

- - THE ISSUE

In an article entitled "A Master Theme," published in the March/April number of "Review," we suggested that the Federal election to be held near the end of this year could, with some good justification, be regarded as the most momentous in Australian history. We suggested further that whatever the main surface issues of the election, the fundamental underlying issue would be between free enterprise and socialism, and it was upon this issue that the Australian elector, would, in effect, be deciding when casting his vote. By that we did not of course imply that the return of the Labour Party would mean that in the next three years the Australian economy would be completely given over to socialism: nor did we imply that, if the Labour Party were rejected, socialism would for all time cease to be an issue in Australian politics and free enterprise would for good and all be established as the accepted way of life of the Australian people. We did, however, maintain that a vote returning the Labour party would mean, in the next few years, such a reorganisation of the economy on socialist principles, that it might be quite impracticable to go back, and it would then only become a question of how fast we were to travel toward the final goal of complete socialisation.

It is, therefore, most vital that the voter at this year's election be in a position to reach a sound and well-thought-out conclusion on the respective merits and demerits of free enterprise and socialism. In order to make some contribution to that end, we have endeavoured, in the paragraphs which follow, to set out and appraise, in a precise and ordered way, the main divergences of viewpoint.

The Ends to be Served.

First, we may ask, what are those things that Australians require of their economic system? What needs do they demand that it should satisfy?

They ask—first, that it should provide them with a regular job at good wages; second, that, where for any valid reason they are unable to work, it should provide them with an income sufficient at least to purchase the decent necessities of life; third, that it should provide them with a reasonably good standard of life, with the prospect of rapidly and progressively improving that standard.

And over and above these three basic material demands, they ask that it should furnish certain spiritual satisfactions; opportunity to prove that they are at least as good as the next man; the power to work out their own destinies, to order their own lives in their own way; the freedom to make their own decisions and choices; in short, the opportunity to achieve a life of dignity, independence and self-respect.

For purposes of clarity we may designate these ends as Full Employment, Security, Progress, Opportunity and Freedom.

There is no conflict of viewpoint between socialists and non-socialists on these basic ends of our economic system; although the socialists are inclined to claim for themselves a monopoly of the first two—Full Employment and Social Security—and the non-socialists to claim a monopoly of Progress, Opportunity and Freedom.

The only real conflict that arises is which form of economy will best serve

These objectives of economic and social policy—an economy organised on predominantly socialist principles or one based predominantly on free private enterprise. It is this question that the elector has to decide.

The political conflict today is thus not one of aims, but one of method. There is no political party today that could afford, for one moment, not to stand unequivocally for full employment and social security; nor could any political party long survive whose policies did not ensure healthy progress to better things, or whose policies stultified opportunity or suppressed the fundamental personal freedoms of the individual citizen.

It is utterly nonsensical, and insulting to the common-sense of the elector, for the socialists to accuse the non-socialists of being unconcerned about the problems of maintaining for all Australians a regular job and a decent measure of economic security; it is equally nonsensical, and just as insulting to the common-sense of the elector, for the non-socialists to accuse the socialists of consciously and callously plotting to destroy the personal freedoms and liberties of the individual. It is, however, perfectly legitimate for the socialists to question whether the methods of the non-socialists will, in fact, achieve the maintenance of full employment and security. And it is also perfectly legitimate for the non-socialists to argue that the methods of socialism will—irrespective of the real intentions of the socialists—inevitably lead to the destruction of human freedoms, to economic stagnation instead of economic progress, and to the restriction instead of the enlargement of opportunity for the individual.

The Methods.

Where, then, do the methods of the socialists differ from the methods of their opponents?

(a) Ownership.

They differ, first, on the question of ownership. At present the ownership of the productive resources of the community—of its farms, factories, shops, financial institutions, and most of its basic raw materials—is in the hands of private individuals. The ultimate aim of the socialists is to replace, over a very large field, private ownership of the means of production by government ownership. Individual socialists may differ widely on the exact extent to which this transfer of ownership should be carried. That is, for the moment, of no great importance. **The important thing is that under a socialist administration we would inevitably witness a progressive and steady increase of state ownership of the economic and industrial resources of the community.**

It may be argued against this that eight years of socialist government in Australia have produced no spectacular examples of nationalisation of industry. That argument, however, overlooks the fact that only four years of the eight have been years of peace—there was no time in war for experiments in nationalisation—and also that only constitutional difficulties have prevented the complete nationalisation of the banking system which would, in itself, have constituted a massive stride forward in the general march of government ownership. Also in Great Britain, we have seen a socialist administration, within the space of a few short years, introduce some very large instalments of nationalisation—the Bank of England, gas, electricity, inland transport, coal—and complete plans for the acquirement by the government of the great basic iron and steel industry. Moreover, the latest statement of the British Labour Party's policy calls for the nationalisation of meat works and cool stores, sugar manufacturing and refining, and of land for food production;

it also raises the possibility of nationalising the chemical and cement industries.

A socialist economy does not mean that all productive resources would be owned by the state; it does, however, mean that a great part, and certainly the most vital part, would be owned by the state. A private enterprise economy does not mean that there would be a complete stop to all projects of nationalisation; it does, however, mean that the predominant part of the productive resources of the community would remain in private hands.

(b) Control.

Under free enterprise the great mass of decisions concerning the use of economic resources are made by private individuals. The goods and services produced, the methods of production and selling, the prices charged, the spending of incomes, the investment of savings, the choice of occupation—all these are decided by the individual person in his capacity as worker, trader, consumer, or investor. The agency through which these decisions operate, and under which the wishes of the consumer are conveyed to the producer, is the free price market.

Under socialism the great bulk of the vital economic decisions are made not by private citizens but by governments, which means, in practice, by public servants working in government departments or industries. These decisions are made effective through government controls over materials, production, consumption, finance, prices, imports and exports. Total or near-total planning by the state takes the place of the free price mechanism.

The effect of these controls is to narrow greatly the area in which the private citizen can exercise his own personal decision and choice. The private producer, for instance, could only produce what was permitted by the state plan of control over materials, imports and investment,

and what was permitted as determined by the state pattern of government ownership. The consumer's freedom to choose the goods and services on which to spend his income would be limited to those goods and services produced as a result of decisions made by government officials. The businessman could only launch a new enterprise if the state controllers of investment saw fit to permit him. The importer could only import those goods for which he could obtain a government licence. The worker would be free to choose his occupation, but only to the extent permitted by the state plan of production. The private broadcasting station would be able to determine the nature of its programmes only provided a government board did not see fit to object (hence the Broadcasting Control Board recently established by the Commonwealth Government). The private medical practitioner, if he existed at all under socialism, would be limited in his choice of location of work, in the prescription he could prescribe, and in the fees he could charge, by the appropriate government agency (hence the Pharmaceutical Benefits Act and the proposed regulations concerning the provision of medical services). The examples could be multiplied ad infinitum.

The non-socialist would not necessarily object to all controls of this nature under all conditions; in time of war for instance he would concede the necessity for a wide field of government control. And there is one important type of control, which the non-socialists believe to be essential, that is, control by the government and the central bank (each in its appropriate sphere) over money and finance—the volume of credit and cash, interest rates, exchange rates and so on.

(c) Co-operation—Competition.

It is in the field of government direction as compared with private initiative

that the fundamental differences between the methods of the socialist economy and of the free enterprise economy manifest themselves. But there are two other differences in method worth separate comment.

One is that the theoretical emphasis of socialism is on co-operation as opposed to competition, which it labels as inhumane, wasteful, destructive both of material resources and spiritual values. As the instrument for raising the living standards of the people, for producing more, better and cheaper goods and services, socialism, since it largely dispenses with the motive force of competition, calls in effect for a vast national effort in co-operation. The nationalised industries and the state plans narrow the area in which competition can take place. Prices fixed by a government agency instead of prices determined in the competitive market place limit the extent to which competition can be an effective driving force. Free enterprise, on the other hand, depends primarily on competition, combined with adequate prizes for the fastest runners, to produce more and better goods and services and for keeping down costs.

(d) Income Distribution.

Both socialists and non-socialists believe in the greatest possible degree of equality of income distribution, consistent with social justice and with economic progress. But socialists and non-socialists differ both in their interpretation of what is socially just, and on the degree of inequality necessary to ensure economic progress.

The socialist leans to absolute equality on the theory that one man's material needs are as great as another. In the strict socialist view complete social justice would probably mean complete

equality. But he is constrained to modify this principle by his acceptance of the need to provide some degree of incentive if men are to put forth their best efforts. The socialist aims to distribute income through heavy and steeply progressive taxes, by social services, and by subsidised commodities or purchases, to the greatest extent compatible with what he regards as a reasonable economic incentive. But what he regards as sufficient economic incentive is much less than what the non-socialist is prepared to accept as sufficient. According to the non-socialist, for instance, the present scale of taxation on the middle and the upper incomes is too heavy for those in these grades of incomes to be expected to give their best.

But the non-socialist is not prepared, either, to accept the view that social justice depends on a near approach to equality of income. His view, on the contrary, is that the size of a man's rewards should depend on the quality of his contribution; and that once the decent minimum needs of life are assured to all the community, then justice demands that greater, perhaps much greater, rewards should go to those who work hardest, and who are the most able, diligent and enterprising, and to those who possess outstanding gifts of character and leadership. This does not, however, mean that he would not wish to see some redistribution of income and wealth within the middle and higher brackets of income in favour of incomes from enterprise and work against those from property; in favour of those whose occupations are vital to the community as against those whose occupations are not so vital; and, since cultural values should be encouraged, in favour of the better educated against the less well-educated. While not for one moment holding that the existing distribution of

income is satisfactory, the non-socialist, on economic, moral and cultural grounds, rejects the doctrine of equality of reward.

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We have now reviewed the main differences in method between the socialist economy and the free enterprise economy. The important task remains of determining which of these methods will be more effective in securing those ends of our social order now accepted equally by socialists and non-socialists. Full Employment, Social Security, Progress, Opportunity and Freedom.

(a) Full Employment.

The maintenance of full employment depends, first, on the adoption of the right economic policies and techniques, and second, on human wisdom and responsibility. The first is a matter of economic understanding and administrative competence, the second, of moral and spiritual stature. The best economic techniques would be hard put to it, and would probably be unable, to maintain economic stability where the main sections of the community persisted in acting in an irresponsible and morally unstable fashion. This is by no means sufficiently emphasised. The task of economic policy in maintaining employment is rendered infinitely harder if trade unions push costs to uncompetitive levels by restricting production or pressing for impossible increases in wages, or if employers sink all higher considerations in the pursuit of excessive prices and profits and unduly low wages.

Given, however, a reasonable sense of what is economically right and morally proper on the part of the great proportion of the community, then there is some reason to hope that economic knowledge has now developed to the point where it

may be possible to maintain reasonably full employment in perpetuity.*

Would the socialist methods of public ownership and planning, and equality of income distribution, be more likely to achieve success in maintaining full employment than the methods of private ownership, free competition and incentives of private enterprise? In a closed economy, that is in one more or less shut off from all economic intercourse with other nations, the answer might be in favour of socialism. It is, of course, easier to preserve stability where dictatorial powers of decision and direction are in the hands of the state than where those powers are widely dispersed through the community. If the government is able to fix wages, control prices, forcibly compel workers to accept employment, control the spending of personal incomes and the investment of savings, the problem of full employment is much less complicated than where those things are subject to personal idiosyncrasy and choice and the bargaining of the competitive market place. Full employment presents few problems in Russia, where labour can be shifted en masse from place to place simply by a state decree. And while socialism may stop a long way short of the Russian system it approaches much more closely to the totally controlled economy than free enterprise.

This does not, however, mean that full employment is unattainable under private enterprise. On the contrary, the two main world economic authorities on full employment—the late Lord Keynes and Lord Beveridge—have been at pains to emphasise that the conflict between

*For this development the economist has been given singularly little credit. If comparable discoveries had taken place in any other field of science, they would have been hailed to be of world-shaking dimensions.

socialism and free enterprise is largely irrelevant to the question of full employment and that full employment can be achieved under private enterprise. Thus Beveridge says: "The necessity of socialism in the sense of nationalisation of the means of production, distribution and exchange, in order to secure full employment has not yet been demonstrated"; and "... it would be possible to obtain full productive employment under conditions of private enterprise." And Keynes: "No obvious case is made out for a system of state socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the state to assume. If the state is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary."

Thus, for the purpose of full employment, there is in the view of the highest economic authorities no clear necessity for a socialist system. And, while in a closed economy it may be a simpler task to achieve full employment under socialism than under free enterprise, there is no modern nation in the world whose economy even remotely resembles a closed system. Certainly the Australian economy does not. The problem of employment in Australia is influenced greatly by what is happening overseas and by the extent to which we can compete in markets both at home and abroad with overseas producers. This competitive ability depends on our relative efficiency and costs of production. And here the balance of advantage is decisively in favour of free enterprise as against socialism. Socialism has yet been able to offer no practical alternative to the compulsions of competi-

tion, or the incentives of private gain, as devices for raising efficiency and lowering costs. The controlled economy, as we have seen in Britain and Australia since the war, is a high cost economy, and while it may operate with an apparent effectiveness in a world sellers' market, it becomes subjected to all sorts of stresses and strains under conditions of world competition.

In the Australian economy it will in the long run be impossible to maintain full employment, unless we keep costs to levels at which our industries are able to compete with those of other nations. Since the socialist methods can hold little prospect of great improvements in productive efficiency, in a socialist economy it might ultimately be necessary to cut wages and salaries in order to keep down costs. A policy based on private enterprise might hope to avoid this by providing the motive force necessary to increase man-hour output.

(b) Social Security.

Social security, in the sense that all decent citizens should be guaranteed a reasonable minimum of subsistence, is now accepted by all shades of political belief. All political parties are irrevocably pledged to provide an income to those who are unable, because of age, sickness, temporary unemployment, family responsibilities or other causes, to acquire a sufficient income for themselves. No political party would, we believe, venture to reduce the present scale of unemployment and sickness benefits, or of pensions or child endowment, by so much as 1/-. These things have come to stay for good and all.

It may be contended, however, that the socialists would at least be more disposed

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to raise the existing standard of social security—to increase for example old age and widows' pensions or sickness benefits.—than those who support free enterprise. That is debatable. But, whatever their inclinations in the matter, even the socialists know that with the present scale of national production and wealth we have just about reached the limits of what degree of security it is possible for the state to provide. The present Government has, for instance, made it clear on a number of occasions that it would be desirable to eliminate the means test so that income should be no bar to qualification for social benefits. Why then, has it not done this? Simply because the real national income is at present insufficient to stand the extra cost involved.

There is now, in one sense, no real conflict between the aims of Progress and Security. On the contrary more Security depends on more Progress. A higher standard of social security can only be reached by raising the level of wealth production. The issue of security thus largely rests upon which of the two—the methods of socialism or the methods of free enterprise—is more likely to accomplish a faster rate of progress.

(c) Progress.

Is progress likely to take place more rapidly under government ownership and controls and strictly limited incentives, than under private ownership, private initiative and decision, free competition, and good prizes for the best performers?

Theoretical argument and practical experience both point overwhelmingly toward the methods of free enterprise.

Let the reader give a conscientious answer to the question whether or not the amount of work he is prepared to do, the

enterprise he is prepared to display, the risks he is prepared to take, depend upon the size of the rewards he can expect in return? If he is a worker, would he be so willing to work overtime if he did not stand to receive time and a half or double time rates of pay? If he is a business man, does he work as intensely or as long when there is little or no competition and when taxation takes away most of the extra profit he might expect to make, as when he has competition to meet? Or will he be so eager to take the risks and worry of launching a new enterprise if he cannot expect to reap much advantage from the higher rewards he would thus acquire? If he is a farmer, will he sow more acres, or run more sheep, or milk more cows, if he cannot expect much extra reward by so doing? If he is a public servant would he strive hard for promotion and be willing to carry the burden of additional responsibility if there is little gain to himself by so doing? Is it likely that the management of a nationalised monopoly would be so concerned to give good service, to improve methods and raise efficiency, or be so willing to indulge in experiment, as the management of a private industry subject to the pressures of direct and indirect competition, and knowing that if they cannot make ends meet they go out of business?

And what does the record of practical experience show?

It shows that under free enterprise progress has taken place at an extraordinary rate. In the last hundred years the material world has been changed out of recognition in those countries which have followed the ways of free enterprise. Vast technical and scientific gains allied to enlightened social policies have immensely broadened the horizons and improved the standards of life of the poorer sections of society.

For the peoples of the democracies to discard the methods by which these heights have been won for the directly contrasting methods of socialism would be to take a tremendous and fateful step. The nation in which the principles of free enterprise have been most fully applied—the United States—has now far outstripped all other nations in wealth production and in the profitable application of scientific knowledge to material advancement. And, even in Australia, where progress has not been so fast, real wages have increased by something like 30% in the last 40 years, average hours of work have been reduced from 50 to 40 hours, holidays have been greatly increased, working conditions have improved beyond recognition, social services and social benefits of all kinds have multiplied many times.

What experience we have had of socialised industries has not been encouraging. It is true that some state-owned enterprises have been very successful—where conditions have been favourable. Many have not. Political interference, inevitable in the nationalised industry, the absence of the compulsion of any form of competition, the fact that the consumer has no means of obtaining redress but is forced to accept what he is given, are factors which militate against the success of state-owned industry and which have frequently led to financial failure, stagnation, and dissatisfaction on the part of the public.

In the matter of Progress, then, commonsense reasoning and practical experience both conclusively favour the methods of free enterprise as against those of socialism.

(d) Opportunity.

Will socialism procure greater opportunities for the individual man and woman

to make the most use of their talents than the way of free enterprise? If it could there would be much in its favour, for the desire for self-realisation and self-expression is one of the most fundamental and profound of all human instincts; and where that desire cannot be satisfied—partly at least—there follows a life of frustration, unhappiness and discontent.

Insofar as socialism would lead to a greater degree of equality of income, it may at first sight be contended that opportunities for the individual would be improved and broadened. One of the most potent sources of inequality of opportunity has been inequality of income and wealth. Therefore, say the socialists, remove the latter and you will correct the former. Complete equality of opportunity could exist only under conditions of perfect equality of income and capital resources. But even the socialist does not go that far. He recognises the need for preserving a minimum measure of incentive and therefore of inequality. He would, however, go much closer to the equalitarian ideal than the non-socialist, who insists that the incentives of the socialist will be inadequate for the purpose of stimulating a rapid rate of progress.

But equality of opportunity is by no means the whole of opportunity, nor even the main part of it. It is clearly the height of illogical absurdity to start all the runners off the same mark, if you refuse to permit them to run their fastest during the race, or refuse to allow any runner to get far ahead of the field. The non-socialist, therefore, while conceding that socialism might produce a greater measure of original opportunity, would be justified in arguing that throughout the greater part of his life the individual would find his opportunities severely restricted; that, in fact, under

socialism he would have far less chance to make the most of his talents than under free enterprise. Not only would the heavy taxation of the socialist state weaken his urge to do bigger and better things, but the nature of socialist organisation, the centralisation of power in nationalised industries and in state officials, would leave him with far less real opportunity for self-expression. The range in which he would exercise his personal decision and discrimination would be limited. The scope for becoming a "big shot" in his own immediate environment would be narrowed. Many people would be condemned all their lives to be little fish in the great big seas of nationalised industry and of the socialist bureaucracy.

Free enterprise has never offered complete equality of opportunity. It can never do so in the future, although it can approach much more closely to it than in the past. But it has offered great prizes for those with stout hearts and energetic imaginative minds; and through the adoption of right policies of improvement and modification the channels of opportunity can be cleared of obstructions, so that in the future all will have the chance to make the most of their talents and to achieve their highest ambitions.

(e) Freedom.

Once full employment and security have become firmly established as part of the economic structure, the problem of freedom centres on the extent to which the individual is free to work out his own life in his own fashion. There can, of course (and here the socialists have been on sound ground), be no true freedom for the unwanted unemployed and for the man who can only scrape together sufficient for

a miserable subsistence. The starving man must be pardoned if he is prepared to sell his soul for a loaf of bread.

But, as we have pointed out, full employment and security are now first priorities in the policies of all political parties. We have also suggested that there is no reason to believe that the ways of socialism will be any more effective than the ways of free enterprise in achieving the goal of permanent full employment; and that so far as social security is concerned, improvement depends in the future solely on the level of national wealth production.

The essence of socialism lies in the substitution of state planning for individual planning—decisions and choices by government officials instead of decisions and choices by private individuals. The acceptance of socialism by the individual means, in effect, that he is prepared to relinquish some of his own power and freedom of choice in favour of additional powers for state officials.

If socialist policy involves control over prices, that means that the private producer and consumer are no longer free to settle prices through the ordinary process of bargaining. If socialism means that the state determines the direction of investment, no man can set up in business without a government licence. If socialism means that the state, in effect, decides the kinds and quantities of things produced, the consumer must buy within the range determined by the state or not buy at all. If socialism means that the state becomes the main employer of labour, then the freedom of trade unions to settle the conditions of their employment would inevitably dwindle.

The central point is that if the individual, whether in his capacity of worker,

investor, consumer, does not like what the state does, he would have little alternative but to accept. Under free enterprise he has an alternative. If he does not like the conditions imposed by one employer he can try another. If he does not like the terms required by one bank he can approach another. If he does not like the refrigerator produced by one firm, he has the choice of a dozen or so others. And so on, ad infinitum!

Socialistic methods inevitably narrow the scope for personal choice and decision throughout the entire range of activities in the economy. At every step the individual would be confronted with government prohibitions, compulsions, directions. His personal life would be confined within ever-narrowing boundaries.

On the issue of freedom there is no shadow of doubt that the balance of advantage lies overwhelmingly in favour of the free enterprise way.

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The Summing Up.

On all counts, except perhaps one, the methods of free enterprise have undeniable advantages over the methods of socialism. With full employment

the issue is inconclusive; there is no reason to believe that one route is better than the other. Socialism has an advantage in the centralised power of compulsion inherent in the socialist state, but it is at a disadvantage in a competitive world in that it cannot pretend to achieve the same degree of productive efficiency as free enterprise. Since the standard of social security provided in the future rests largely with the rate of progress we can achieve, under free enterprise a far greater measure of real security should be possible, because, in the matter of progress, the record of free enterprise speaks for itself. With individual opportunity and personal liberty, free enterprise must be placed far above socialism. In fact, the onus is still on the socialists to prove that their way of life would ultimately be consistent with the retention by the individual of even a minimum of personal choice and decision.

The modification and improvement of the methods of free enterprise, for which there is great scope and urgent need, can immensely widen the opportunities for all members of the community, and bring to all the means of raising their material standards and of increasing their spiritual and cultural stature.

