Is Australia Prosperous?

THE Australian public is being offered two sharply contrasting views on the state of the national economy.

On the one hand it is contended that Australia has never been more prosperous and the Australian people never better off. This view emphasises that for the first time in our peacetime history we are enjoying full employment—in fact, that there are more jobs to go round than there are people to fill them; that national income and consequently personal incomes—particularly wages and primary producers' returns—are at record levels; that business is exceptionally buoyant with soaring turnovers and profits and with private investment reaching a high peak. In addition to these highly favourable factors, an unprecedented expansion in expenditure on social services ensures for large numbers of people a greater measure of long-term economic security than they have ever previously enjoyed.

The other view of the Australian economy is as dark as this one is rosy. According to this view, the position has seldom if ever been more dismal. In many fields serious shortages continue. The lack of housing, or for many families even reasonable accommodation, is deplorable. Production overall is lagging, and productive efficiency—output per manhour—dangerously low. The Australian people are working less than ever before—because of the premature reduction in the standard working week, longer holidays, the abuse of sick pay provisions, excessive absenteeism and labour turnover, and general industrial irresponsibility. Taxation is a dead weight on the economy, and, combined with soaring living costs, is making it increasingly difficult for vast numbers of people to balance the family budget. While, in the background, the menaces of Communism and of the socialist programme of nationalisation are undermining business confidence internally and deterring overseas investors from investing in Australian industry.

Within the space of a few days expressions of these two diametrically opposed views of the economy were reported in the daily press. On September 30, the Prime Minister was reported to have said: "The speeches of the Acting Leader of the Opposition and of Mr. Fadden seemed to suggest that Australia was in dire distress. The real position was that for the first time there was almost full employment, profits were at a higher level than ever before, and the workers' savings had increased by £200 million . . . most taxpayers had had their tax assessments reduced by more than half since the war."

Three days later, on October 3, the Acting Premier of Victoria said: "Australia's reliance on war-wrecked Britain for houses, clothing, tobacco and cigarettes was ludicrous and humiliating. It was an admission that Australians were becoming a decrepit, lazy and irresponsible people, too tired to fend for themselves. The spirit of levity and indifference in Australia was largely due to artificial prosperity."

Which, then, of these two directly opposed views is correct? And if neither is correct, where does the truth lie? What are the real facts of the economy and how prosperous are the Australian people in this year of grace—1948?

It can be said at once that neither the exceedingly rosy picture drawn by one school of thought, nor the dark depressing view taken by the other, would be accepted by the dispassionate observer of national affairs, or by the economist using with scientific impartiality the techniques and measurements of his trade. Both extreme views are frankly political and should be regarded as such. Neither give an accurate representation of the state of the nation.

OVER

What, then, is the true story? What degree of real prosperity are the Australian people at present enjoying? How sound is the economy and how encouraging, or how forbidding, are the prospects confronting us?

These are not easy questions to answer. They involve complex and, to the ordinary person, tiresome economic analysis and difficult economic measurements. We will attempt to simplify the answer by posing three fundamental tests:—

1. How productive of real wealth is the economy?
2. How stable is it?
3. Is the wealth produced being justly distributed?

HOW PRODUCTIVE IS IT?

This is the bedrock test to be applied to any economy. There is little consolation in having a stable economy—that is, an economy in which all those seeking work are assured of a job —or in having a broad measure of economic justice, unless there is an ample production of real wealth. There can only be the grimmest of satisfactions in knowing that the cake is divided up equitably, if the shares of most of the participants amount to no more than a few crumbs. The size of the cake is all-important. An unproductive community — no matter whether or not all its members are employed—is a poor community. A productive community, even though all its members may not be employed, can be a rich community.

Australia has made no great strides in the production of economic wealth since 1938-9. The output of basic materials such as black coal, steel, iron and base metals, is not greatly above pre-war levels. Building materials show some slight increase, but in the key item of bricks, production is far below the 1938-9 output. In primary industry production would seem to be on the whole below the pre-war level. An informed guess might be that total Australian production, despite improved mechanisation in some industries, is somewhere around 10 per cent. above pre-war production. But this production has now to serve a greater number of people—the Australian population having increased by 9 per cent. Moreover, it is produced by the employment of many more workers—close to 600,000, or about 20 per cent. more than in 1938-9. Production per man is lower, and production per man-hour possibly lower, than before the war. No gains of any significance have been made in the fundamental matter of productive efficiency.

The situation therefore is not one in which we can take any particular pride. It affords a depressing contrast with the United States and Canada, where, in both countries, production is probably something like 50 per cent. to 70 per cent. above pre-war production. Moreover, the pattern of production is seriously distorted. We are using resources for the production of comparatively inessential luxury goods and services while industries—such as coal, iron and steel, building materials, food—which could contribute most to the raising of real standards of living and to the stability of the Australian economy are desperately short of equipment and labour.* In fact, from many points of view this is the most serious immediate problem of Australian economics — the problem of diverting resources away from the production of relative inessentials into more important channels, and particularly those which could contribute most to the improvement of industrial efficiency. It is a problem brought about by the post-war inflation of demand and the consequent condition of over-full employment. Although it has many times been mentioned in official quarters and in authoritative economic documents such as the 1947-8 report of the Commonwealth Bank, there has not as yet emerged even the

* One reason is that there is far too great a turnover of labour in many industries due to workers changing their occupation in search of easy jobs.

OVER

beginnings of a policy to cope with it. It hardly needs to be said that whatever solution may be possible—and there may be no solution—direction of labour would be utterly unwise, and, in any case, politically impracticable.

So far, therefore, as the first test is concerned, the verdict must be on the whole unfavourable. The economic practitioner would find himself compelled to refrain from giving the Australian economy a clean bill of health.

Australia has been fortunate in escaping some of the consequences that might have flowed from her comparatively poor record in the field of production. That this is so is due to the extraordinary incomes being received by exporters, particularly over the last two years, because of the abnormally high prices being obtained abroad for commodities such as wool and wheat. Income from exports in 1938-9 amounted to £122m. In 1946-7 it reached a record peak of £309m. But the record was short-lived; it was easily surpassed in 1947-8 when export returns reached the remarkable figure of £402m. This increase and the measure of prosperity it has contributed to the Australian economy have been entirely fortuitous; they owe nothing to the efforts of the Australian people themselves. The quantities of the main primary products exported are actually below 1938-9 levels.

The terms of trade have been extremely kind to Australia. While the prices we pay for our imports have risen markedly, they have not risen nearly so much as the prices we receive for our exports. This means that for a given quantity of exports we are able to obtain a greater quantity of imports for our own use and enjoyment than was possible before the war.

How fortunate Australia has been in this respect is illustrated by the British position. Whereas Australia is an exporter mainly of food and raw materials, such as metals, and an importer mainly of manufactured goods, Britain is an exporter of manufactured goods and an importer of food and raw materials. But since 1938-9 prices of manufactures have risen much less than prices of food and raw materials. Britain, by contrast with Australia, is, therefore, for a given quantity of food, forced to export a greater quantity of manufactured goods. This is one of the chief reasons why the recovery of Britain from the post-war economic crisis is proving so arduous and prolonged.

HOW STABLE IS IT?

One of the greatest curses of the modern economic community has been the irregular manner in which progress has taken place. This is the familiar problem of the trade cycle. Instead of a steady trend of progression, national income and employment have fluctuated widely, and sometimes wildly, from year to year. Critics of the United States, although prepared to concede the extraordinary productivity of the American economy, have usually concentrated their attacks on this point.

There are pronounced elements both of stability and instability in the post-war Australian economy. Present economic conditions are to a large degree artificial and impermanent. National income, spending and investment are all being pushed to exceptionally high levels by the immense proceeds being obtained from exports. But this cannot last. As world scarcities are overcome, world prices, particularly for primary products, will fall, and could fall precipitously. The very high level of overseas prices is a strong economic stimulant, but as with most stimulants, it could produce a very unpleasant hang-over. The more these high prices are allowed to stimulate and influence internal conditions the more difficult will it be to control the recession when it occurs. If we permit ourselves to rise on the crest of the wave, the deeper is the trough into which we can ultimately fall.

OVER

One of Australia's leading economic authorities, Professor Copland, made much of this point in a paper to the Economic Society of Victoria. He pointed out that the Australian economy was steadily moving towards a new state of values, costs and prices, established in the main by the level of export prices. Australia, of course, cannot altogether free itself from the influence of external conditions, but criticism might justly be levelled on the ground that much more might have been done to prevent overseas prices from having such a large and dangerous internal inflationary effect on the economy.*

Professor Copland likened the position to the years preceding 1929 when somewhat the same external conditions existed. There are, however, elements making for stability which were not present to the same extent in 1929. In the first place we have accumulated a comfortably high—but not too high — reserve of overseas funds which can be used to cushion the effect on the Australian economy of a collapse in overseas price levels.

In the second place, the internal financial and banking position is very different from 1929. The role of the central bank in controlling the volume of credit and in maintaining, in time of need, the liquidity of the trading banks, is now more thoroughly understood. In addition, the banking position is at present extremely sound; the banks have ample cash resources, and the ratio of their advances to their deposits is reassuringly low. In 1929 the position was very different. Then the banks' resources were strained almost to breaking point and the advance-deposit ratio was threateningly high. Moreover, economic knowledge has not stood still over the last twenty years. Due largely to the influence of the late Lord Keynes,

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* This matter has been dealt with at some length in an article entitled "Inflation," appearing in the August, 1948, number of the I.P.A. "Review."

there is a far better appreciation of the steps which governments can take, through increasing their expenditures and through public works policies, to maintain economic stability. While there is some doubt as to how far government spending of this kind will prove to be effective in practice, nevertheless we are at least entitled to feel greater confidence today in our economic understanding than say twenty years ago. There are thus elements of stability in the Australian economy which should not be under-rated. Undue pessimism about the future would be as unnecessary and as foolish as over-optimism. The most disquieting feature is the continued and rapid rise in internal costs and prices, which has already become dangerous, and could in the near future become critical, unless adequate measures are taken to prevent the overseas inflation from exerting its full effect on the Australian economy. The reduction of price subsidies, while wholly desirable from the standpoint of long-term policy, is temporarily aggravating the soaring trend of living costs and leading to an increased reluctance on the part of buyers to purchase goods at some of the fantastic prices prevailing.

IS THE DISTRIBUTION JUST?

A revolutionary change has taken place in the distribution of the national product since 1939 in favour of the lower income groups. This has been brought about by three main causes—a much greater percentage rise in money wages than in most other forms of income; a vast increase in government expenditure, particularly in expenditure on social services and social payments; and the exceptionally heavy taxation imposed on the middle and upper incomes by comparison with the lower. Under the tax rates proposed in the recent Budget,

OVER

incomes up to £350 (for a man, wife and two children) a year will actually pay less taxation than in 1938-9, while incomes up to £500 will pay little, if anything, more in tax. From £800 upwards, however, the disparity between present taxation and pre-war taxation becomes most pronounced. Incomes of £1,500 and over will pay double or more than double the amount of tax paid in 1938-9.

The lower incomes are now enjoying a much larger share of the cake, at the cost of very much smaller shares for other sections—for the middle incomes particularly, a catastrophically smaller share.

There are very few people who would question that some change in the general pre-war pattern of distribution of the national income was justified. At the same time, anyone capable of thinking seriously and sincerely on economic matters must now have grave doubts whether the process of redistribution has not gone too far. The scales today are loaded heavily in favour of the unskilled and against the skilled, in favour of the drones and against the workers, in favour of the less well-educated and against the highly-educated, in favour of the ultra-cautious and against the risk-takers, the enterprising and the adventurous. Sometimes, it must be suspected that the commendable passion for improving the lot of the under-dog has degenerated into the unworthy passion for pulling down the successful and the more fortunate. Present social policies appear to be inspired not so much by the desire to level up as the desire to level down—at all costs. And the cost is proving considerable—the cost of low production and inefficiency, a more or less stationary real national income, and unsatisfactory living standards. The pursuit of economic equality—which is a different thing from economic justice—is being given precedence over the pursuit of greater production and the Australian economy is suffering and will continue to suffer until the order of precedence is reversed.

TO SUM UP

The answer to the question posed at the head of this article must therefore be something like this:—

The Australian economy is not in a desperate position. Neither is it in a position in which we can feel wholly secure and about which we can feel unreservedly proud. The present high level of employment, investment and spending is almost entirely due to the fortuitous circumstances of a heavy overseas demand for our main exports and the extraordinary prices that these exports are bringing. Because of this we are enjoying a measure of temporary economic prosperity; but this prosperity is due to factors beyond our control and is not the result of any strengthening of our internal economic resources. Australian production has made little or no headway since 1939, and, moreover, there is a serious distortion of production away from the things which could best contribute to long-term stability and welfare. We have not been very successful in controlling the pressure of inflation overseas on internal conditions and, unless stern action is taken, the inflation of internal costs and prices within the next twelve months or two years could have serious consequences. There are some features, however, particularly the strong banking position, which must be taken into account in any assessment of long-term stability. The revolutionary change in the distribution of the national income, while in some cases to be commended, has proceeded too far and now constitutes a threat to efficiency and a brake on economic progress and the improvement of living standards.

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