A DISTINCTION *with a* DIFFERENCE

RECENT surveys of business conditions in the daily press and elsewhere give a rather rosy impression of the business outlook in Australia. So long as the limited character of these surveys is properly appreciated by those who read them, they can be highly useful to the business man and the community in assessing short-run prospects for trade and employment. There is a danger, however, that many people may read into them more than they are meant—or should be meant—to convey.

It should be made clear that there is an important—although not sharply defined—distinction between **business** conditions and **economic** conditions. This is a distinction which it is only too easy for the ordinary reader to overlook, and which is perhaps not always kept clearly in mind by commentators on business conditions themselves. For instance, it is possible for the immediate outlook for business and trade to be reasonably good, even though underlying economic factors may give real cause for disquiet. A survey of business conditions that paints a bright prospect may thus be taken to indicate a sound basic economic position when the true situation may be far otherwise.

To take an extreme case, it is possible for the short-term outlook for business profits to be satisfactory, for business turnovers to be heavy, and for employment to be high, even though the economy is suffering from a general malaise of low productive efficiency and of unsatisfactory standards of living. Business conditions, too, can be bolstered up in the short run by artificial stimulants which, in the long run, may inflict serious harm on the economy. Or, again, a prosperous state of trade and employment in a given country may be due to highly favourable external influences of a temporary or uncertain kind rather than to any inherent virtue in the policies or efforts of the country itself.

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SOME of the recent appraisals of business conditions in Australia show a tendency to skate over underlying economic forces which, sooner or later, must inevitably assert themselves. The economic or business commentator is naturally desirous of placing an optimistic interpretation on current conditions whenever he reasonably can. To spread unwarranted pessimism is, admittedly, the unforgivable sin on the part of the writer on business conditions. But to avoid committing this sin, some commentators appear to be leaning over backwards in their eagerness to paint a glowing picture of almost unbounded and unqualified prosperity. A neglect to look unpleasant facts in the eye, whether or not the neglect arises from ignorance of their existence, or from sheer reluctance to do so, could in the long run prove to be dangerous and reprehensible.

Commentators on **business conditions** usually concentrate on the short-run factors. What is the outlook for trade and employment for the coming six months? How good are the prospects for business profits? Is the return on invested capital likely to be better this year than last? Is credit going to be tight or easy? What are we getting for our exports? Are savings bank deposits increasing? Are retail trade turnovers better this month than last? How are stocks moving? And so on.

All these indications, of course, are important. But **economic conditions** are concerned with more fundamental desiderata: Is the immediate prosperity soundly based? Is it likely to be long-continued? Or does it depend on fortuitously favourable circumstances which could change rapidly for the worse? And if these favourable circumstances should change, is the economy of the country well placed to meet the new conditions? Is the level of man-hour or man-year output satisfactory by overseas comparisons? How do costs compare? If inflation has been checked and price stability achieved, is the stability likely to be maintained, or will inflation take over again in the near future? Is it possible that serious deflation could set in? Is there a sound balance between the different forms of production?

These are considerations to which surveys of business conditions sometimes devote no more than a passing glance. But they are basic to the correct assessment of the true health of the economy.

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RECENT surveys place a great deal of emphasis on the improvement in business conditions over the 1952 recession. Prime place of importance is given to the remarkable statistical transformation in the balance of payments position. This has brought with it an easing of the tight money conditions of the last six months of 1952—bank deposits have increased, business stocks are now close to normalcy, and all-round liquidity has improved. Employment has, in recent months, tended to increase. Despite the cuts in the public works programme, public investment is still remarkably high (in money terms only 5% below last year). The investment intentions of private business look reasonably good (although there has been some decline in private capital expenditure on durables such as housing and motor-cars). Supplies of basic goods such as coal, steel, power and cement have expanded notably; the shortages and bottlenecks of twelve months ago have vanished and in some commodities surpluses have appeared. The tempo of retail trading is fair to good—but not by any means exciting. The rampant inflation of 1952 seems, for the moment at any rate, to have run its course and there are now hopes of reasonable price stability.

The influences behind this improvement are mainly three—the high level of export prices (much higher than most people had hoped for) combined with greater volumes available for export; the import cuts which have played a major part in the balance of payments reversal and enabled businesses to correct the stock surpluses of last year without grave financial embarrassment; and the more realistic financial policies pursued by the Commonwealth Government.

All this is certainly grounds for satisfaction. But even on a strictly short-run business interpretation of the position, two points are perhaps not adequately emphasised.

First, while the price spiral seems to have been arrested, for the time being at any rate, prices are on the whole abnormally high. That this fact is having a serious effect on consumer purchases, particularly in middle class trade, is beyond dispute. Buyer resistance here continues to be stubborn and the prospect is that it will continue so unless prices can be scaled down to a lower level. Excessively high prices produce their own purchaser resistance regardless of the income-price ratio. This resistance is especially evident in such things as higher grade clothing and in the better quality food served by reputable hotels and restaurants. Hotel dining rooms and cafes crowded to capacity not so long ago are today half empty.

Second, while the statistical indicators of trade and employment look promising enough, there is a disturbing absence of real buoyancy. Buyers are wary. Caution rather than adventure is the keynote. Trade is not by any means dead, but it is a trifle flat. The froth is off the glass. Business and consumer psychology, in spite of the improvement from 1952, is not overflowing with confidence. There is certainly no excess of Keynesian "animal spirits". To take one example, the stock exchange still lacks life and fire despite the overall improvement in monetary conditions. By and large, the Australian public appears to be taking a rather more cautious view of its own economic position than the professional commentators.

In this the public's instinct may be sound.

For while the immediate business outlook seems fairly satisfactory—if not quite so satisfactory as some commentators appear to think—the longer term economic prospect cannot yet be viewed with equanimity. *The surface symptoms of the health of the Australian economy may be on the whole favourable, but deeper diagnosis gives cause for some uneasiness.*

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THERE are several grounds for this disquiet.

First, the Australian economy, in spite of improving productivity in some directions, is still basically an inefficient economy. This does not mean that there are not many efficient industries, efficient even by the highest world standards. It simply means that, taken as a whole, the rate of achievement in the Australian economy, the man-year output, whether in a public utility concerned with transport, the building of a bridge across the Yarra, customer service in many fields, or a decision on a site for a great sporting event, is far lower than it could be and lower than in other English-speaking countries.

The plain truth is that too many Australians, by and large, do not work hard enough. Effective working hours (after deducting holidays) are very much shorter than in other countries, and there is often not the same intensity or seriousness of purpose on the job. This comment does not apply exclusively to any one section of Australians. It applies to all sections; to employers as well as employees; to the typist as well as the technician.

That the tempo of work is generally slower than in many overseas countries is partly due to the fact that Australians are able to enjoy a comparatively high standard of life for a comparatively low standard of effort. In Britain the Australian visitor is able quickly to sense the fight that goes on day by day for economic survival—a fight to preserve a standard of living which is, today, not high relative to that of other countries. In Britain there is a sense of strain and urgency entirely absent from the Australian scene.

The Australian attitude to work is largely a response to an unusually beneficient environment. The Australian possesses natural facilities for recreation and enjoyment which are probably unequalled in any other country in the world. If the Australian worker, unlike his American counterpart, lacks a refrigerator and a television set in his home, he has on the whole more opportunities for sun-bathing and sport. Australia can, for the present, afford the luxury of short hours of work and get by. Britain cannot. In Britain the labour movement has embraced the aim of high production and accepted the need for incentive schemes, because of the grim alternative of a declining living standard for its members. In Australia the trade unions are able to persist in their opposition to industrial methods of this kind only because conditions of life are easier.

The Americans work harder, and more intelligently, because of a different national philosophy which is summed up in the phrase "the American way of life." The essence of this philosophy is the constant striving for self-advancement and self-improvement on the part of the individual. The American, therefore, looks always to the future which he is certain can be better than the present or the past. The Australian seems more concerned to preserve what he has. He is not so intent on acquiring the latest model motor-car, as he is on ensuring that his weekly excursions to the football or the races are not interrupted.

The problem of Australian productivity is thus, at root, a matter of national psychology and environment. All this does not necessarily mean that the American approach to living is superior to the Australian; it means only that it leads to harder work, greater efficiency and productivity, a higher standard of living for the American people, and a stronger, more flexible economy.

To the casual observer the large numbers of modern factories that have sprouted like mushrooms around the outskirts of Sydney and Melbourne, the spectacular industrial progress of provincial centres such as Geelong and Dandenong, the many massive public projects at present under construction, may seem to contradict assertions of low productivity. The visual evidence of rapid economic expansion is indeed impressive. But several qualifications must be borne in mind. First, the expansion of the post-war years must be viewed against the background of an increase of population of 20%. Second, development on the scale that has occurred would not have been possible without the fortunate conjuncture of a succession of good seasons and abnormally high prices for the products of the soil. High returns from exports have buttressed development not only by giving Australia a greater command over the resources of other countries, but also by encouraging overseas investors to take an optimistic view of Australian prospects. To what extent, too, new capital construction has been at the expense of existing capital resources — for instance, the running down of capital invested in roads and transport facilities, and city buildings —will never be accurately known.

A second serious weakness is the high level of costs. There is a gaping disparity between British and Australian costs of production. Hourly wage rates in Australia for male workers average about 8/-. Average rates for British workers are 3/10 (sterling) or about 4/10 (Australian currency). Hourly wages in Australia have increased 149% since the end of the war, compared with increases for Britain of 59% and for U.S.A. 71%. The post-war inflationary gallop has proceeded at a much faster rate in Australia than in other English-speaking countries.

A COST disparity of these proportions creates a fundamental out-of-balance situation in the economy which suffers from it. It can be sustained only by virtually excluding all overseas competition from the home market (which has, in effect, been done through the import restrictions) and only so long as prices for major exports remain sufficiently high to return a margin of profit over the excessive costs of export producers. It is true that the import cuts were originally introduced to cope with a sudden and unexpected collapse in Australia's overseas reserves; but the restrictions could not now be removed without bringing chaos in many Australian industries. Unless Australian costs move closer to world levels, the import restrictions imposed as a temporary expedient, may have to be continued much longer than is desirable.

To claim any intrinsic virtue in the import cuts is, of course, absurd. They are, at best, a highly unpleasant necessity and they are achieving their purpose of bringing Australian purchases from the rest of the world into line with what Australia is able to obtain from its sales to the rest of the world. A nation that is forced to do this is in the same straits as a man who is compelled to cut his purchases because he cannot afford to continue to live on the old scale. In the nation's case as in the individual's, it means, among other things, a lower standard of living. The import cuts, while they remain, are therefore a symbol of economic weakness and unbalance.

The scarcity of savings as evidenced by the difficulty of obtaining adequate monies for financing developmental projects and private industrial expansion is a third disturbing feature. The savings famine is partly a consequence of a tax structure which saddles enterprise with a burden ill-suited to a young country striving to grow to full industrial maturity.

Finally, the rather tenuous character of Australian prosperity serves to emphasise further the distinction which it is imperative to draw between basic economic conditions and immediate business prospects. A steep fall in prices of wool and wheat (which have fortunately remained firm) or a drought year (not unknown in the past) would have unpleasant consequences for Australia's over-inflated economy and would compel far-reaching re-adjustments. The dependence of Australia on a continuance of high prices for wool and wheat, especially the former, reveals the shaky foundations on which Australian stability and prosperity rest.

Experience since the war only confirms what was well known before the war; that is, the unique reliance of the Australian economy on one product, wool. This alone should prevent us from accepting without reservation the optimistic assessments of the business outlook which have recently appeared. If the short-term business prospect is fair to good, the basic economic position continues to give cause for some unease.

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