

The Australian public is badly informed about company profits. Misconceptions about their size, distribution, their effect on prices, and the important role which they play in industrial progress and the betterment of living standards are widespread. Business should leave no stone unturned to correct these dangerous misconceptions, which arise almost wholly from lack of knowledge of the facts.

As a contribution to this end, the Institute recently issued a brief and simple statement to the daily and country press and periodicals throughout Australia. The full text of this statement is republished here.

The **TRUTH ABOUT PROFITS**

THE Institute feels that a simple explanation of company profits to the public is long overdue. There is nothing about which more nonsense is spoken and written even by highly educated people holding important positions in the community.

1. ARE PROFITS IMMORAL?

The profit motive is present in everyone. All men strive to increase the rewards for their work—the unskilled labourer as much as the shopkeeper or the top business executive. There is nothing immoral in this. On the contrary the desire of individual men and women to better their material position is entirely praiseworthy and is the mainspring of all progress.

2. HOW LARGE ARE COMPANY PROFITS?

They are far smaller than most people imagine. Profits in Australia are much lower than in any other English-speaking country.

Here are the latest available figures:—

	% Profits on Shareholders' Funds	
	Before Tax	After Tax
U.S.A.	28	12
Canada	24	14
United Kingdom	22	8
Australia	15	8

Aggregate profits are, of course, meaningless. *A total profit of £1 million earned by a company with a capital of £10 million is no greater proportionately than a profit of £10,000 made by a business with a capital of £100,000.*

3. WHO BENEFITS FROM COMPANY PROFITS?

Many people believe that company profits are parcelled out among a few rich people. This is quite wrong. Actually a very high proportion of all people earning incomes benefit from company dividends.

There are, for a start, over 500,000 shareholders in Australian industry. In addition, hundreds of thousands benefit from investments in shares by life insurance companies and superannuation, charitable and even religious funds. The small minority with large holdings of company shares are taxed at over 15/- in the £ on their dividends. Over 30% of all dividends (after allowing for taxation on shareholders' incomes) in 1948/9 went to people with incomes under £1,000 a year and to charitable bodies. If all dividends received by the top incomes were shared out among the low incomes, the latter would not benefit by more than a few pence a week.

In 1951/2, the Commonwealth Government took the lion's share of company profits—£150 million in company tax. Shareholders got £85 million.

4. WHAT IS THEIR INFLUENCE ON PRICES?

Very small! In 1951, the average rate of company dividends on shareholders' funds was 6%. If this rate were reduced to the Commonwealth Bond rate of 4½%, the prices of goods would fall by less than 2d. in every £ of goods sold.

5. WHAT USEFUL FUNCTIONS DO THEY PERFORM?

(a) They provide an incentive to companies to raise efficiency, reduce costs and supply more and better goods for the public.

(b) All profits are not paid out in dividends. A large part (in Australia an average of 25%, in the United States an average of 60%) are retained every year in the business. These profits are used to improve and expand productive equipment, to promote research, and to safeguard the financial future of employees. All this is the basis of industrial progress and better living standards. *Every year the American worker is being provided with two to three times as much new equipment to aid him in his task as the Australian worker.* How is this vast amount of equipment paid for? A great proportion is financed out of company profits retained in the business and not paid away to shareholders.

6. WHERE DOES THE PUBLIC INTEREST LIE?

All history shows that living standards rise, and only rise, as the productive equipment of the community is expanded. Company profits are the main means by which this can be accomplished. The continual sniping at profits slows up this process and acts against the best interests of the community itself.

Australia is a magnificent country with prospects that are unrivalled. But, if they are to be realised, there will have to be a very different attitude by the public and governments towards company profits. We believe that this new attitude will arise when the public know the truth about profits and it is as a contribution to that end that this statement has been made.

How can there be a conflict between profits and living standards when in North America, which has the highest real wages in the world, company profit rates are far greater than in any other country.

