competitive tradition was forged. It appears everywhere; it was very obvious in the Harvard Law School where I taught. The School houses a large group of young Americans. They work prodigiously hard and long. Indeed the race has rich material prizes; those who head their classes have great professional opportunities, for the large law firms recruit from the most successful graduates of the great American law schools.

“Frankly I must confess that I enjoyed the atmosphere. It seemed to draw the best out of me. But maturer reflection leads me to believe that our slower pace has something to commend it.

“I wish, for the good of this country, that we had more of the American spirit, though, I should not wish to see Australia made over wholly in the American image.

“I believe that this striving and competition in American life throws a significant light on the American attitude to democracy. The distinctive emphasis in American democratic thinking and living is upon egalitarianism and upon the career open to talent. Although one finds within the United States sharp differences of wealth and power, a strong belief exists in the possibility of the advance from log cabin to White House.

“My experience was a rich and satisfying one. I cannot believe that an Australian can have such an experience as I had in the United States without coming home as a strong friend and supporter of the Alliance.”

In 1969 Sir Zelman Cowen delivered the ABC’s Boyer Lectures under the title of “The Private Man”. The following excerpt from a condensed version of these lectures appeared in the “I.P.A. Review” in January/March, 1970.

“The claim to the “right to be let
alone”, a phrase made famous in this context by a famous American lawyer and judge, Louis Brandeis, who was deeply concerned with the threats to privacy, rests upon the belief that individuals, and groups for that matter, need for their development and growth, some reserved area of “social space” into which, in solitude and anonymity, they may withdraw without molestation or intrusion. It is well put by Alan Westin that “The basic point is that each individual must, within the larger context of his culture, his status and his personal situation, make a continuous adjustment between his needs for solitude and for companionship, for intimacy and general social intercourse, for anonymity and responsible participation in society, for reserve and disclosure. A free society leaves this choice to the individual, for this is the core of the “right to individual privacy” — the right of the individual to decide for himself with only extraordinary exceptions in the interest of society when and on what terms his acts should be revealed to the general public.

“The media have an increasing and unrequited appetite for details of the lives and doings of persons. Here the conflict is between the right to be let alone and the important claim of the free press to the right to publish and to make known. Those who argued for a legal protection for privacy in such cases, acknowledged that it must be subject to very substantial limits, but the press and media have always argued that any restraints imposed by law on their right to publish, in the interests of the protection of privacy, will threaten the cherished freedom of the press.”
SINGAPORE’S METHODS TO STIMULATE PRODUCTIVITY

The system of fixing wages in Singapore is of considerable interest to Australians at a time when our manufacturing industry is under continuing pressure from Asian imports. In adopting policies for the maintenance of our competitive position and the re-structuring of our manufacturing sector we should at least be aware of the policies adopted by those of our Asian neighbours who see Australia as a market for their own exports.

The National Wages Council (NWC) of Singapore has adopted a national wage increase guideline of 6 per cent for the year to June, 1978. It is significant that the NWC is a tripartite council composed of equal numbers of representatives from the employers, unions and government — chaired by a neutral academic — and that the guideline decision was unanimous. This can be small comfort to Australia where wages are tied to the consumer price index, which cannot be expected, even by the most optimistic observers, to be much less than 10 per cent this year, where wage decisions are settled in an atmosphere of courtroom conflict without any consensus of mutually acceptable objectives and where many of our industries are struggling to exist.

Some aspects of the basis for this unanimous decision are worth noting. In its preamble to the recommendations, the tripartite council stated:

"The NWC emphasises again this year that there are certain export-oriented manufacturing industries in which the labour content is high and where competition from lower wage centres in other countries is particularly severe. For these industries, the guideline this year need not be implemented either in part or in full. Employees must bear in mind that the alternative will be the loss of jobs which cannot be replaced."

Such authoritarian Asian pronouncements may come as a shock to many Australians, but the writing has been on the wall for many years for those who have cared to open their eyes to look. It is no mere accident of fate that our import-competing manufacturing industries are in an advanced state of decline. We have not shown an awareness that increasing productivity is the key to international competitiveness anywhere near the extent that has been shown overseas. The NWC of Singapore states:

"Productivity in all sectors of our economy must be increased. Management must take the initiative and lead in increasing productivity with the cooperation of the workers and the unions. Workers on their part can contribute to productivity through the acquisition of higher skills and better job performance."

The Singaporeans operate under a system which is capable of putting such recommendations into effect. Australians should be aware of this when glancing through these unanimous recommenda-
tions of the tripartite council. Section 3, headed "Denial of NWC Wage Adjustments" is particularly worth noting:—

"In the interests of promoting productivity, the NWC recommends that employees whose performance in terms of measurable output is unsatisfactory should not be given the NWC wage adjustment. In situations where work performance is not easily measurable, but where employees work attitudes (e.g. attendance, punctuality, observance of safety rules and general conduct) are unsatisfactory, such employees should also be denied the NWC wage adjustment.

"In cases where normal annual increments have been denied or withheld because of unsatisfactory work, the NWC wage adjustment should also be denied or withheld."

In Singapore the National Wages Council describes in some detail how such recommendations are to be put into effect:—

"The NWC emphasises that employees should be rewarded only in proportion to their contributions to the common effort. Equal rewards for unequal performances penalise the good workers and place a premium on poor job performance. We therefore recommend that when existing collective agreements are renewed or new agreements signed, both employers and unions should subject the agreed annual increment to either one or both of the following criteria:—

(a) A demerit scheme, based on a system of demerit points for absenteeism, unpunctuality, non-observance of safety rules and unsatisfactory general performance and conduct, whereby a worker would be denied the agreed annual increment, either in part or in full with provisions for restoration in the event of improved performance. Employers should utilise the sums denied to poor job performers to grant enhanced payments to deserving workers.

(b) A merit scheme, based on measurable increase in productivity whereby productivity gains are shared by the employer with those employees who have made a contribution to such enhanced productivity."

The final paragraph of this section of the tripartite recommendations concludes:—

"It is vital to the progress of Singapore that the work ethic be strengthened. The introduction of merit and demerit schemes will help to achieve this aim."

The NWC is concerned with the Singaporean executive, as well as the worker. Whilst it concedes that it cannot impose its wage guideline on an executive who has negotiated his own individual terms of employment, its recommendations nevertheless carry a great deal of weight. The recommendations are national in scope, applicable to all employees, whether hourly paid or monthly paid, and it must be emphasised that they are also applicable to non-unionised employees and their employers, big or small. In this respect the recommendations regarding fringe benefits are relevant:—

"Thus, if the parties concerned agree to have a reduction in fringe benefits, the yearly increase in annual increment may go up accordingly and vice versa." And again, in a section devoted to fringe benefits: "To avoid the extension of fringe benefits and to maintain our competitiveness, the NWC unanimously recommends again this year that when existing collective
agreements are renewed, the range and quantum of fringe benefits should not be further increased."

Machinery for conciliation and arbitration exists; disputes go first to the Ministry of Labour and then to an Industrial Arbitration Court. However, strikes are rare and the attitude of the NWC towards industrial disputes is clear: "It is vital to the country and to the economy to have as smooth and speedy a process in implementation (of conciliation and settlement) as possible, so that energy and attention can be concentrated on production and marketing and on raising efficiency and productivity, rather than being dissipated in disputes among those who work for and in the same organisation."

A range of other issues is covered by the NWC's recommendations, including job-hopping and bonds for expensive or lengthy training, but enough has been quoted to convey the industrial mood in Singapore. It gives some indication of how industrial relations are managed under an authoritarian government, and clearly demonstrates the ability of Singapore to achieve its objectives in terms of industrial efficiency and productivity. Herewith lies the threat to Australia. It lies not so much in Singapore, as such, being regarded as a major competitor, but rather in the demonstration of methods our Asian neighbours are able to adopt to achieve their economic objectives — objectives of national survival which are fundamentally the same as our own.

The answer to such aggressive competitiveness does not necessarily lie in protectionism. The answer lies in recognising the cruel truths of international competition and in working towards a solution based on national self-interest. If democratic government is truly a better system than authoritarian regimes of either the left or the right then it must be seen to be successful in terms of national survival.

In recognising the right of those of extreme views to exert their influence, there is an obligation on the rest of us to counteract the destructive force inherent in such influences by emphasising the strength of our common ground. In something as important as productivity it is surely not impossible to expect employers and unionists to get together on a programme of increasing productivity. It is a national will that is needed to retrieve our manufacturing industries from the doldrums no amount of reliance on government intervention or analysis through White Papers will solve our problems without a major improvement in industrial co-operation.
“HELPING SMALL BUSINESS”
by
Eugene Falk, Chairman,
Small Business Development Corporation of Victoria

The author is a Company Director and a Partner in Grant, Falk Thomas & Co., Chartered Accountants, Melbourne. Among his many interests he is Chairman of the Small Business Development Corporation, Chairman of the Australia World Trade Centre and he is a Commissioner of the Australian Tourist Commission. Mr Falk has held many other important offices including President of the Melbourne Chamber of Commerce 1975/77 and World Vice-President Junior Chamber International 1968. The I.P.A. is privileged to be able to publish this article on the important place small business occupies in the community.

Australia is a nation of small business. About 2 1/2 million people, or 42% of the total workforce, are employed in small business, which makes it the largest employer of people compared with 20% by Government and 33% by large corporations. In the manufacturing area, 97% of all manufacturing establishments are small business. In the retail field 99% are small business, each with a reported annual turnover of less than $1 million which represents some 75% of the total retail turnover in Australia. In the wholesale sector 80% to 95% are small business.

From these figures alone it is obvious that small business represents a significant force in our Australian economy. It covers all areas of commerce and industry — manufacturing, wholesale, retail, service etc.

Country towns, cities and suburban areas are dominated by small business and the population living in these areas rely on it almost exclusively. Even the large corporations depend on the small enterprise for sub-contracting work and the supply of raw materials and components. For example, of the 30,000 firms supplying the Du Pont Company, 93% are small business. The General Motors Corporation has established that 63% of its 26,000 suppliers employ fewer than 100 employees.

Not only is it large in influence, small business provides the entrepreneurial drive, the new techniques and talents upon which a community thrives. There will always be a future for the small business which is able to provide personal and efficient service. Being rich is not just a matter of having money. It is an attitude of mind. The running of a small business is enriching in the satisfaction it gives from the personal responsibility, individual judgement and risk taking it provides.
**Government Initiatives**

In Australia, assistance to small business is provided by each State Government through Small Business Bureaux conducted within their Departments of Development. The exception is Victoria where we have a Statutory Authority. In June 1976, by special Act of the Victorian Parliament, the Small Business Development Corporation was created.

In establishing the Small Business Development Corporation, the Victorian Government has specifically created a Corporation with the expressed intention that it do all things necessary for, or in connection with, encouraging, providing, facilitating, and assisting in the establishing, carrying out, expansion and development of small business.

The Corporation's Act defines Small Business as any undertaking which is wholly owned and operated by an individual person or individual persons in partnership or by a proprietary company within the meaning of the Companies Act and which:

(i) has a relatively small share of the market in which it competes;  
(ii) is managed personally by the owners or directors (as the case requires); and  
(iii) does not form part of a large business or enterprise.

The State Government, in setting up a Statutory Corporation as against conducting it as a part of Government, has taken a most laudable and commendable course. By setting up a Corporation outside of the Public Service it has given the opportunity for the Corporation to be served with practical business people with a knowledge of small business. It has also permitted the engagement and involvement of private sector resources and overcome the inhibitions of communicating with a Government department.

The Corporation Members each have wide business and professional expertise and experience. They have had considerable involvement with small business and have a depth of knowledge and ability which is of great value to the Corporation in its work.

**Meeting the Needs of Small Business**

What help does small business need? An answer to this question requires a close examination of the enquiries made at the Corporation and of previous surveys done in this area. From the recent annual report on the operation of the Bankruptcy Act the causes of business bankruptcies in Australia for the year 1975/76 were shown principally to be due to:

(a) lack of business ability, experience and expertise;  
(b) lack of funds; and  
(c) the effects of economic conditions affecting industry including competition, price cutting, credit restrictions etc.

In the few months that the Small Business Development Corporation has been in existence data has been collected which shows that the major sources of need appear to fall into the categories of:  
one-third requiring expertise assistance;  
one-third requiring advice in setting up new businesses;  
one-third requiring funds or direction to sources of finance.

Inadequacy of expertise, poor training and education, lack of finance, discriminations in the field of taxation, commercial relationships, etc. are the prime causes of business failures.

From surveys done by Dun and Bradstreet, Dr Alan Williams, Professor Geoff
Meredith and others, the principal causes of business failures are confirmed to be due to these same shortcomings.

The problems of inadequacy of expertise and training are now being handled and overcome, as a result of action taken by State Governments throughout Australia in establishing small business agencies, to specifically assist small business obtain the expertise and better management training which is needed.

Understandably therefore one of the major activities of the Small Business Development Corporation is to counsel the small business enquirers and refer them to the resource in the community best able to help them.

The Corporation's Act specifically directs the Corporation to establish an organisation to be known as the "Small Business Advisory Agency". The functions of the Agency to be:

(a) to establish a centre to be known as the Information and Referral Centre;
(b) to investigate the effect upon small business of the policies of Governments;
(c) to arrange training and educational programmes for small business;
(d) to publish and distribute information for the guidance of small business;
(e) to arrange financial assistance to small business and to make recommendations with respect to applications for Government guarantees under the Act.

The Corporation is mindful that there exists in the community a number of organisations and groups providing assistance to small business. It is not the Corporation's intention to duplicate these services. It intends to utilise the resources already available in the community and work in close co-operation with the organisations providing this assistance.

In order to identify what assistance is provided and what improvements and new services are required, the Corporation has already brought together the organisations and groups involved with small business.

Small business people correctly look for information on a day to day basis and in some cases expect it to be available in close proximity to their operations. Referral facilities must therefore be available in the city of the small business person, if that is where they require it rather than expect them to contact the capital city referral centre.

In the country areas the Corporation has established contact points through the offices of the Department of State Development and local Industries Development Committees, thus providing to local small business people a direct link with the Corporation.

If enquirers wish to use local professional services these are available to them. If, on the other hand, they prefer to go for such help outside of their city this is possible through the Corporation's Central Referral Centre at 100 Exhibition Street, Melbourne.

The Victorian Government, conscious of the need for financial help for small business, made provision in the Corporation's Act for Government Guarantees to be made available to small businesses which need help and can demonstrate they have reasonable prospects.

The Corporation does not have the power to loan money but it can, through the Treasurer, give guarantees to help the small business lacking in sufficient security for a loan, to make up the leeway in security by obtaining the guaran-
tee and thus being able to borrow from the existing financial institutions in the community.

The guarantee programme is meant to help viable businesses deserving help and who demonstrate a credibility of operations. The criteria and terms and conditions of the guarantee are currently being determined in consultation with Treasury and the financial institutions.

Experience in the Small Business Development Corporation confirms the small businesses' need for access to long term finance.

There is a need for more long term finance for small business in Australia and this need is principally in the areas of long term borrowings, venture and development capital and innovation capital which will permit working prototypes to be taken into the production and marketing stages.

Small business is not looking for free handouts. It seeks the same conditions and opportunities for obtaining funds as are available to bigger business. Too often is its smallness treated as a high risk factor and consequently funds are not made available to it. Too often are its smaller borrowings seen as a high administrative cost burden and the funds directed to larger borrowers. Too often must it provide for burdensome retention allowances sapping its already limited financial resources.

Due to limited access to long term borrowings at a reasonable rate of interest, most small businesses in Australia use the traditional bank overdraft for short term and medium term finance to fund relatively long term commitments. To borrow short and invest long is a most risky and hazardous course to pursue and is another reason why so many small businesses fail.

Apart from the use of bank overdraft as long term finance, there is no significant source in Australia for long term finance at reasonable interest rates for small business.

Non-marketability of its shares discourages investment in small business, nor does it have the reputation of the larger corporations to raise funds through debenture or bond issues.

There is an urgent need for a joint effort by Federal Government, State Governments and the private sector finance institutions to overcome the small business finance shortage.

The Small Business Development Corporation has given evidence to the Federal Government Task Force on Finance Needs for Small Business, and it is expected that initiatives may be taken by the Federal Government in fulfilling the need for long term borrowings, venture and development capital.

There are small businesses who sometimes incorrectly assume that they are unable to raise funds, when all that is required is the knowledge of how to make an application. The Small Business Development Corporation is positively assisting these small businesses by helping them acquire the knowledge of how to prepare a proper submission and obtain the funds which initially appear unavailable.

The enquiries received by the Small Business Development Corporation come from a broad spectrum of industry. Small manufacturers, retailers, wholesalers, importers etc. make up the list.

The volume of enquiries in the short space of the twelve months since the Corporation has been in existence has proved the need for a Corporation helping small business.

Many of the problems can be solved
by outlining the correct approach to follow.

The mortality rate of small business is high. Surveys done in America indicate that 35% of all retail businesses fail in the first year. By the fifth year 77% fail. A similar survey done in Australia shows that 69% of businesses fail within the first five years.

Regrettably much of the failure occurs due to inadequate homework before entering into business. This is where the Corporation is now helping by explaining the rudiments that should be followed and the avenues of help that should be consulted before entering into business.

**CONCLUSION**

Already in the short space of time since the Small Business Development Corporation was established the evidence confirms the need and value for such an organisation. Help has been given to over 2,500 small businesses and increasing numbers are calling on the Corporation as its services become better known.

The welfare of small business is essential to preserving and developing our private enterprise system in Australia.

Grants, subsidies and free handouts are not asked for by small business. What it seeks is a fair opportunity to trade and prosper.

Small business must help itself. It must reappraise itself, it must recognise some of its own inadequacies and take early steps to correct its failings.

The welfare of small business is essential to the well-being of all Australians. The development of a healthy viable small business sector must be our objective. It will, because of its influence on the lives of all Australians, be beneficial for Australia.

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