Editorial—

THE 1980's

THE BEGINNING OF A NEW DECADE IS A TIME OF HOPE.

It is also, like a New Year, a time of high resolve. We all wish the 1980s to be a decade of progress: although many of us in these disturbing times are far from sure what constitutes "true progress". It should not, however, be difficult to improve on the lamentable record of the 1970s, a decade in which all the elementary ground—rules of sound and sensible economics were wantonly flouted and which has bequeathed us a legacy of problems — "big Government", the National Health monstrosity, chronic high inflation and unemployment — problems which Governments are still far from resolving.

Political and economic prediction is usually a fruitless occupation: the predictions invariably prove to be wrong. The future is never as we expect it to be; there are too many unforeseen disturbances, too many unknowns which can make nonsense of the most meticulously manufactured equations. Nevertheless, speculation is something different, and the temptation to speculate about the decade in front of us, its problems and opportunities, is almost irresistible. Many prominent people have been trying their hand at it, so in succumbing to the temptation we will at least be in good company.

There is a widespread feeling that we are entering a new era, a new phase of human experience, which will represent not a continuum of but a sharp break from the past. There are the world energy shortage; soaring oil prices; an impending technological revolution; the threat of permanent high unemployment; and, now, "Cold War II". As might be expected in these circumstances, the tone of most of the discussions about the 1980s is not exactly optimistic. Moreover, most were written before the Russian take-over of Afghanistan, an event which has certainly not contributed to the sunny side of the prospect before us. Unless the Soviet Government has a change of heart — an eventuality which seems highly unlikely — the Western nations, including Australia, seem certain to divert an increasing proportion of their GDPs in the 1980s into expenditures on defence. Besides adding its quota to inflationary pressures, this would mean that there will be less available to support the annual improvements in living standards which
many Australians have come to take as their God-given right. The big reductions in income tax which most of us were joyfully anticipating because of the huge addition to Government revenues from excise duties on oil are already looking a little doubtful.

Nevertheless, were it not for the cancer of inflation — which we could eradicate if we had the will — and the fears of endemic unemployment — certainly two substantial debits — the economic side of the picture could hardly be bettered. In an energy starved world, a nation as rich in energy and mineral resources as Australia (where hardly a month goes by without the announcement of a new potentially significant deposit) should count itself as among the fortunate few of the earth. That we are able to contemplate an investment over the coming 10 years of the order of an incredible $16,000 million in resource projects alone should gladden the hearts of all Australians. Investment is, after all, the catalyst of economic growth, national strength and rising living standards and, for the most part, of more jobs. And if we are to be realistic and, for that matter, fair, it should lead us to temper our hostility towards the multinationals, for without their financial resources, risk-taking capability, technical know-how, and international connections, much of this exciting prospect could not come to pass. The particular services which only these giant consortiums can render will be needed in the 1980s just as they were needed in the great mineral developments of the 1960s.

The capital required for an enterprise of the magnitude envisaged is far beyond the savings possible to 14 million people and will have to come from the pockets of those in other countries. The 1980s is therefore likely to be a decade of quite massive inflows of overseas capital, booming exports and a strong exchange rate — all of which would redound to the advantage of the Australian people. It is to be hoped that this inevitability will excite somewhat less ignorant emotion over the next 10 years than did imports of foreign capital in the two preceding decades.

Another climactic feature of the 1980s is likely to be the impact of what might be called "computerisation" on the technology of production and distribution. The 1980s, so we are told, will be the decade of the "silicon chip", a tiny, innocuous-looking device, which can nevertheless perform miracles and which, along with other electronic marvels, will bring about a technological revolution. "Computerisation" could revolutionise not merely our production and business methods, but our home and social arrangements and our routine everyday way of life. No one can say where it will all eventually lead but it has come upon us with the suddenness and force of a tropical storm (who of us only a few months ago had heard of the "silicon chip") and is not unnaturally giving rise to widespread fears. Its impact could be such that life will never by quite the same again.

The immediate fear derives from the belief that the "silicon chip" will lead, at worst, to a situation of permanent high unemployment and, at best, will make the chronic unemployment of the 1970s even harder to solve in the 1980s. Since human beings are more important than technology, it is being argued in some quarters, that the new devices should be banned or, if not, phased into the economy gradually so as to cause the minimum of dislocation. The fears and reactions which they have aroused are understandable but to some extent unwarranted. That "computerisation" will create problems there can be no doubt — all new momentous technologies do.
The need for many traditional tasks will disappear. The nature of work will change. But "computerisation" will also create many new opportunities, as all sweeping technological innovations have done in the past.

In a recent report the Commonwealth Treasury has argued that unemployment would be aggravated if "computerisation" is resisted. It points out that Australian industries would become uncompetitive with those of other countries which embrace the new technologies. Also, the lower costs and prices resulting from the computer devices in the areas to which they are applicable will enable consumers to buy more, or buy more of other things, and that would lead to additional jobs. One is inclined to support this view. Nevertheless, it has to be said that in the 1980s positive initiatives will have to be taken both to create jobs for young people and to fit young people for the kind of jobs that are offering. It is to be hoped that the new decade will see an end of the incredible absurdity which infiltrated some of the schools in the '60s and '70s that "the three Rs" no longer mattered. It would be a doctrine of defeatism to accept the view recently advanced in an article on education in "The Australian" (2/2/80) that "Unemployment, especially among our inexperienced young and those nearing retirement age, will continue to grow, even if Australia faces a brighter economic future in the eighties than many other Western industrialised nations". The notion, which is gaining ground, that in the future we shall have to accept a situation of permanent unemployment for sizeable numbers in the community must be rejected. Useful work of some kind is necessary to human fulfilment and there is no substitute for it. The continuation of high unemployment among the young could have tragic social consequences. As hope fades and disillusionment takes over, we would almost certainly see an increase in violence and crime and in the resort to drugs and other forms of escapism of such proportions as to threaten the foundations of our society.

Inflation will be the crucial economic issue of the 1980s. Either we will get on top of it, or, like unemployment — to which of course it gives rise — it will come to be accepted as a permanent feature of the Western economic system. The Secretary of the Treasury, Mr John Stone, recently went on record as saying, "I take it utterly for granted that without the maintenance...of policies designed to root out inflation, there is unlikely to be any real future for Australia in the 1980s." That is a grim warning, but we agree with it.

As we enter the '80s there is an attitude almost of resignation toward the great interconnected evils of inflation and unemployment. The feeling is growing that there is little or nothing we can do about them and Australian Governments and others responsible give the appearance of consigning them to the "too-hard basket". At the beginning of the '70s any inflation — even 3 per cent — was considered to be bad. At the beginning of the '80s, Governments seem no longer to be worrying unduly about inflation — even of 10 per cent — so long as it is a point or two less than the average rate prevailing in other Western countries. This is, to say the least, a highly disturbing change of front. The weakening of the Fraser Government's attitude toward inflation is revealed in its incomprehensible turn-about on indexation. Up to the closing months of 1979 the Government argued, in most national wage cases, against any adjustment of incomes for higher prices. Now, in a remarkable volte face, it is prepared to go along with full indexation.
of wages for price increases, other than those, such as oil prices, stemming from its own policies. It should now be clear that inflation will never be overcome, so long as we adhere to the principle of indexation. From the time of its introduction, the I.P.A. contended that indexation would fail and that it would keep inflation close to boiling point. Indexation in practice, of course, does not just apply to wages — as it was originally intended — but to practically every section of the community, including politicians. (For instance, highly paid heads of Government instrumentalities with salaries in excess of $50,000 a year received additions of between $2,000 and $3,000 as an outcome of the last national wage decision.) Virtually the only sections of the community not receiving compensation for inflation are those without political punch — the shamefully treated people in retirement living on their own hard-won savings and the unemployed. The fact that the majority are protected against inflation has not surprisingly brought about a grave weakening of the community will, the national determination to do something about it.

If present attitudes and policies are not changed, the prospect for the 1980s is for continued rapid inflation of “double digit” proportions. What should now surely be crystal clear is that the conventional fiscal and monetary measures are not going to greatly reduce the rate of inflation, let alone eradicate the disease. We would hope to see, therefore, in the decade ahead a completely fresh approach in economic policy-making, marked by a willingness to experiment, to improvise and to undertake unorthodox measures. If the conventional remedies are proving impotent to effect a cure — as they are — then common sense dictates that something else must be tried.

Nobody would suggest that the cure of inflation is easy: even for strong, resolute Governments. It is not simply a problem in economics. It is so deep-rooted in our community mores and morality, in what is considered to be politically realistic and expedient, and in community psychology and expectations, that it is little wonder that Governments’ despair of finding a solution and that the present attitude of “defeatism” has become entrenched.

Of one thing we are convinced — and, on the record, are entitled to be convinced: inflation will not respond to the so-called “slow cures”. Policies of gradualism do not work. We therefore hope that, early in the current decade, the Fraser Government will try a different technique, a form of “shock treatment”. The best examination of the subject which has come to our notice recently is a paper by a Canadian economist, R.G. Lipsey, published in “The Economic Record” (December 1979). After examining the possible cures, Lipsey concludes “...I would go for the shock treatment: cut the rate of monetary expansion to 3-5 per cent within months; slap on a six months wage-price freeze followed by a flat modest percentage increase for a further transitional period; use fiscal policy to mop up any remaining excess demand; cut unemployment benefits to establish a significant differential between such benefits and wages;...and wear a bullet-proof vest every time I show myself in public”. This prescription seems to make a lot of sense.

Transcending all else in the 1980 decade is the greatest of all human issues, the freedom of the individual. In our time this freedom has become dangerously eroded: certainly by “big Government” and its accompaniment, mushrooming bureaucr-
racy, but also by the arrogance of irresponsible, uncaring unionism, and to some extent, by giant businesses so powerful as to be able to dictate terms even to Governments, and, not least, by the ubiquitous, profit-chasing media insistent on their rights but singularly unaware of their duties. And now, to top it all, we are facing the threat to personal privacy, looming small at the beginning of the '70s but large at the end, inherent in the computerised, electronic society.

In the 1970s we witnessed a sudden and frightening growth in the size of Government. The 1980s could determine whether this ominous process will be halted, and reversed, or whether Australia is to become a government-dominated society with government...government...government everywhere, government with its inquisitive, interfering, voracious fingers poking into every nook and cranny of the economy, and even further. It is little use maintaining the outward forms, the trappings, of free enterprise, or of a free society, if the reality and substance are destroyed. The supreme virtue of the "market economy is not that it is infinitely more efficient, infinitely superior at delivering the goods, compared with the government controlled and directed economy, but that it immensely enlarges the scope for the individual to make his own decisions and choices, instead of having them made for him by some remote, insensitive bureaucracy. To work out one's life according to one's own will and desires is of the very essence of individual freedom and human dignity.

One of the gravest facts at this point of time is that we have become accustomed to expect far too much of government, to imagine that government can and should cure all the ills that afflict us and to blame it when it fails to do so. For this, the media must be held partly, if unwittingly, responsible. Largely through television, the politician has been elevated to a position of over-riding importance and prominence in our society, a position which he certainly doesn't merit, and which, it has to be said, he has not consciously sought. The media convey the impression that everything of significance these days is concerned with politics. Hardly, for instance, has one election been decided than the media begin speculating on the outcome of the next. There is thus a insidious down-grading of importance of the individual and his private concerns, an insidious undermining of his self-respect and with it his sense of personal responsibility. It is hardly surprising that when anything is wrong the attitude is that it is the Government's job to put it right.

Almost as great a threat to personal freedom as "big Government" is the arrogance of "big unionism" which often means the arrogance of a few officials elected by a small minority of union members. Militant-led unions wield enormous powers. They can decide at a whim, at the drop of a hat, whether the life of a great city is to be disrupted, whether the transport is to function, whether the power is to be turned off, whether a particular mineral is to be mined or exported, or even whether the courageous, recalcitrant individual is to be permitted to work.

Public Opinion polls indicate that the militant unions have already alienated the great bulk of public opinion, including opinion among many of their own members. (A survey conducted by Professor Don Aitken of the A.N.U. showed that whereas 47 per cent of people thought the unions had too much power in 1967, 78 per cent thought so in 1979). The people have an unerring instinct for knowing when the bounds of good sense and common justice are being exceeded...
and when power is being arrogantly abused for manifest political purposes. But they are not being adequately supported either by strong government or by the media. The latter too often take a spineless, neutral stance when they should be outspoken in critical condemnation of actions which, at heart, they know to be gravely opposed to the national interest. It is no exaggeration to say that at the beginning of the 1980s many people, even many trade unionists, live in fear of overweening, militant unionism. Can we hope for better things by the end of the decade?

If the erosion of individual liberties is to be halted, much will depend on the quality of the leadership and the sense of responsibility of the media — an institution whose influence for good or ill is almost beyond computation. (A member of the British Parliament went so far as to say, "Television will determine what kind of a people we are".) As we enter the 1980s it can hardly be denied that there is profound and widespread unease about the way in which the media carry out their functions, an unease of which they are either blissfully unaware or quite uncaring.

The media are inordinately sensitive to the merest suggestion of any criticism of themselves, but they reserve the right to criticize, and criticize savagely every other institution in our society. They are not slow in urging the exercise of controls over or of public inquisitions into business, unions, the professions, politics or any other sections of the community. Any criticism of the media, however, and they will scream to High Heaven about the sacred "freedom of the press". But freedom must be earned and justified, and it can be earned and justified only if it is used wisely, responsibly, justly. Great power imposes on those who possess it correspondingly great responsibilities. There can be no escape from that.

There are, it is true, many signs of praiseworthy endeavour in the media, of serious attempts to raise the standards of intellectual discussion and of reporting of a high order. Moreover, because of the activities of the media, particularly television, people now are far better informed than in the past. But much more is needed. What is lacking in Australia today, and indeed in other communities, is inspired leadership, guidance for a people often bewildered and confused, no longer sure what is right or who is right, no longer with a strong sense of purpose! Who better than the media are able to give it?

The media cannot, if they are to continue to be free, evade the responsibility of leading and guiding and endeavouring to raise the standards and tone of the life of the community. No one, of course, should expect the media to play God. What people are entitled to expect, indeed to demand, is that those who control or write for the media will do so with a sense of fair play, with a regard for the decencies, with sobriety, with mature intelligence, balance and moderation, and with an acceptance of their obligation to serve and advance the best interests of the community. The much-vaunted freedom of the media can be justified on terms no less than these. Are we to see in the 1980s the growth of a new conception of leadership and responsibility among those who have in their hands the direction of this all-powerful instrument?

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Only a few of the issues which may concern Australians in the 1980s have been touched upon in this article. There are other issues of no doubt equal significance — for instance, education,
which is in a ferment over its aims and methods, the burgeoning of South-East Asia seeking a place in the sun. But when all is said and done, what happens to Australia in the decade ahead will depend very largely on us — on the sum total of our efforts, on the values we hold important, on our collective wisdom and understanding, on our response to challenges now unforeseen which will surely present themselves.

We have mentioned some of the great problems facing us as a nation, but compared with those of hundreds, even thousands, of millions of people on the planet, they are minimal, insignificant. As we enter the 1980s it is a salutary and humbling lesson to look around the world. We cannot but marvel at, cannot surely fail to feel a sense of wonder and gratitude for our own incredible good fortune. What we do with our riches depends on us. We can squander them in the pursuit of unworthy, self-centred goals and in destructive divisions among ourselves. Or we can use them as a springboard for the achievement of high and noble purposes.
"TOO FEW PRODUCERS":
THE AUSTRALIAN EXPERIENCE

SUMMARY

Oxford economist, Walter Eltis, has developed a new approach toward the analysis of changes in national economies, quite distinct from customary national accounts analysis. Eltis' method, although making use of the national accounts statistics, serves to throw up vital facts about the economy not revealed by traditional methods. The Eltis approach is based on the distinction between the market and non-market sectors of the economy, that is, whether or not output is sold at a market-determined price.

The I.P.A. has applied the Eltis method to Australian statistics with some quite remarkable results. For instance, in the five years, 1969/70 to 1974/75
- the share of marketed output going to personal consumption of those in the market sector declined by 5 per cent;
- the share of market sector investment fell by 1 per cent;
- the share of government-financed expenditure out of market output rose by 6 per cent, from 23 to 29 per cent.

The excessive wage demands of the early 1970s can be viewed as an attempt by workers in the market sector to regain their share of output, transferred by the government to the non-market sector.

If we are to prosper in the 1980s the market sector must be allowed to develop so that it can produce marketable goods and services which will be demanded not only by those people who work in the market sector but also by public servants, soldiers, social workers, pensioners and all others who do not produce but need marketed goods and services.

In recent years much energy has been expended in debating the case for and against an enlarged public sector. The arguments have usually been based on ideological/political differences and sometimes on questions of efficiency. But beyond these there are the neglected economic considerations that can identify the limits of a viable public sector. Irrespective of one's belief concerning the appropriate roles of the private sector, an imbalance between the availability of a "surplus" from the market sector and the demand for that surplus must lead to problems of inflation and unemployment.

Therefore, the more that government-provided social welfare programmes are desired, the more attention will have to be paid to the health of the private sector.

The costly consequences of an imbalance between the two sectors is best revealed by using the framework of analysis developed by Oxford economist, Walter Eltis. The present article is a direct application of the Eltis framework to the Australian experience. The conclusion is reached that the wage increases in the past decade were largely a result of a structural change — that is, a change in the relative composition of economic activity, as
distinct from the level or scale of activity — leading to an imbalance between the market and non-market sectors of the economy.

In this framework the economy is considered in terms of two sectors: the market sector and the non-market sector. Although similar, this distinction is by no means identical to the conventional distinction between the public and private sectors. For example, the activities of such bodies as T.A.A., electricity and gas undertakings, are normally regarded as being in the public sector, but since the output of these undertakings is marketed, their activities in the present analysis are considered to be taking place in the market sector. Marketed goods and services are those which are exchanged at the market-determined price irrespective of whether the means by which these goods and services are produced are privately or publicly owned.

The important characteristic of marketed output of an economy is that this output must supply the total private consumption, investment and export needs of the whole economy. Therefore, the market sector must produce marketable goods and services which will not only be demanded by those people who work in the market sector itself, but also by public servants, soldiers, social workers, pensioners and all others who do not produce but need and desire marketed goods and services. This excess output can be thought of as the "surplus" of the market sector. The relationship between the size of the surplus-producing sector and the requirements of those who live off that surplus is vital for an understanding of the working of the economy.

In 1976/77 the value placed by the Australian Statistician on all the goods and services produced in Australia was $83,000 million — this is what is known as Net National Product. However, the Ellis framework suggests the need to focus on marketed output only. In 1976/77 this was valued in the market place at $65,000 million, that is, 83 per cent of N.N.P. In other words, the Statistician valued non-marketed goods, such as defence and various social welfare provisions, at $18,000 million. The people who produced the marketed output demanded for their consumption and investment $44,000 million of the output. The remaining $21,000 million, or 32 per cent of marketed output, was absorbed by the non-market sector. The output bought by soldiers, public servants, social workers, pensioners and the rest therefore came from the production of companies or other organisations (mostly private but some government-owned) and those who work for them. They produced more marketed goods and services than they bought, with the surplus going to those who produced no marketed output.

It is not intended to suggest that the surplus-using sector is in any way less significant to the well-being of a society than the surplus-producing sector. Health, education and reduction of poverty are of vital importance to all societies and particularly to one as rich as ours; indeed some will argue that they are far more important than additional material production. Nevertheless, it is the surplus-producing sector that makes the social welfare programmes possible. If this sector fails to produce an adequate surplus and to expand sufficiently rapidly, the financing of the social services can be undermined. Therefore, those favouring increased government expenditure on social welfare must first concern themselves with the health and productiveness of the market sector. So long as those in the market sector are
prepared to give up marketed output to
governments on the necessary scale, there
will be no problems. In the 1970s,
however, non-market expenditure grew
much more rapidly than market-financed
expenditure, and it did this against the
trend of what recent surveys have shown
to be the wishes of the participants in the
market sector.

It is not the public sector growth as
measured in the conventional manner that
has been the problem. Indeed, between
1969/70 and 1976/77 public expenditure
(both for consumption and investment)
as a percentage of Gross Domestic
Product increased from 21.1 per cent to
24.5 per cent — a modest growth of about
three per cent. However, public sector
activities, which do not provide marketed
output, expanded considerably faster than
the ratio of public expenditure to Gross
National Product. It was the growth of
this non-marketed output that put the
pressure on the resources of the rest of the
economy.

In 1969/70, the government-financed,
surplus-using sector required 23 per cent
of marketed output. Eight years later, in
1976/77, it absorbed 32 per cent of
marketed output. As a consequence the
share of marketed goods and services
going to those who produced this output
collapsed from 77 per cent to 68 per cent.

There is another way of expressing this
change. In the eight years to 1976/77,
Australian governments spent some 50
per cent more in real terms on behalf of
each worker. This left only about 1 per
cent extra per worker for private
consumption and investment. In terms of
surplus producers and users, it means that
those who produced the surplus got 1 per
cent more marketed output in 1976/77
than they did in 1969/70 while those who
used up the surplus managed a 50 per cent
increase in the eight years.

Some would argue that it is proper that
surplus producers give up increasing
amounts of their output to allow for an
increase in non-marketed goods such as
education, health, pensions and the arts.
The argument is that as a consequence of
rising levels of affluence, there is an
increase in the collective demand for the
kinds of goods and services provided by
governments.

During the eight years under
consideration, there was considerable
increase in the affluence of the Australian
community as reflected by the 25 per cent
increase in the real value of marketed
output. This increased wealth may well
have been accompanied by a desire for
more health services, educational
facilities, concern for disadvantaged
minorities and other social welfare
facilities.

Others, of course, argue that the
increased provision of goods and services
by governments is not a reflection of
collective needs but rather a consequence
of what has been called the “revolution of
rising entitlements”: that is, a revolution
of mass sentiment expressing itself in the
demand that government provide and
guarantee whatever discontented
majorities or aggrieved minorities deem to
be right or proper. This is a demand not
so much for universal extension of
opportunity to compete for the economic
prizes but a demand to share in whatever
economic prizes are won; a demand that is
being met not simply through direct
income transfers but increasingly through
expenditure on health, education, and
other non-marketed welfare services.

Whatever the reason for the increase in
the activity of the non-market sector —
whether it be the “revolution of rising
entitlement” or the collective desire for
government-provided goods and services
— there is a limit to the ability of the
economy to provide non-marketed goods without disrupting the market sector, because what is provided publicly comes ultimately from the surpluses provided by the market sector. Thus attention must be focused on the health of the market sector and on its willingness and capacity to provide the necessary surplus.

We can now use the Eltis framework to show how the very rapid growth in social welfare programmes in the 1970s financed by a threefold tax take increase in eight years, ultimately undermined the ability of the market sector to function effectively.

There would be no adverse response to a diversion of resources from the market to the non-market sector if the increased social spending was a direct and exact response to the surplus producers’ preferences. Ideally, social expenditure decisions are made by the politicians to reflect the preference of the electorate, so that taxation increases used to transfer resources from the market to the non-market sector ought to be cheerfully accepted by the taxpayers. Indeed, Mr. Hayden when bringing down the 1975/76 budget hoped Australians would think this way. He noted that “...the average employee’s real after-tax earnings in 1974/75 rose by 7 per cent” but “when the increase in publicly provided benefits in education, health, social security and so on is added in, his total real income rose by 9.5 per cent”. In fact, however, publicly provided social services are not generally regarded as satisfactory substitutes for privately purchased goods and services. Evidence that Australians have become less willing to accept the trade-off between publicly provided social services and private consumption can be found in surveys conducted by Professor Aitkin of the Australian National University. Participants in the survey were asked: “If the Government had the choice between reducing taxes or spending more on social services, which do you think it should do?” In 1969, 26 per cent of respondents preferred lower taxes and 71 per cent preferred more social services; but by 1979, the picture had changed markedly with 58 per cent of respondents preferring lower taxes and 37 per cent favouring more social services.

It is therefore not surprising that wage earners did not accept passively the massive tax increases needed during the past decade to finance the acquisition of marketed goods and services by those who did not provide marketed output. The reaction brought about by the transfer between the market and non-market sectors is at the bottom of the wage explosion of the early seventies. This wage explosion is now generally accepted as having contributed largely to the inflation of the period, through the “cost-push” effect, and to unemployment, through “the real wage overhang” effect.

Before 1969, wage determination operated without any apparent undue pressure on it. However, in 1969, Average Weekly Earnings rose by almost 9 per cent. This higher-than-average growth continued in 1970, despite the absence of demand pressure. Wage increases further accelerated in 1971, moderated but remained higher than average in 1972, further accelerated in 1973 and then peaked in 1974, when Average Weekly Earnings increased by 22.5 per cent. A number of explanations have been advanced for the build-up and then explosion of wages in this period, with the Arbitration Commission figuring in several of the explanations. There is no doubt that the 1967 Metals Trade Judgement was a factor in the collapse of orderly wage determination. It is also true that large price increases overseas in 1969/70 and a strong balance of payments and high reserves in 1971 influenced the
decisions of the Arbitration Commission to award unusually large rises in wages. But in all these cases the Commission was responding to wage demands. Thus there still remains to be explained the stronger than usual pressure for wage increases. In 1973 and 1974 export price increases and the rise in import prices worked their way back into the domestic cost and price structure and added to the pressure for wage increases. Also, in 1973 there was encouragement from the new Labor Government for those seeking higher wages. But these events are specific to the years in which they took place. They do not explain sustained pressure beginning around 1969 and continuing for several years. Ultimately many economists have chosen to fall back on somewhat vague explanations, identified by Professor Donald Whitehead as "sociological and political factors precipitated and reinforced in each society by the example elsewhere".

A more satisfactory explanation, which still allows for all of the factors noted above, can be deduced by using the Eltis framework. This explanation is based on a comparison of the distribution of marketed output in the years before the wage push with the distribution during the years of high wage pressure.

In the years 1959/60 to 1969/70 there was a definite but moderate structural change in the distribution of marketed output. During this period, government-financed expenditure (for consumption and investment) increased its share of marketed output by 2 per cent, while market sector investment increased its share by 1 per cent. These increases were at the expense of the share of market sector personal consumption (from income earned in the market sector), which decreased by 2 per cent. By contrast, the next five years — 1969/70 to 1974/75 the years of accelerating wage increases — were years of rapid change. The share of marketed output going to personal consumption in the market sector declined by 5 per cent, the share of market sector investment fell by 1 per cent, while government-financed expenditure increased its share by 6 per cent.

In the light of these figures wage demands of this period can be viewed as an attempt by workers in the market sector to regain their traditional share of the output they produced. To the extent that they were successful, they appear to have been so at the expense of non-government investment rather than the non-market sector expenditure. Thus, after 1974, with government continuing to take a higher-than-traditional proportion of market output, and workers successfully making up part of their loss, market sector investment declined with a consequent reduction in employment opportunities. As Bacon and Eltis have noted in their book "BRITAIN'S ECONOMIC PROBLEM: TOO FEW PRODUCERS":

"If the government has invincible power to raise its real spending, while unions give the workers power to resist any cut in their spending, something else must take the strain".

In Australia's case, that "something else" was private investment.

The trend of unfavourable change in the distribution of marketed output is continuing, although probably at a decelerating rate. Yet if we are ever to solve the twin problems of unemployment and inflation, this trend must be checked and reversed. The argument is parallel to a highly persuasive argument used by businessmen in recent years. Many businessmen and, for that matter,
Treasury economists have argued that until the share of profits in gross domestic products returns from the current 14 per cent to the average 17 per cent of the 1960s, we cannot expect a sustained economic recovery. Similarly, until the share of marketed output which goes to wage and salary earners in the market sector returns to its long-term average of over 60 per cent and the share of the non-market sector decreases, we may find it difficult to sustain an economic recovery. The big problem for the 1980s is to keep down the growth of social welfare expenditure (the major source of non-market sector growth) to the limits permitted by developments in the private sector. Otherwise inflation and unemployment seem certain to persist.

The most fundamental way of reducing the size of the non-market sector is to use the price mechanism to allocate resources that are now provided free. However, it appears that even non-Labor governments are unable to make fundamental reductions in the range of activities carried out by government. It will therefore, become increasingly important in the 1980s to find new ways of delivering social welfare services.

It is left for future articles to discuss these alternative methods, such as more selective and less universal schemes, and more money transfers rather than provisions in kind. No matter how it is done, it is certain that without changes that will reduce the share of marketed output transferred from workers in the market to teachers, public servants, social workers and so on, the experiences of the seventies will repeat themselves in the eighties — a prospect to which nobody could look forward.

The Table below demonstrates the highly significant "shift" in the structural composition (i.e. in the market and non-market sectors) of the English-speaking, free market economies. The figures are percentages of marketed output net of capital consumption.

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<tr>
<td><strong>UNITED KINGDOM</strong></td>
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<td>Market sector personal consumption from wages, salaries, dividends and interest derived from industry, agriculture, commerce etc.</td>
<td>55.6</td>
<td>52.5</td>
<td>47.7</td>
<td>58.8</td>
<td>53.3</td>
<td>52.9</td>
<td>55.6</td>
<td>47.3</td>
<td>45.3</td>
<td>60.7</td>
<td>62.4</td>
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<td>Government financed personal consumption from government financed wages, salaries, pensions, transfers and debt interest.</td>
<td>22.4</td>
<td>25.9</td>
<td>30.0</td>
<td>18.4</td>
<td>23.8</td>
<td>25.8</td>
<td>21.4</td>
<td>26.7</td>
<td>31.3</td>
<td>15.6</td>
<td>15.5</td>
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<td>Government financed investment and material purchases.</td>
<td>12.7</td>
<td>13.9</td>
<td>14.0</td>
<td>12.3</td>
<td>11.5</td>
<td>12.7</td>
<td>11.8</td>
<td>12.2</td>
<td>12.6</td>
<td>8.8</td>
<td>6.3</td>
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<td>Market sector investment net of capital consumption.</td>
<td>10.2</td>
<td>10.7</td>
<td>7.3</td>
<td>9.1</td>
<td>10.7</td>
<td>9.5</td>
<td>13.8</td>
<td>14.0</td>
<td>13.5</td>
<td>17.7</td>
<td>17.2</td>
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<td>Exports less imports.</td>
<td>-0.9</td>
<td>-3.1</td>
<td>+1.0</td>
<td>+1.3</td>
<td>+0.7</td>
<td>-0.8</td>
<td>-2.6</td>
<td>-0.2</td>
<td>-2.8</td>
<td>-2.8</td>
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IPA Review — January-March, 1980
It is useful to know that western world societies have employed around four of every ten people in society for hundreds of years. Approximately six out of ten citizens are not in the workforce due to age factors (too young, or too old), educational reasons (colleges and universities, etc.), disability (prolonged sickness, incapacitation) and other socially accepted reasons (child-raising role of mothers etc.).

Without any significant increase in this proportion, our standard of living has risen five-fold in the past 120 years, as measured by real economic output per person.

This dramatic increase in our welfare has taken place against a background of decreasing hours of work and staggering changes in the mix of industries that make up our nation at work.

In the 1860s, the nominal working week was 48 hours (which was introduced in 1856). By 1980 the nominal hours of work had fallen to 36.3 (even though we still refer to the "40 hour week".)

Why, then, should we view the future with some fear and trepidation?

There are many explanations. Most of us fear the unknown. It is of small consolation to today's society to know that previous generations have been through all of this before! It is probably of small consolation due to the fact that each new generation imagines that it is a great deal smarter than previous generations which are envisaged as "hanging from the trees" in a relative sense to modern-day society.

For example, our forebears have experienced a decline in the importance of the agricultural industry from the days in
the early 1800s when that industry accounted for 54 per cent of the economy and approximately the same proportion of jobs in the workforce, to a level of around 6-7 per cent of the economy and the employment scene today. This relative decline of a giant industry within Australia did not correspond to a collapse in our welfare. Neither will the advent of the silicone chip, the computer and electronics in general lead to a collapse in our standard of living in the future. On the contrary, the advent of such technologies will improve our standard of living, improve job opportunities, and create a feeling of general confidence in much the same way as the emergence of our manufacturing industry ultimately achieved in the post-war years.

It is very important to distinguish between "technologies" that are basically labour-saving technologies employed for competitive purposes on the one hand, and "new technologies" that are introduced to pioneer new ways of satisfying consumer demand on the other.

It is very important for us all to realise that the advent of production line techniques in the construction of motor cars led to a unique era in personal mobility, a healthier economy, and the creation of hundreds of thousands of new jobs in the supply, assembly, and after-market of this industry.

However, as society slowly becomes saturated with new products such as motor vehicles, two developments emerge. One of the more important developments is associated with the consuming society itself; it begins the search for new priorities, new needs or new desires. The second development is associated with the industry itself, which begins to be more competitive as the participants in the industry chase market share and compete on price for the favours of the consuming public. Part and parcel of this competitiveness is the introduction of labour-saving technology in order that selling prices can be contained. Not only do participants in the industry compete one with another inside a nation, but they collectively compete with the lower cost of imported products. These two developments lead to a peak in the share of the consumer dollar, and indeed of our gross domestic product, allocated to the purchase an provision of the once-new product area. Gradually, the proportion of consuming spending and the proportion of our economy begin to decline — making way for new spending and new employment in areas of new priorities by society.

If this process is thwarted by interference from government, vested industry interests of other parties, then the process of progressive adjustment of our workforce and lifestyles leads to a steps and stairs type of adjustment.

It could be argued that such interference did take place in recent decades within our manufacturing sector, for example. While such interference may not have been significantly worse than other western countries, it nevertheless led to what Gordon Jackson in the Green Paper on the manufacturing industry referred to as a "malaise". The more commonly voiced term for the overall effect on our economy has been "structural adjustment".

Society becomes particularly concerned about the employment situation and the general impact of technology about twice every 90 years; at 40 year and 50 year intervals respectively. These times of particular concern have arisen in the early 1840s, early 1890s, early 1930s, and again now in the early 1980s. (See Chart - p.20) Why?

Usually this concern is associated with the visible and relative decline in importance of a key industry within our
economy. In the 1840s, it was the decline in relative importance of our wholesale and retail trade.

In the 1890s it was the relative decline of our mining and construction industries. In the 1930s it was the decline in our agricultural industry. In the 1980s it is the decline in our manufacturing industry, which once boasted 30 per cent of our economy and our jobs; and now represents about 20 per cent of our economy and our jobs. (See Chart - p.19)

We seem to develop an identity of the country’s well-being with the key industry, or industries, of the day. When that industry, or industries, begin to falter, we falter in confidence also despite the quite valid reasons for the events taking place.

Renewed confidence only comes when we clearly perceive visible signs of new growth sectors in the economy that provide needed jobs and satisfy new social objectives in terms of products.

So, are there new growth industries on the horizon?

Indeed there are. Many of these are built around new technologies such as silicone chip, micro-electronics and the computer. In time, we will find that these developments will bolster new industries such as retailing, finance, personal services and the entertainment industries.

Among the more important changes in the Retail Industry will be; the advent of “electronic funds transfer” (E.F.T.) to displace cash transactions; and the advent of “shop-from-home” buying through the greater use of the telephone (initially) and video-screen-push-button systems. A new or revitalised industry from new technology!

In the personal services industry, the dramatic new growth sector will be home maintenance and cleaning services — akin to the office cleaning revolution of the sixties and seventies. Local companies or co-operatives will create teams that will attend to a check-list of household tasks such as vacuuming, laundring, painting and lawnmowing. Such work will be finished in a fraction of the time now taken by individuals. Householders will be able to join such schemes and work for a few days a week on the sort of household tasks they like best, or are best at, for many other homes. In return they can spend some or all of their earnings having most of their household tasks done for them.

The permutations and combinations of different jobs and thousands of workers will require a computer to sort out the teams and houses. Another new industry created from now-available new technology!

However other new technologies and approaches are already bolstering our mining industry. Within 15 years, we will find that new technologies and new approaches will lead to a revolution in our agricultural industry of no lesser impact than the revolution in our mining industry which commenced in the 1960s.

By the beginning of the 21st Century we will find that three of our major industries will be in a real growth situation in terms of their share of our economy. These will be our mining industry, our agricultural industry, and a revitalised new-look manufacturing industry (involved in the primary processing of materials from the other two primary industries).

Indeed, this could be the golden era of Australia.

In the meantime, the 1980s and 1990s will be something of a watershed period in our exciting development as the lucky country of the world.

Unemployment will bother us considerably in the early years of this period, as it has done in equivalent periods in bygone eras. A glimpse at our employment and unemployment history
shows this predictable phenomenon.

The unemployment scene will be particularly felt by the younger members of our society. In December 1979, 61.4 per cent of the unemployed were in that age group. Indeed, some 20.3 per cent of the 15-19 year age group are currently unemployed, representing one in five persons. The real impact of unemployment among youth starts to show up in the loss of spending power. The loss of income in the 15-24 year age group is estimated to be $1.6 billion. Unemployment Benefits, of course, make up some of this lost ground but still leaves over $1 billion in lost spending. This impact is visible in the retail scene which accounts for over 40 per cent of spending by society. We are seeing the eclipse of the young population in spending and numbers by the older members of society. The eclipse of the young population in numbers is brought about by the ageing of Australia's society which in turn is occurring because of longer life expectancy on the one hand, and the lower birth rate on the other. The prerogative of lifestyle leadership in Australia which had passed to the young people in the post-war years is now being snatched back by the older age groups. We are seeing the demise of the youth cult. However, we can easily become unnecessarily despondent about unemployment.

Whilst our attention can be drawn to the unemployed, it is even more important to look at the continuing high level of the employed proportion of society. This reminds us of the adequate and sustained provision of goods and services to society at large.

An important by-product of the progressive impact of technology throughout our industries in the Australian economy of the past two centuries, has been an ever lowering nominal work week.

The nominal average full-time working week at present is 36 hours (excluding paid lunch and tea-breaks), about one-half that of the early days of our fledgeling colony at Port Jackson. Of course, in terms of the hours spent away from work in income-earning employment, the reduction is not quite as dramatic as these figures would suggest. Overtime, for example, takes the average elapsed time at work to around 42 hours. If we then add the longer time taken to get dressed and presentable for the predominantly service-oriented type jobs of today, and the longer time devoted to travelling to and from work, then the total elapsed time involved in income-earning employment probably rises to over 50 hours per week. This, nevertheless, is a significant reduction. So too is the degree of physical effort associated with the jobs of today compared with yester-years.

It is a somewhat safe prediction that a 4-day week will be the norm for the vast majority of the Australian workforce by 1990, producing a new dimension in the leisure scene for Australians. One company in Melbourne is already operating a 4-day week; the General Motors Corporation introduced it last year for employees with 20 years service or more. Early signs of things to come. (See Chart - p.21)

Concomitant with the shorter working week, which will help ease the unemployment situation, is the likely dismantling of the now-anachronistic penalty rate system applying to our wages. Introduced in the post-war years when there was virtually no unemployment, the need for such a system is no longer justified.

The resolution of these two profound developments in the eighties will undoubtedly be painful, protracted,
fiercely debated, and only grudgingly accepted by many sectors of society.

However, it is well for us to realise that we are now employing a higher proportion of society (43 per cent) than at any time in our history excepting the two Great War periods. In other words, it is not that Australia is providing less jobs than we have historically experienced, so much as there is a higher proportion of society nominating for the workforce.

The notable explanation of this higher participation rate is the participation of married women which is double the participation rate of the immediate post-war years. So, despite all the profound developments in Australia's history to date, we are still capable of employing at least four out of ten citizens. We will continue to employ that proportion, if not more, in the future. But this employment will take place in new emerging industries, and over a shorter working week.
The width of the "tunnels" in the industries reflects the volatility of change within each industry and contains the upper and lower limits that such industries have achieved over the period. The actual year by year points and the central trend lines are not shown but were available from IBIS. The period 1978-2000 is of course an IBIS projection.

Each industry, whether at a Division or Class level is either gaining or losing its share of the economy (G.D.P. at factor cost). By graphing the percentage share held by an industry over time a cyclical pattern emerges. These cycles vary immensely in length and shape. The twelve divisions, four of which are shown on the graph, oscillate slowly over long periods, usually between 100 to 150 years. Conversely, the 438 Classes within the twelve Divisions oscillate more quickly, say every 30 to 40 years.
UNEMPLOYMENT
IN TWENTIETH CENTURY
Blackened areas show unemployed. Striped areas are imputed or trend.

YEAR, ended June

NOT IN LABOURFORCE

EMPLOYED

DEPRESSION

WWI

WWII

KOREAN

VIETNAM

PERCENTAGE OF POPULATION

0 10 20 30 40 50 60 70 80 90 100


IBIS
WEEKLY HOURS OF WORK

The history of working hours in Australia, as for other developed economies, shows a very long cycle of decreasing nominal hours per week. The trend curve (below) highlights the years in which significant reductions took place for segments of the workforce, later to flow through to other segments as well.

In 1788, the first British contingent of 1042 convicts, sailors and soldiers faced a working week of over 70 hours — "daybreak to sunset". The official introduction of a 48-hour week was effected in 1856, the 40-hour week in 1947. Effectively, the working week has been halved in less than two centuries of caucasian development.

A 32-hour working week for some segments can be anticipated before 1990, and a 28-hour week shortly after the turn of the Century.

 IPA Review — January-March, 1980
Orders for the booklet, "A Test of Character", which was first published in December last year, now total nearly 55,000 copies. This has necessitated several reprints.

The orders have come from about 200 companies from all over Australia — from banking, insurance, finance, mining, manufacturing and retailing companies. Many are from large organizations for one, two and three thousand copies; others from smaller businesses ranging from 10 to 100 copies.

Despite the highly satisfactory response to the booklet, we believe that many more companies should avail themselves of the opportunity to convey the important message it contains to their employees. Companies might also consider enclosing copies of the booklet with their reports to shareholders.

In these turbulent days when the economy of the nation is being disrupted by widespread industrial stoppages, it is of paramount importance to attempt to create a climate of common sense and moderation based on inescapable economic facts.

Communication with employees on such matters as:

- wage levels and inflation
- profits and employment

is often difficult for employers, since they are seen as having "an axe to grind". It is far more effective if employees hear the things that need to be said, from an outside authoritative source.

In our view, some important things that need to be said are:

- inflation and unemployment will not be cured so long as our individual incomes rise faster than our productivity;
- it is nonsense to demand lower taxes and increased government handouts at the same time;
- sound profits are the only lasting means of providing more jobs and higher wages;
- unless each one of us exercises restraint in demanding higher incomes, our problems will intensify.

Our booklet, "A Test of Character", says all these things and more, and we commend it to you as being a worthwhile handout to each employee.

If you will arrange for the order form opposite to be noted with the number of copies you require and mailed back to us, we will supply them promptly, and invoice you accordingly.

The price per copy is 25 cents, less the following discount for I.P.A. contributors:

- 10 to 100 copies — 10%, 101 to 500 copies — 15%, Over 500 copies — 20%.
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