

● *This article is the second in a series which will examine four striking structural changes in the economy since 1939. The first, dealing with the subject of "Full Employment," appeared in the August number of the "Review." The remaining articles will discuss the increased significance of government expenditure and the development of government planning and control.*

The Re-division of the NATIONAL PRODUCT

THE redistribution of the product of the nation's work is the most dramatic change in Australian economy since 1939, and the most significant in its social and economic implications. The lower income groups are now taking a much larger share of the total national output of goods and services than before the war. This does not necessarily mean that these groups are better off than before the war. It means only that they are better off by comparison with other sections; that their economic position relative to that of other income grades has greatly improved.

This change is the resultant of three main causes—first the fact that while taxation on most incomes has substantially increased since 1939 it has increased in a much greater proportion on the higher incomes than on the lower; second, the large expansion in government expenditure, especially on social services, which tends to benefit the low income grades of society at the expense of the higher grades; and third, the fact that a very large proportion of those in the low income strata have the whole, or part, of their incomes automatically adjusted upward for rising prices. To the last-mentioned cause might be added the fact that the prices of the essentials of life, which necessarily comprise a big part of the budget of the low income-earners, have, on average, risen less than the prices of those things which figure more largely in the expenditure of the higher incomes.

THE SALARY-EARNER HAS SUFFERED MORE THAN MOST

Most of those people in the middle and higher income groups have suffered a severe reduction of the standards they enjoyed before the war. But they have not suffered uniformly. There is little doubt that salary-earners, most of whom fall in the middle grade of income, and those depending wholly or largely on investment income for their livelihood, have been forced to accept greater sacrifices than other sections.

While salaries in money terms have increased above pre-war levels, after the deduction of income tax salary-earners on average are almost certainly left with a smaller net money income than they enjoyed before the war. This net money income, when translated into terms of the things it will purchase under the existing high level of prices, is very substantially less than before the war. If the average salary-earner with a family, after paying his life insurance, is saving anything out of his income to-day, he must be living an existence from which lounge-seats and cream cakes are debarred. Those salaried people who have attempted to maintain anything like their accustomed pre-war standards have been successful only at the expense of their capital resources, which in the great majority of cases are comparatively slender.

The salary-earner is at a grave disadvantage by comparison with most other sections of the community. Unlike the wage-earner, only in specific cases is his income adjusted directly for rising prices. Unlike the small employer, the worker on his own account, the odd-job man, or the member of a profession deriving his income from fees, his taxation is deductible at the source of his income. Unlike the wealthy he is unable to buttress his income to any extent by drawing on his reserves of capital. He is caught inescapably between the exactions of the tax gatherer on the one hand and of rising prices on the other. For him there is no loophole of escape—not even tax evasion, which is probably more common than many would like to believe.

The Re-division of the NATIONAL PRODUCT (continued)

REWARDS OF ENTERPRISE

Some people have been able to supplement their incomes in legitimate ways—business men and top executives, for instance, who often receive allowances to cover certain expenses. Some business men are not infrequently able to make purchases at prices which are not generally available to the mass of consumers. These perquisites and advantages can help materially to raise the real incomes of those fortunate enough to enjoy them. They are not, for that reason, unjustified. They are for the most part the legitimate rewards and privileges of business achievement, and are one of the incentives to high ambition and enterprise.

INVESTMENT INCOME

Coupled with the salary-earner in the sections that have suffered most severely from the re-division of the national product over the last eight years is that large group of people who depend on investment income for their livelihood. Interest and earnings on shareholders' funds have fallen, rentals have been "pegged," at the same time as the burden of taxation has increased and prices have risen. Of the total population of Australia there are about 870,000 people of sixty years and over. At a conservative estimate, probably 200,000 to 250,000 of these rely for their livelihood on income from savings such as interest and dividends, superannuation, annuities. In addition to this group over 60 years of age, considerable numbers of people below that age relying on income from similar sources have also undergone severe economic privation since 1939.

SOCIAL IMPLICATIONS

The ordinary representative member of the middle class is "the forgotten man" of to-day. In fact it is not too much to say that the political and economic consequences of the war

and its aftermath have placed in jeopardy the position of this large and socially significant section of the community. Not only has the real income of the salary-earner declined steeply, in many cases the savings—which, in a majority of instances, are probably held in the form of a bank deposit or savings bank account—on which he is counting when his working days are past, have greatly depreciated in purchasing power.

This section of the people is the main source of the community's administrative and professional talent. It contains within it a large proportion of the best-informed and educated people in the community, who have had not too much money to lack ambition and incentive, not too little to support a domestic and cultural background adequate for the development of the highest order of leadership. Politically—although by other standards unorganised—it holds the balance between the extreme forces of left and right, and it is accountable for those periodic swings of the political pendulum which are essential to a healthy democracy.

Whereas before the war this class felt no special economic compulsion to drastically limit their families, could send their children to private schools or universities, afford perhaps to own a motor car of the cheaper variety, to dress reasonably well, to employ domestic help, and to live in a comfortable and well-furnished home, all this will not be possible in the future unless the present trend is reversed. The stark fact is that £1,000 a year to-day is worth little, if anything more to the recipient than £500 a year in 1939. The middle class have been called the backbone of the community. If that is so the community is in process of damaging its own backbone.

The hallmark of this class is its sturdy individualism and independence. Its problem is not, therefore, solved by those who say that many of those things it has previously been able to afford out of its pocket will now be provided by the State. For if that happens the middle class will have lost its fundamental characteristic and unique quality.

ECONOMIC IMPLICATIONS

The economic implications of this sweeping transformation in the Australian income structure are no less important and no less serious than the social. The gap between all the different grades and forms of income has been greatly narrowed—between unskilled and skilled worker, skilled worker and foreman, foreman and factory manager, engineer and engine driver, doctor and nurse, between the slack and conscientious worker, the enterprising and the unadventurous, the well-educated and the less educated. It is as if a giant had taken hold of the income structure, and pressed it together, concertina-like, exerting the main force at the top end. It has been a levelling down process rather than a levelling up.

This narrowing of differential rewards has seriously weakened the incentive to self-improvement, and to risk-taking and enterprise, in practically every branch of economic activity. There is now less economic inducement than in 1939 for an unskilled worker to acquire a skill; there is less inducement for the skilled worker to load himself with additional responsibilities by attempting to become a foreman. There is less incentive for the man predisposed to hard work to improve his position by working overtime. There is less attraction for a young man to make the economic sacrifices and to burn the midnight oil in order to become a member of, say, the legal or medical professions. Where is the point in trying to scale the heights to reach the top in any form of occupation when the pinnacle has little more to offer in the way of rewards than a comfortable position somewhere on the middle of the mountain?

If this is an over-gloomy picture of the economic situation to-day, it is not, therefore, irrelevant or unjustified. For there is nothing more dangerous to the future of Australia than the present-day tendency to level out rewards to an extent where enterprise is pointless and ambition undermined.

NATIONAL CAKE MAY DWINDLE

This is not to say that the disparity in incomes that existed before the war was either economically indispensable or socially and ethically just. On the contrary, some redivision of the national cake to provide larger slices for those in the lower income groups was entirely necessary. But the process has been carried so far that, unless a halt is called, and enterprise and work again receive something of their old-time recognition, the national cake will continue to dwindle. If that happens not merely the middle and larger incomes, but everyone will have to be content with smaller slices.

Whether the present structure of the distribution of the national income is temporary or permanent is difficult to say. This depends partly on political developments that are at the moment not easy to forecast.

PRIVATE OWNERSHIP AND PRIVATE ENTERPRISE

However, as the unique economic circumstances of the immediate post-war period are supplanted by more normal conditions, it is reasonable to expect that hoped-for reductions of taxation and falls in the costs and prices of many goods, particularly durable consumer goods—motor cars, houses, furniture—will help to bring about a healthier relationship between different rewards. On the other hand, if every apparent advance in national productivity is regarded as an excuse for a further large increase in government expenditure on social services or on bureaucratic experiments, this expectation will not be realised. In that case the issue of private versus public ownership would become almost irrelevant. For private ownership less incentive does not add up to private enterprise. Private ownership plus competition plus incentive are the ingredients of which private enterprise is made. It is this formula which can render an incomparable service to the consumer.

