

# ipa Review

The Institute of Public Affairs

289 Flinders Lane,  
Melbourne, 3000

Telephone: 63 6558

October  
December  
1975

Vol. 29, No. 4

## Editorial —

### Let the People Alone

In a paper delivered in 1930 (the famous Romanes Lecture at Oxford) Winston Churchill, with the uncanny prescience he frequently displayed, threw doubts upon the capacity of the traditional parliamentary institutions to cope with the problems which would face the democracies in the decades ahead.

This was a remarkable admission for a man who referred to himself proudly as "a child of the House of Commons", whose combative temperament revelled in the cut and thrust of parliamentary debate, and who loved the drama and glamour of the political life. The people, Churchill said, were no longer interested in politics, they were interested in economics. "What the people want," he argued, "is more money, better times, regular employment, expanding comfort and material prosperity." The constitution of Parliament, he averred, was ill-adapted for the solution of those matters which intimately affected the lives of the great mass of the people. He suggested

that consideration be given to the institution of an appointed Economic Sub-Parliament, composed of economic experts, to work alongside the elected political body.

The sick state of democracy in Britain today — and perhaps in other countries — demonstrates the prophetic character of Churchill's thesis. But one might have grave doubts about his proposed remedy. The concept of large numbers of experts debating the great economic problems of the day and submitting their majority conclusions to the popularly elected House, would, one would imagine, in the light of later experience, make confusion worse confounded.

Churchill erred too in another respect. Not surprisingly, he did not foresee that the advent of television would make the continuing real-life drama of politics even more absorbing to the people than the lurid unrealities of Peyton Place. He did not, because he could not, visualise

the day when politics would become the No. 1 entertainment of the masses and that its leading "actors" would be at least as well known as Richard Burton and Elizabeth Taylor.

But Churchill was indubitably right in his instinctive realisation that the people would become primarily interested in economics and would increasingly question the relevance of the tortuous proceedings of Parliament, the interminable wordy debates, the campaign slogans, the incessant comings and goings of the great figures, the big black cars and V.I.P. planes — the relevance of all this to their personal everyday concerns and interests, their standards of life, their opportunities for interesting work, and their hopes and ambitions for themselves and their families. He was right, too, when he saw how ill-suited was a popularly elected Parliament, composed of professional politicians most with limited economic understanding, for dealing with intricate and highly technical issues.

"Economic problems, unlike political issues," Churchill said, "cannot be solved by any expression, however vehement, of the national will but only by taking the right action. You cannot cure cancer by a majority. What is wanted is a remedy. Everyone knows what the people wish. They wish for more prosperity. How to get it? That is the grim question."

What, then, can we do? There is little doubt that a triumvirate of economic managers — say two super economists (admittedly, hard to find) and a wise and greatly experienced industrial statesman — given the requisite powers, would run the economy far better than all the huge and vastly expensive paraphernalia of Parliamentary Government. The standards of life of the people would be more rapidly advanced, inflation would be kept in check, economic stability and high

employment would be better maintained and government aid would be sensibly concentrated on those who most need it. There would be ups and downs, of course, — no economic council, however wise, could prevent natural disasters or control the greed of Arab oil sheiks — but the overall results would surely be infinitely superior to the unholy mess created by our political masters in recent years. But that kind of solution to our dilemmas would hardly be consistent with our democratic way of life. No one would contemplate — and quite rightly — giving Three Wise Men the dictatorial powers they would need to do their job effectively. So, for better or for worse, we will continue to be burdened with the unwieldy and inefficient mechanism of whose relevance Winston Churchill had gnawing doubts.

The economic performance of our traditional institutions can, however, be better: but only if the politicians will observe ten simple rules.

The first is that they should permit us, the people, greater freedom to manage our own lives. They should control their itch to interfere and realise, what common sense should tell them, that we know better than they do what we want. This rule applies to Labor Governments more than to non-Labor, but it applies to both. (As economic managers the latter were far from as good as they might have been.) Mr. Whitlam has frequently complained that the 1974/75 economic crisis was in large part due to a hostile Senate which had rejected some 21 "vital" pieces of legislation. Thank God that it did! Otherwise, the crisis would, without question, have been infinitely worse.

The second rule is that the quality of state-dispensed Welfare depends, in the end, on production, not on Acts of Parliament: that without production, there

are insufficient resources to support ambitious vote-catching schemes of social expenditure.

The third rule is that Welfare should be concentrated on the minority who need it. The rest of us should be expected, in the main, to look after ourselves. This would mean that those who cannot help themselves will be better looked after, and the rest of us who can, will be better human beings for having to do so.

But what, say, of Medibank? Isn't that good for us all? Medibank, we assert, will be a disaster, although no politician at present would dare say so. It will be a disaster for two simple reasons. First, where there is no *direct* relationship between what the individual pays and what he gets in service, many of us will take as much as we can get. The costs of the scheme will skyrocket beyond the ability of any government to control, and we, the community, will have to meet them. Second, the inevitable bureaucratic supervision of doctors will lead to a deterioration of professional standards and to an Orwellian depersonalisation and dehumanisation of medical services. It is conceivable, of course, that Government could pour so much money into Medibank — into training more doctors and nurses, into great modern hospitals lavishly equipped with all the latest medical apparatus, into health clinics, into vast schemes of medical research — that the health of the people would be better catered for than ever before. But, in that case, improved Health will be at the expense of improved education, better public transport, better housing, better provision for the aged and a host of other things. The central laws of economics are concerned with the scarcity of resources. If there were no scarcity, there would be no problems, and no need for economics.

The fourth rule is that personal living standards (as well as Welfare) depend not mainly on Government but on how much we produce. But production depends on the intelligence, the enterprise, the organising genius of the comparative few and on the conscientious work of the many. As a corollary, human nature being what it is, the required enterprise and the effort will not be forthcoming unless there are compensating gains to be obtained. This law of economics rules out confiscatory taxation. It also places on Governments the duty to dispel the widespread idea that profits (particularly company profits) are mildly immoral, a means of exploitation. Profits are the fuel of the engine of economic progress. Without the prospect of profits, the engine — as recent experience vividly demonstrates — will grind to a standstill.

The fifth rule is that private enterprise is much better at producing than government authorities. The reason is simple. Government authorities are not subject to the disciplines of the market. They don't compete, and they can disregard costs because they don't have to make a profit to survive. Being for the most part monopolies, they can set their own prices — the Post Office for instance.

The sixth rule is that productivity depends on investment. Investment provides the capital equipment and puts the power at the worker's elbow, which enables more things to be produced with less human sweat. Government action that discourages investment should therefore be taboo. When the Labor Government, immediately on assuming power, assailed the big mining enterprises, both by word and deed, it attacked the biggest investors and the catalyst of Australian progress, and thus the prime source of improving living standards for us all after the mid-1960's.

Could anything have been more inane?

The seventh rule is that total incomes cannot rise faster than total production, without giving rise to inflation. Governments encourage the belief that they can. Otherwise, they would not continue to delude the people by implying that wage indexation will cure inflation. It will not. In the end, it will guarantee that inflation continues.

The eighth rule is that Governments which exist to protect "the public interest", should make intelligent efforts to ascertain what the "public interest" is. The Labor Government made the deplorable mistake of taking advice from the wrong economists — economists with little or no experience of the realities of either public administration or of business decision-making. It should have gone, in the first instance, to those equipped to know best. Because of its accumulated experience and the resources available to it, this was the Treasury. Not that the Government should have relied on the Treasury exclusively — as the Treasury itself would no doubt have wished. The Treasury is responsible, able, uniquely informed, but unavoidably restricted by its Canberra blinkers. To achieve a full perspective, a Government must seek out non-Canberra viewpoints as well. But, in the end, it will be forced to lean heavily on the ideas of a few especially gifted individuals.

The ninth rule is that Government, in order to protect the public against abuses, should choose the simplest possible methods — those which provide for a minimum of direct interference. Over-zealous trade practices' and company legislation, for example, may have much greater disadvantages for the community (as well as for business) than advantages. Nor should politicians endeavour to impose on the community — business or other — some superior or "ideal" morality, which they are obviously incapable of observing themselves. They must make allowance for human nature.

The tenth rule is that democratic Governments exist only to *serve* the people, not to *rule* them — something which modern Governments of all parties are in danger of forgetting.

The phenomenon of Big Government has become the gut issue of our times, a sinister, frightening threat, not merely to our living standards, but more importantly to individual freedoms and to basic human dignity. Socialism unavoidably means Big Government, but Big Government can exist also in a society where business enterprise and individual lives are supervised at every point by public boards and government departments.

"Let the people alone" is an appropriate maxim for these times.

## A Mess of Things

*"Economics is not a body of concrete truth, but an engine for the discovery of concrete truth".*

*(Alfred Marshall)*

*"The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its possessor to draw correct conclusions."*

*(Lord Keynes)*

In his Alfred Nobel Memorial Lecture in December last year\* Professor F. A. Hayek (Nobel Prize Winner), said,

"..... economists are at this moment called upon to say how to extricate the free world from the serious threat of accelerating inflation which, it must be admitted, has been brought about by policies the majority of economists have recommended and even urged governments to pursue. We have indeed at this moment little cause for pride: as a profession we have made a mess of things".

This is a harsh indictment. It may be over-harsh. Nevertheless, the economics profession cannot escape a large measure of responsibility for the "mess" in which the Western World is floundering.

The "mess" is compounded of frightening inflation, intolerable levels of unemployment, energy-sapping taxation, the stagnation of investment and economic growth, ever-expanding government expenditures, and ultimately the threat to individual liberties inherent in the menacing ogre of Big Government. And accompanying it all is a disturbing psychological malaise — a gnawing uncertainty, a collapse of confidence, even of faith, in the future, the spread of a

self-serving greed mentality, and an intensification of sectional suspicions and hostilities.

To this grisly brew, the economics profession has made an unenviable contribution. Not many years ago, too many economists, basking in the sun of the great record of the nineteen fifties and sixties — when reasonable stability accompanied more or less rapid growth — became arrogantly over-confident of their ability to control the economic environment. They began to act as if they had discovered final truth. Losing their sense of proportion, they forgot that continued stability and growth are always precariously balanced. The merest indication of an easing in employment was usually met by recommendations for more government spending, bigger deficits, easier money. Full employment came to mean overfull employment. When inflationary price rises followed, they were attributed more to the machinations of employers than to mistakes of economic policy or to union excesses. High taxes, it was generally argued, had nothing to do with the mounting pressure for wage increases. Departing from reality, some economists even claimed that heavy taxation had a

---

\*"The Pretence of Knowledge", republished by the Institute of Economic Affairs, London.

therapeutic value in stimulating harder work and improved productivity.

Moderate inflation was regarded — and still is by some — as a virtue. Few seemed to comprehend that the tacit acceptance of slow inflation would inevitably lead to faster inflation. Business enterprise, little understood, was out of favour with most economists. The road of the future, they said, lay in the direction of more and more government supervision of business and more and more government spending.

The record of economists in the recent history of the Western democracies has been frankly deplorable. Indeed, it has been so bad that many economists, instead of continuing, as they do, to flaunt their wares by offering gratuitous advice, should be hiding their heads in shame. The blunders have been legion. There is the notable instance in Australia of the 130 academic economists who, sheep-like and with presumptuous arrogance, put their signature to a letter advising the people to return the Labor Government in May, 1974 on the grounds that it was better capable of managing the economy. How are they feeling now? — probably quite unrepentant. There have been such horrors of policy as the surtax on “unearned income” and the punitive measures against overseas capital, and many others which have had to be quickly abandoned or modified.

Not only Australian economists have performed badly. Throughout the Western world, particularly in the U.K., the advice tendered by those, both in official and unofficial capacities, has quite frequently been wrong and sometimes disastrous — the notorious Selective Employment Tax of Nicholas Kaldor, for instance. There was the naive enthusiasm for detailed economic planning during

the fifties and sixties which produced some quite disastrous consequences.

Most of the mistakes of economists are traceable to one central cause — the presumption of knowledge which they do not, and in large part cannot in the nature of things, possess. They treat economics as if it provides more or less cut-and-dried remedies for the economic ills to which all economies are highly susceptible. One has only to look up the modern texts and there is the answer.

Because many have lacked a true understanding of the nature of their subject, economists tend to be the slaves of the prevailing fashions, or the conventional textbook wisdom. Not many years ago, certainly less than ten, the great majority of economists sought the remedy for inflation in higher and higher taxes. (This happened, too, to accord with their hostility to the private sector.) The argument, simply stated, was that since inflation was caused by excess demand, demand should be cut back by drawing off purchasing power through increased taxation to yield a budget surplus. This proposition no doubt had some validity before the tax plateau had been jacked up to a new high level, and before the advent of pay-as-you-earn. But after World War II, increased taxes meant less take-home pay and automatically provoked demands for higher incomes, thus leading to higher prices and still more rapid inflation. Bitter experience has compelled many economists to do a right-about-turn on the use of the tax weapon to quell inflation. Most of those who not long ago were arguing dogmatically for higher taxes are now saying precisely the opposite.

Too many economists have allowed their political sympathies to determine their economic judgments. As economists,

they should have done the reverse. Their political viewpoints should have been modified to accord with economic practicability and good sense.

Economists, and especially those who profess to teach it, should sit down and do a lot of hard thinking about where they have gone wrong. They should, particularly, think about and endeavour to re-discover the true nature of their subject. They should discard the pretence that economic theory provides ready, straightforward answers to the problems encountered in the real world, or that a mastery of the techniques necessarily makes one a good economist.

The point is that economics, unlike the sciences of matter, which deal with predictable physical phenomena, is, like politics, concerned with human beings whose motives and reactions are often unpredictable and moreover are incapable of precise measurement. The good economist must, therefore, have, above all, an intimate acquaintanceship with the real world, an understanding of human beings as they are (not as he may like or imagine them to be). He must realise that tidy, beautifully constructed theories or computer models will seldom, if ever, correspond to the unruly complexities of the market place.

Economists, like footballers, should be judged by performance on the field of battle. Unfortunately, they seldom are. Too often they are assessed rather upon qualifications received from academic institutions or upon reputations not founded on substantive contributions to the solution of real problems. Remote scholasticism is no substitute for hard-won experience gained through endeavouring to cope with the infinitely complex problems of the world as it is, and where a man must stand or fall by

what he says or does. It is amazing how many egregious follies some academic economists have perpetrated and yet still preserve an unimpaired reputation.

A cardinal mistake of many modern economists arises from their over-absorption with and mis-use of mathematical methods. The algebraic formulas and mathematical models have their uses, but their severe practical limitations are quite imperfectly understood. The esoteric, and to most people, incomprehensible, equations have little kinship with the real world, which is not susceptible of mathematical interpretation. All economists should read, and reflect on, Keynes' unforgettable passage on Alfred Marshall.\*

"Unlike physics, for example, such parts of the bare bones of economic theory as are expressible in mathematical form are extremely easy compared with the economic interpretation of the complex and incompletely known facts of experience and lead one but a very little way toward establishing useful results. Marshall felt all this with a vehemence which not all his pupils have shared. The preliminary mathematics was for him child's play. He wanted to enter the vast laboratory of the world, to hear its roar and to distinguish the several notes, to speak with the tongues of businessmen and yet to observe all with the eyes of a highly intelligent angel. So he set himself, as is recorded in his own words, to get into closer contact with practical business and with the life of the working classes".

Oh, that some of our latter-day economists might do likewise!

Some of the greatest howlers made by economists in recent years have been in the realm of prediction. "Economic forecasting" has become a popular exercise in the profession, elevated, foolishly,

\*From Keynes' superb biographical essay on Marshall. This should be compulsory study for advanced students in economics.

almost to the status of a science. The most notable blunder was the attempt of the Vernon Committee to project trends in the economy for ten years (up to 1974/75). Not satisfied just to peer tentatively into the future, the Committee proceeded to make policy recommendations based on its projections. The report was hardly off the press when it became obvious that the estimates would be so wide of the mark that the policy proposals were transparently absurd. Consider these figures:—

*Vernon Report, May 1965*

Iron exports will account for more than one-half of the estimated 70 per cent increase in total mineral exports over the period 1963 to 1975.

*Department of National Development  
Press Release, February 1970.*

Iron exports will contribute one-third of the over 800 per cent increase in total mineral exports from 1963 to 1974/75.

This unwise attempt to predict the unpredictable enabled the all too-eager critics to discredit the Vernon Report as a whole. (In fact the Report had many good features.) It would be a salutary exercise for students of economics to be required to compare the projections (and proposals) of the Vernon Committee with what has actually occurred.

Serious errors in economic soothsaying have also been made from time to time by the Melbourne University's Institute of Applied Economic and Social Research.

Approximate, let alone precise, forecasting in economics is an extremely hazardous occupation. Yet we still see economists writing sentences like this: "Productivity in 197-/7- is expected to

rise by 4.1 per cent". Not "about 4 per cent" mind you — no, that is not good enough — but "4.1 per cent."

One basic reason why accurate forecasting of economic phenomena is impossible is that all the facts which bear on the shape of things to come are not known and simply cannot be ascertained, let alone measured. This truth has been emphasized by the great men of the "science" — Hayek and Marshall, for instance — but is ignored by lesser lights who seek notoriety through the pretence that economics can do much more than, in fact, it can do. In his Nobel Memorial Lecture, Hayek warns,

"To act on the belief that we possess the knowledge and the power that enable us to shape the processes of society entirely to our liking, knowledge which in the real world we do *not* possess, is likely to make us do much harm".

\* \* \* \* \*

These days pretty well anyone can call himself an economist. One has only to get a university degree or diploma and he becomes, in his own eyes, and no doubt in those of others, an authority on the economy and even on the extremely intricate questions of national economic policy. To become a true economist, however, a great deal more is needed. One needs to have read widely in other disciplines apart from economics — in history, philosophy, even literature, for instance. In addition to that, some experience of the non-academic world could be regarded as essential — preferably in business perhaps, but also in public administration and other fields. To practice law or medicine it is not sufficient to have passed exams. One must do a stint in a legal office or in a hospital. Even after that a lengthy experience is generally necessary before one matures into a good doctor or a good lawyer.

It is just as important for the would-be economist to serve an apprenticeship in some practical pursuit. Only the quite exceptional person can be expected to acquire a "feel" for the arena of life, an understanding of human beings, who, after all, are the essential subject-matter of economics, without first-hand experience. This is the reason why so many economists who spend their entire lives in academic surroundings make such ghastly errors when they offer prescriptions to meet practical problems.

Even so, as Lord Keynes maintained, really good economists, economists fitted to give sound counsel on the great issues of economic policy, will still be few and far between. But we would at least have far better "back-up" economists, and no doubt much wiser articles of comment on economic matters in the daily press, if different concepts regarding the training of economists were to replace the present, clearly inadequate, standards.

What too many economists have lacked, and what they need before they can return to the path of virtue, is humility — an indelible quality, incidentally, of all properly mature and educated minds. They need to be acutely aware of the limitations of economics in dealing with issues of practical policy. *They need to be acutely aware also of the true nature of economics, that it is a scientific method not a science such as physics or chemistry, and that its value to the real world depends uniquely on the qualities of the economist himself, on how well he is able to handle the technical apparatus which economics provides, on the user rather than on the techniques.*

The great economists of course, knew all this very well and were at pains to emphasise it. It led Keynes to say, "Good, even competent, economists are the rarest of birds". (All politicians

should note well. They should be very careful where they go to seek advice. (The Labor Government has clearly listened to the voices not of wise Elders, but of brash incompetents.) Lionel Robbins (now Lord Robbins) once wrote, "It is quite possible for a man to be a most brilliant analytical economist, and yet to show the most childish ignorance of both administrative and political possibility". And the towering figure of Alfred Marshall in the first chapter of his monumental, "Principles of Economics", warned that, in the end, the economist must fall back upon common sense, imagination, intuition.

No one was more aware of the limitations of mere analysis. Keynes writes,

"It was an essential truth to which he (Marshall) held firmly that those individuals who are endowed with a special genius for the subject and have a powerful economic intuition will often be more right in their conclusions and implicit presumptions than in their explanations and explicit statements. That is to say, their intuitions will be in advance of their analysis and their terminology".

Marshall, perhaps the greatest of all, unlike many contemporary economists, did not lack humility.

"The more I studied economic science, the smaller appeared the knowledge which I had of it in proportion to the knowledge that I needed; and now, at the end of nearly half a century of almost exclusive study of it, I am conscious of more ignorance than I was at the beginning of the study".

We began with Hayek. Let us end with him.

"The recognition of the insuperable limits to his knowledge ought indeed to teach the student of society a lesson of humility which should guard him against becoming an accomplice in man's fatal striving to control society — a striving which makes him not only a tyrant over his fellows, but may well make him destroy a civilisation which no brain has designed but which has grown from the free efforts of millions of individuals".

# Address By President

Mr. W. D. Brookes, C.B.E. D.S.O.

I.P.A. Annual Meeting, 19 November, 1975

This, the 32nd Annual Meeting of the I.P.A., is being held at a time of great gravity in the affairs of Australia. The business community must clearly endeavour to play a full and responsible part in the restoration of good sense, stability and prosperity.

For over two years the private sector has experienced a state of crisis and uncertainty unparalleled since The Great Depression 45 years ago. Business investment and new development are at a virtual standstill. Small businesses, which live more from hand to mouth and lack accumulated resources, are suffering even more than established companies. Thousands are going or have gone to the wall and no doubt more will follow.

Most of us would blame the policies which were pursued by the Labor Government and that would certainly be, in part, true. Nevertheless, the business community itself cannot escape all responsibility for its current predicament.

What the Labor Government did, in a very short space of time, was to engineer a massive shift of resources from the private to the public sector of the economy. In the last two years, the expenditures of the Australian Government expanded by over 20 per cent in real terms, and this at a time when Gross Domestic Product has been virtually stationary. As a proportion of G.D.P., total government expenditures have risen from 31 per cent in 1973/74 to 36 per cent in 1974/75. But even these figures do not reveal the full extent of the change. In the last quarter of 1974/75, government spending reached a staggering 40 per cent of G.D.P.

In addition, there has been an unprecedented transfer of resources into the hands of wage and salary earners. Perhaps the most startling fact in Mr. Hayden's Budget Speech was that the real standard of living of the average wage-earner rose in 1974/75 by over 9 per cent in a year when the total national production actually fell — by 2 per cent. Is it surprising that trade and industry is in such a precarious condition?

These quite extraordinary changes — the increases in resources available to governments and to the people as consumers — have, of course, been at the expense of resources normally available to business. They have come out of profits or reserves and resources needed by business

for the maintenance of capital equipment and for investment in development and industrial progress. In the September quarter of 1973, wages and salaries took 54 per cent of the nation's production, company profits 13 per cent. In the March quarter of 1975 wages and salaries took 61 per cent and the share of company profits had fallen to 8 per cent. There has been a quite disastrous drop in business surpluses, and this is having, in turn, disastrous effects on the economy. The startling, indeed, tragic fact is that business — and that really means the community (for the capital of business is really the community's capital) — has been, to some extent, living on capital. Certain university economists have estimated that, far from making profits, companies in 1974/75, after adjustments for inflation, have, in aggregate, incurred losses of nearly \$500 million.

The policies followed by the Labor Government led to critical levels of unemployment, unprecedented inflation, and to economic stagnation. There is no conceivable means of supporting huge programmes of government expenditure in welfare, health, education, urban and regional development and other fields without a thriving, profitable business sector. This was the cardinal error in the thinking of the Labor Government. A Government intent on ambitious and dramatic projects in the public sector should have done precisely the reverse of what the previous Government did. It should have been at special pains to stimulate economic growth by providing every encouragement to business enterprise. Without the rapid growth of the private sector, there can be no sound or sustained growth in the public sector. Of course, this means that Government would have been compelled to hasten slowly, but would have accomplished more in the final issue. The huge transfer of resources which has occurred in the last year or two may make spectacular reading in statistics of welfare, education and health expenditures, but its net effect has been to cripple the private sector and create an unacceptably high rate of unemployment. Even the previous Treasurer, Mr. Hayden, has said recently that further large expansions in Government programmes are at the moment out of the question. They are out of the question because there are no resources to fund them. But the Labor Budget did little or nothing to increase available resources in the only way that it can be done — that is, by measures to revitalise business and to set the economy again on the path of growth. Is it surprising that business confidence is at the lowest ebb at any time in Australia for over 40 years? The Labor administration persisted with these policies, notwithstanding the fact, which had been clear for some time, that the United Kingdom had got itself into a deplorable mess through the pursuit of similar policies. At the outset of my speech, I said that business bears some responsibility for the present state of the economy. Why is this? The Labor Government was able to pursue policies injurious to business because businessmen, by and large, have failed to speak up to gain public

support and understanding for the free enterprise system. We have not done nearly enough to inform and educate the Australian people on how the system works, on the conditions which are vital to its prosperity and growth, and, above all, on how it contributes to the well-being of the whole community. We have, let us face it, been guilty of the sins of omission, of complacency and apathy. When the going is smooth, we have been content to sit back, spend little and do little, on the mistaken assumption that the going would never get tough. We should now have learnt (and unfortunately our country too has had to learn) a bitter lesson. In the future, surely business must take and accept a much larger role in informing its employees, shareholders, indeed all sections of the community, about the way in which a sound business works, the conditions necessary to its success, and how this success benefits not a few people, not a few large capitalists, not merely those who direct and manage business enterprises, but the whole community.

Let me say emphatically that it is not enough — it is far from enough — for some businesses to contribute money to organizations such as the I.P.A. and do nothing further. The I.P.A. can provide facts and ideas, it can try to influence policy-makers in government, it can suggest ways for bringing about industrial understanding, but it is for businessmen to use this material in educating all those with whom they come into contact — their own employees particularly. The channel of communication to the people at large must come — because it can only come — through businessmen themselves.

How many of us, for instance, have taken the trouble to educate our staffs and workers on what is meant by business profits, how they should be measured, what functions they perform, how they are distributed, how they contribute to the developments which provide new employment opportunities and better jobs for all? How many of us have taken the trouble to explain that the only lasting source of better wages and higher living standards is through improved efficiency and improved productivity? How many of us have tried to explain the role of capital itself, that all economic progress is, in the last resort, dependent upon ever-improving ways of doing things, bringing about work satisfaction to the worker himself, in better equipment and in putting more power at the worker's elbow?

This kind of education is not something that can be achieved through a crash campaign, and then suddenly dropped. It must be continuous. It must be going on all the time. It must never cease. This is a responsibility business will shirk at its peril. I trust that the experience of the last few years will lead the business community to the realization that we should never again lapse into complacency and apathy.

To conclude, the confidence of business will not be restored until there is convincing evidence that inflation is being brought under control. The Consumer Price Index for the September quarter shows a rise

of only .8 per cent — after allowance for the effects of Medibank — but the true increase is around 3 per cent. On the face of it this suggests some slight improvement, but it is our considered view that the current quarter will show a further substantial jump in prices and little, if any, slackening in the annual rate of inflation.

Free enterprise is not perfect. It has faults which must be corrected as they become apparent, and, of course, it will never be perfect, because it reflects, as all human activities do, the imperfections of human beings. But with all its faults, it provides far more hope for the future, far more freedom for the ordinary person, than any conceivable alternative. As Milton Friedman said, "I believe in the free enterprise system because I believe it is the only system which will enable the ordinary man — the ordinary citizen — to have a maximum degree of both freedom and prosperity."

## Election Postscript

The Fraser Government faces huge, almost frightening problems in resuscitating the Australian economy. No remedial measures will work unless there is a great change of attitudes through the Australian community.

At the root of all our economic difficulties is inflation which, in any case, is certain to accelerate in the first half of 1976. To bring inflation under control, two things are essential. First, Government spending must be cut back: there must be no repetition of the madness of 1974 and 1975 when expenditure exploded. Second, the Australian people must be prepared to accept, on average, annual income increases no greater than the gains in national productivity: this means income increases of 5 per cent or less — not 15 or 20 or 30 per cent: the kind of figures we have become accustomed to in recent years.

As these are the conditions of success it is clear that economic policies must fail without the co-operation of all sections of the community. The restoration of confidence, of economic health, stability, and prosperity will, indeed, depend more on the people themselves than on Government. It will depend on the enterprise of business and its acceptance of new and great responsibilities. It will depend on the moderation, reasonableness and good sense of the trade unions and their acceptance of the narrow options imposed by inescapable economic facts. It will depend on the efforts of all the Australian people based on the realisation that we can't extract more out of the pot — in improved Government services and in personal living standards — than what we put in, by work and production.

In recent years, all of us have come to expect far too much of Governments. The habit of looking to Government to solve all our problems, as a kind of Father Christmas, has become deep-ingrained. This habit must be broken, and we must regain our self-reliance and contribute, "from each according to his ability", in solving the problems we face as a people. If we do this, success is certain. If we don't, the best-conceived policies will fail.

## Chairman Retires

It is with great regret that we report the retirement of Mr. E. A. Jones, C.M.G., as Chairman of the Executive and Editorial Committee. Mr. Jones joined the I.P.A. Council in 1954; in 1957 he succeeded Mr. Eric Lampe as Chairman of the Committee.

"Angus", as he is affectionately known throughout the business community, has been a tremendous asset to the I.P.A. As Chairman and Managing Director of Mobil Oil Australia Limited for many years, he had a wide background of business experience. For some years he was Area Representative for Australia and New Zealand at the New York office of Standard Vacuum and, while in the United States, attended the Advanced Management Course of the Harvard School of Business Administration.

His great natural enthusiasm, allied to a liberal and progressive viewpoint on industry and public affairs, made him an invaluable Chairman. Like his two predecessors, Mr. Geoffrey Grimwade and Mr. Eric Lampe, Angus Jones had a deep insight into the nature and work of the I.P.A. He knew instinctively what ideas and what activities would best promote the objectives of the Institute, and, conversely, he knew what was best avoided.

Over seventeen years Angus seldom missed a meeting of the Committee. He never failed to study carefully the draft papers intended for publication and invariably discussed them with the Director prior to Committee meetings. He

took special pains to keep fully abreast of current economic and political developments — not easy in these hectic times — and his viewpoints were always well informed, balanced, and instinct with common sense.

Angus radiates genuine goodwill and optimism and these qualities have made him both popular and trusted among his business contemporaries. This was in evidence particularly at I.P.A. Annual Meetings of subscribers where his report on the work of the I.P.A. was marked by a lively enthusiasm which communicated itself to his audience. For the continuous success of these Meetings and the high regard in which the Institute is held among its hundreds of financial supporters, Angus is entitled to a large share of the credit.

Angus made himself an integral part of the I.P.A. machinery and, for this reason, will be far from easy to replace. Fortunately, he will remain a member of the Council, so that the I.P.A. will continue to benefit from his long association with our affairs.

The I.P.A. is much in his debt and we desire to place on record our deep appreciation and gratitude for the services he rendered over so long a period.

Mr. Bill Beattie who has been a member of the Executive and Editorial Committee for eleven years, has agreed to act as Chairman for a short term, until a "permanent" successor to Mr. Jones is appointed.

# Address By John H. Valder

Chairman, The Sydney Stock Exchange

I.P.A. Annual Meeting, 19 November, 1975

The basic problem today is a conflict of philosophies. In my opinion, it is a conflict between those who wish to pursue a free enterprise system in Australia and those who wish to greatly extend government control and ownership. The trouble is that in the present tumult all sight is being lost of this conflict of philosophy. We have heard a lot in recent weeks about opinion polls. But we haven't heard anything at all lately about another opinion poll, taken only in June of this year, which showed that 74% of the people were opposed to any extension of government control and ownership. And let no man claim there is a mandate for Socialism until we have had an election fought, clearly and openly, on that fundamental question.

To all of us present here today, the advantages of free enterprise are all too obvious, just as are the defects of a Socialist System. That is not to say that free enterprise is a perfect system. Clearly it, too, has its shortcomings. But it is yet to be demonstrated that there is any superior system that will work in any developed country such as Australia, the United States, Japan or elsewhere.

There is not much point in you or I telling one another what a good thing the free enterprise system is. We already know it. What we've got to do is go out in the community and prove to other people why free enterprise is so vital to the prosperity of Australia and everyone who lives in it. It is our task to convince other people of the merits of free enterprise.

In the past, I don't think we have done a very good job in this regard and the reason, I believe, is that most of us simply don't bother to try hard enough. In my opinion, we must go out and convince every member of the public of just two things:

*The first* is that every member of a trade union and every employee is better off under a free enterprise system and that we all prosper if the business sector of Australia prospers. Profit may be a dirty word to some, but it is the means by which everyone's standards of living are improved. If business isn't profitable, wages are not going to be higher. But if business and the country are prosperous, then everyone who contributes to that prosperity is entitled to participate in it.

*The second* point that we must get across to every member of the public is that social welfare is also heavily dependent on the prosperity of business and the country generally. We must make every person in Australia understand that social welfare programmes are paid for out of tax revenue and, whether we like it or not, higher profits and higher wages mean higher tax revenue. And it is only with higher tax revenue that we can have better social welfare programmes in Australia. It follows, therefore, that the more prosperous the country is, the more able is the government to finance social welfare programmes. But this elementary fact is all too frequently forgotten, or ignored, by the advocates of socialism.

Personally, I have never been able to understand why socialism always brackets

government control and ownership with increased social welfare. Surely it is obvious that better social welfare is in the end dependent on the prosperity of the business sector and all those who are employed by it.

If people like you and I want to see the free enterprise system in Australia maintained, then I think each and every one of us will be very foolish if we don't see that those simple messages are communicated to every man, woman and child.

And that, of course, is the role of I.P.A. in Australia. But I venture to say that if I.P.A. is going to perform this job at all effectively, then this message must reach many, many more people than it so far has. These are messages which we must get on to every factory floor and into every school in Australia. But if this message is to be effective, then it must be absolutely honest and absolutely factual, and it must be conveyed in as simple and imaginative form as possible so that everyone will take the trouble to read it, to see it, or to hear it.

Many of you here today represent some of the largest companies in Australia. You all, I believe, have the opportunity to convey this message to the thousands of people who work in your companies. But how many of you do it? I know some do. But that is not good enough. We must *ALL* make an effort in this direction and we must all do our best to see that the message is conveyed in a way which will command attention. If our message is not heard, then we will have no one to blame but ourselves.

Inevitably what I have just said will be taken in the context of the present political crisis, but it is always going to be true irrespective of what Government is in power. I know that I.P.A. prides itself in not being party political. What

we all believe in is free enterprise. And the public opinion poll I quoted earlier indicates that the great majority of Australian people also believe in free enterprise. But unless we preach the philosophy of free enterprise on a continuing basis, then we cannot expect people, whether young or old, to subscribe to it unless we can convince them as to why they should. And that, as I said, is a continuing process and one which we should always devote ourselves to, irrespective of the prevailing political climate.

We will have succeeded only when we have convinced the public and all political parties that free enterprise is the best system for Australia. Then, and only then, can we expect to see the co-operative effort that is so vitally needed in any country to produce the prosperity for which we all strive. And that unity of purpose involves the co-operation of capital, labour and government. Unless these three basic elements in our society are prepared to co-operate, then neither this, nor any country, can expect to prosper and progress.

#### *The Problems of the Stock Exchanges*

Having said that, I would now like to talk to you briefly about some of the problems currently confronting the Stock Exchange and investment in Australia generally and how I believe they can be overcome.

While it is true that some of the Stock Exchanges' problems can still be traced back to the mining boom of 5 or 6 years ago, it is equally true that others can be attributed to the economic and political events of more recent times, while still others are part of world trends. Whatever the reasons, the fact is that the Stock Exchanges today are facing serious problems. These problems can, I believe, be overcome but only with the help and co-operation of governments, listed companies and the community generally.

The most serious problem, in my view, has been the decline in the interest shown in investment by the individual investor. Now I certainly do not wish to detract from the most valuable role of the life assurance companies and the superannuation funds in facilitating savings and marshalling capital. But at the same time it will not be healthy if they come to overwhelm the individual as a direct investor in his or her own right.

This is a trend to which, in my opinion, governments need to pay attention and help try to correct.

I rather doubt if governments really appreciate that the investment wheel has now turned full circle from five or six years ago and that today there is an urgent need for a much more constructive attitude on the part of governments towards share markets and investment generally. In this regard I find it is unfortunate that some governments are still so pre-occupied with the regulation of investment. Governments sometimes forget that they have a responsibility to develop investment as well as to regulate it. And there are, unfortunately, one or two politicians around who see regulation as a means to restrict, even destroy, private investment rather than to encourage it.

Today, share markets and investment generally need much more than regulation. They also require encouragement and stimulation. We readily concede that regulation certainly has its place but the main problem facing the markets today is the restoration of a larger and more active market. And that is a problem that needs a much more positive contribution from governments than mere regulation, however important that may be. Today it is generally conceded that Australia urgently needs new investment and part of that new investment can and

should come through the share markets. But governments seem to be doing precious little to encourage investment in Australia at the moment.

A prerequisite for more investment must lie with more sympathetic tax laws. At present the tax laws operate almost as a real disincentive to the investor, although I must give full credit to Mr. Bill Hayden for recently removing the tax surcharge on dividend and other property income. That was certainly a step in the right direction. But unfortunately, in the present depressed circumstances, a lot more needs to be done.

For example, the long controversial sections of the income tax assessment act affecting both short and long-term capital gains should, in my view, be suspended pending a full review of this area of income tax. As you know, profits on investments made in a 12-month period are added to taxable income, which means that for many people they are taxed at the rate of 50 or 60 per cent or more. Not even in the U.K. are gains of that type taxed in such a savage form as that.

This highly punitive form of capital gains tax can only act as a deterrent to short-term investment at a time when the country desperately needs short as well as long-term investment.

The investor's position beyond 12 months is also most unsatisfactory as he is entirely in the discretionary hands of the commissioner, leaving the investor in the extraordinary position of not knowing whether he will pay any tax at all on his investment gain or whether he will pay full rates of income tax. The very uncertainty created by this discretionary situation simply puts many people off investing at all. Why take the risk if you don't know what your tax position is going to be?

There is, I believe, a strong case in the present circumstances for the suspension of these sections of the income tax assessment act. I believe investors would be far happier with, if necessary, a specific rate of capital gains tax rather than the present uncertain position. I'm hopeful that next year the stock exchanges will be in a position to put a case to the government for the permanent abolition of the controversial sections of the income tax assessment act to which I have referred.

You will note that all I have proposed so far is the removal of tax disincentives which at present stand in the way of investors. I believe there is also a strong case for the introduction of actual incentives, but first let us at least get rid of the disincentives.

Having said this, I recognise that the market's problems cannot be solved by governments alone but that the stock exchanges and listed companies must do their bit too. As I said, a more sympathetic and constructive attitude on the part of governments, particularly in the area of tax, would help the stock exchanges to be convinced that governments really do want a healthy stock market and don't just wish to strangle it by regulation.

At the same time, I recognise that the exchanges and their members are going to have to be more flexible than they might have been in the past and also be prepared to be more innovative in their approach to business. While this may mean departures from some old-established conventions, I believe these changes are necessary and will be for the good of both the exchange members and the investing public.

I believe that the time has come when the exchanges and the public would benefit by closer joint operation of the

exchanges together with some outside representation on stock exchange committees. These are questions on which I hope the stock exchanges will move in the near future.

A lot more must, in my opinion, be done by life offices and super funds to tell their members about the state of their investments. That the state of the share markets or the property market is affecting *their* future welfare. Policy holders and super fund members must be shown how they personally are affected by the ups and downs of the various investment markets. In this way millions of people can be educated to take a much greater interest in the welfare of their country and what affects its prosperity.

Listed companies can also, I believe, do more than simply communicate better with their pension fund members. I believe the extension of profit-sharing schemes, particularly through share ownership schemes, is going to be vital to the future of capitalism in Australia. And we shouldn't be afraid to use the word capitalism, but it does need to be democratic capitalism, just as others prefer to talk about democratic socialism. But what we desperately need in Australia is an extension of democratic capitalism. And what more obvious way to extend capitalism than through the work force.

Once again, I know, that some companies already have profit-sharing schemes. But so far such schemes are confined to all too few companies.

The proposals I have mentioned here today are but some of the ways in which I believe capitalism can be popularised in Australia. Unless some of these things are done, and done on a much wider scale than at present, then the days of capitalism than through the work-force. numbered.

# In Praise of Markets

by

Professor DONALD WHITEHEAD

*The author is Chairman of the Economics Department of La Trobe University. Between 1960 and 1969 he acted as an adviser to the National Employers' and other bodies in major wage cases. Professor Whitehead gained first-class honours in the School of Philosophy, Politics and Economics at Oxford and has had a distinguished academic career.*

*His article discusses criticisms frequently made of the market economy.*

Once upon a time it was rather easy for a teacher of economics to explain and justify the market system. On one side of his picture were the consumers, on the other workers and savers, and in the centre a symbolic figure called the firm. Consumers were the focal point of the picture. Although obviously differing very much in affluence they were all lordly figures, rational, informed, wrapped in their own concerns, issuing their orders and satisfied each according to their means. At the other side of the picture the workers and savers were by comparison rather shadowy figures, scurrying to do the consumers' will and happy to be rewarded according to their contribution. In the centre stood the firm, a bloodless institution combining the function of telephone exchange, computer and control mechanism, and operating under the single rule of profit maximisation.

Today the critics would have us believe that such a picture is as flat and unconvincing as much of the religious art of the middle ages. The modern representations are very different. The three major groupings remain but radically transformed. Most curious is the change in the consumers. They are no longer dominant figures. Instead they are puppets, their faces distorted by avarice, injuring themselves and others by their possessions. At the centre the firm is no longer the servant of the consumers but their master. No longer a bloodless construct, it is the source of social and

political manipulation. No longer an efficient maximiser, instead it is the seat of managerial empire builders. In the third grouping the portrayal of the workers has also changed, but here the emphasis shifts with each artist. Sometimes the stress is upon the individual worker as an alienated automaton, unhappy in his work but trapped, unable to move either to escape or even in response to market forces. Other pictures concentrate on workers as a group, emphasising their collective power and threatening anarchy.

The new artists — among them Galbraith and the School of Radical Economics — are not much hung in the Academies. But there are many establishment paintings that although in the restrained neo-classical tradition are subject to similar influences. The result has been an erosion of faith in market forces and indeed an uncertainty about what is being supported when their merits are extolled.

There are three major factors that have shaped an intellectual atmosphere unfavourable to the private sector. The first is paradoxically the affluence created by the successful operation of the market system in the 1950's and 1960's (within the framework of the management of the economy by governments using a predominantly Keynesian approach to combining low unemployment with low inflation rates). The prosperity, security and social mobility achieved in affluent societies has shaped a self-confident,

critical generation conscious of the failings of the economic environment while taking its benefits for granted. This mood has created wide-ranging radical criticisms of the capitalist system. It has also fostered a growing trade union and shop-floor pressure for higher wages. And it has prompted electoral pressure for greatly expanded government services. As that greatest of all political economists Joseph Schumpeter foresaw, capitalism is being threatened by its own success.

The second factor inimical to capitalism has been the faltering of Western economies in the 1970's. As we have seen inflation accelerated in the 1960's because of the combined effect of wage pressure and increased government spending. The buoyant international environment of the 1960's sustained the inflation. But in the 1970's the environment changed abruptly. The sudden rise in oil prices reinforced cost pressures but reduced demand and imposed balance of payments constraints. However, rising unemployment did not cause wage pressure to subside. Instead the Western economies entered a period of severe stagflation, industrial unrest and a compression of profits. This has greatly widened and strengthened criticism of the capitalist system. At first sight to assert this may appear to involve a contradiction. The criticisms that were traced above were born of success while these more recent discontents were produced by economic failure. But it is not strange that the two strands should become intertwined. The criticisms of dynamic capitalism were largely confined to academic and radical groups. The reaction to stagflation is widespread. The public at large can easily be influenced to focus their resentment upon 'the system' and particularly such bodies as multi-nationals even if those who lead

opinion have both different discontents and different goals.

The teaching of academic economics is a third element contributing to an unfavourable view of the private sector. Typically the starting point is the market system as an allocative device for a given bundle of resources and goods under conditions of atomistic competition and perfect knowledge. Under these restricted assumptions the market system is presented if not as actually good at least as a beautiful machine. However, as the course develops it is shown that the private sector is quite unlike this ideal type: imperfect competition and monopoly; limited knowledge and uncertainty; external diseconomies and immobility; dynamic instability and the dependence of income distribution upon initial wealth; all these and other problems are paraded. Any initial merit in the market mechanism is excised less by 1000 cuts than by 1000 lethal strokes. There is seldom any attempt to give quantitative force to any criticism, little attempt to portray the firm as a vehicle for innovation and as a complex organisational unit and certainly little attempt to make a comparison with other viable alternatives.

Treatment of the Government and the public sector is neither so intensive nor so critical. The intervention of the State is pictured as consistently benign in two senses. Action by the Government is seen as required in order to redress or avert failures by the private sector; and it is implicitly assumed that the intervention will be designed in the public interest and efficiently executed. There has only recently been introduced any discussion of the extent to which government intervention actually reflects the public interest and this at an extremely abstract level.<sup>1</sup> Work on the machinery and operation of



Institute of  
Public Affairs

**Thirty-second  
Annual Report  
1975**

**Council of  
the Institute**

W. D. BROOKES, C.B.E. D.S.O. (President)  
SIR GEORGE COLES, C.B.E. (Past President)  
E. A. JONES, C.M.G. (Chairman, Executive Committee)  
W. D. McPHERSON (Treasurer)  
W. A. BEATTIE  
L. C. BRODIE-HALL  
H. F. CLARKE  
PETER J. DERHAM  
ANDREW GRIMWADE  
J. A. HANCOCK, O.B.E.  
SIR JOHN HOLLAND  
W. A. INCE, C.M.G.  
H. M. LIGHTFOOT, O.B.E.  
J. C. McNEILL  
J. L. NAVE  
G. M. NIALL  
HILTON J. NICHOLAS  
SIR ROBERT NORMAN  
SIR IAN POTTER  
NORMAN N. ROBERTSON, C.B.E.  
R. A. SIMPSON

**Executive and  
Editorial  
Committee**

E. A. JONES, C.M.G. (Chairman)  
C. D. KEMP, C.B.E., B.Com. (Director of the Institute)  
W. A. BEATTIE, M.A. (Cantab.), B.A., LL.B., M.A.I.A.S.  
J. A. LECKEY, B.Com.  
NORMAN N. ROBERTSON, C.B.E.  
DENYS I. McCULLOUGH, B.E. (Aero)  
G. R. MOUNTAIN, A.M., M.A.  
H. N. WARREN, B.Com., A.C.I.S. (Secretary)  
J. ABRAHAMI, B.A. (Research Economist)

**Objects**

The Institute of Public Affairs is a non-profit, educational organisation financed by business enterprises and people throughout Australia to study economic and industrial problems. It was launched in 1943. The basic aim of the I.P.A. is to advance the cause of free business enterprise in Australia. In pursuit of this aim it is endeavouring:—

1. To inform the Australian public of the facts of our economic system and to raise the level of economic literacy in Australia.
2. To work always for a full and friendly understanding between employers and employees and for good relations throughout industry.
3. To study the means by which private business enterprise can be made to operate better in the interests of all sections of the Australian people.

lie in the market system and that current criticism of it is largely misplaced. Much more serious problems exist in the area of government. It would be inappropriate to discuss them in this paper at the length they deserve but it may be useful to outline their major aspects.

At root the difficulty lies less in the political machinery and processes than in the changing nature of the society that is governed and the inappropriateness of the political system for the new and increasing responsibilities that have been progressively assumed. However, some aspects of the political system—and particularly the auction element of elections—have probably exacerbated our difficulties.

In brief it seems clear that the children of affluence are difficult to govern. The Spock generation is not only anti-authoritarian it also has a deep-seated belief that the economic barrel is bottomless. This has created inflationary pressures both on the side of the accelerated growth of government spending and increased wage pressure. Wage pressures have continued in many countries in the face of falling profits and rising unemployment. Moreover in Western Europe the pressure has spread from unions to the factory floor and has invaded the white-collar area. Such pressure is extremely difficult to control because of the immense political power of unions.

The expansion of the government sector in response to these social pressures has also created great administrative problems. Government services tend by their nature to be monolithic. The problems of such an organisation are innumerable. There is a lack of diversity of product, an inflexible and comprehensive administrative code, the prevalence of tenure and promotion by seniority, administrative empire building, little con-

sumer protection, ill-defined organisational goals and still more important poor criteria for establishing if goals are met. There seems a clear case for experimentation with the transfer back to the market of a number of government activities. These include the use of 'tax credits' for educational expenditures and the replacement of part of the social welfare apparatus by providing minimum income payments.

A further weakness of government has been in its intervention in the private sector. One aspect of this weakness has been a lack of co-ordination in the policies adopted.

The philosophy of Government—Private Sector warrants critical examination. On the side of Government it is important to appreciate the long planning period of business and either to allow adequate time to adjust to policy changes or to offer adequate compensation. Clearly abrupt changes of government policy should not be treated as a normal business risk. If a government decision ruins an industry compensation is just as justified as if the industry were nationalised. On the other side, business and trade unions should be prepared to accept the rôle of government in preventing external diseconomies and encouraging structural adaptation if adequate time and/or compensation are provided. A merely anti-government stance without clearly defining the issue merely reinforces social division.

The market system is under attack. On economic, political and social grounds it can be said that much of that attack is misplaced. But it is critical that those representatives of business who will be its main spokesmen choose strong, consistent and enlightened grounds for its defence rather than the mere appeal to an ideology of laissez-faire.

with the existence of capital gains many of which serve no useful economic function. Such distortions do occur although some at least of the monopoly profits of firms occur as an appropriate reward for innovation. Furthermore the target for such criticisms should be the failure of the political process which permits such malfunctioning rather than the market system itself. There remains, however, a more basic objection. This has three aspects. First, the income distribution that flows from a perfectly functioning market system reflects the initial endowments of wealth from which a pattern of demand is established. Although this is true its import is difficult to take seriously. The righting of ancient wrongs, the unscrambling of omelettes that have already been consumed is an ethically dubious and politically preposterous undertaking which not even the labours of an entire generation of research workers sitting as a sort of Victorian Court of Chancery could conceivably begin to solve. Second, there is the problem of the existence of society's unfortunates — the physically, mentally and psychologically handicapped and those whose family circumstances impose special burdens. The existence of these groups is not caused by the market system nor is the need to assist them a matter of debate. The mechanism for assisting such groups has some relevance to the relative efficiencies of market and governmental efficiencies but that is all. Finally there is the more debatable question whether the distribution of income that promotes the greatest efficiency should be adjusted to produce a more ethically acceptable distribution of income — generally meaning greater equality. This is not a question that can be briefly answered. However, there is a *prima facie* case that such action is

undesirable. It is likely that such action would diminish the rate of growth in the economy and clearly the effects of cumulative growth on the living standards of all members of the community far outweigh any conceivable gains that can be made by redistribution. For example a sustained 3% rise in productivity would more than double income per head in 25 years. Moreover the equity case itself needs to be carefully considered. 'Unearned incomes' — interest and dividends — are the most frequent object of attack by those who push for re-distribution of income. However, it must be borne in mind that such incomes are the only way in which the provident can support themselves after retirement. The present interest rates are grossly inequitable not because they are too high but because they are too low. For example, a 9 per cent fixed interest deposit with 16 per cent inflation and a marginal tax rate on a modest income of 33 cents in the dollar returns a negative yield of 10 per cent. The yield of dividends cannot be so accurately estimated but they have been clearly negative (including capital gains) for a standard portfolio in recent years measured in real post tax terms. Moreover in aggregate, dividends paid by private and public enterprise (including financial enterprises) are less than 4% of gross non-farm product. This is hardly a major reservoir for redistribution. In brief, none of the 'root and branch' attacks upon the market system *per se* are convincing. Most are the product of confused analysis and/or doctrinaire distortion. The residual defects expose not a deficiency in the market mechanism but a deficiency in the political process which lays down the ground rules under which the market system operates.

It has been argued that the current problems of the mixed economy do not

proportion of income than of most and it is only a rather small proportion of the additional increment of expenditure each year.

Most of our expenditure is on improved housing, improved transport, improved methods of regulating the temperature, improved methods of overcoming domestic chores and upon holidays. The flood of expenditure does not arise because the prosperous middle class live ostentatiously by historical standards exactly the opposite is true. The flood arises because the majority of the population has for the first time in history begun to live in a way qualitatively similar and only quantitatively slightly different from the upper five per cent of income earners. Many of our major problems of urban living occur precisely because of the external effects of this almost incredible — by historic standards — achievement of the market system. There are some legitimate complaints about advertising. It is unpleasantly intrusive on both television, radio and billboard and much of it is socially wasteful. But these are the warts of the market system which could be removed by Government action not a fundamental defect. Those who claim that there has been a considerable erosion of consumer sovereignty would probably argue that advertising is only the tip of the iceberg. The real monster is the insidious social pressure to consume in order to conform, emulate or out-do. Clearly these pressures exist. They are indeed the main vehicle for the transmission and advance of culture. It is absurd either to identify them predominantly with the market system or to regard them as predominantly bad in their effects.

Part of the evidence for the case that consumer's sovereignty had been eroded was the enormous growth — by historical

standards — in consumer spending. The erroneous conclusion drawn was that the consumer could not possibly 'really want' these goods and services. This line of argument has been powerfully and intelligently complemented by the combined ecological arguments that 'space ship earth' in the long run can support none of the three major by-products of economic growth: depletion of raw materials; pollution of land, sea and air; and population growth. The magnitude of these problems can be established by extrapolation in a way which clearly brooks no argument. The crucial policy questions are at what stage should action be taken in each area and sub-area, and what form should that action take? However this has nothing whatever to do with the merits of the market system. In so far as the ecological proponents have attacked the market system they have largely missed their target although not unnaturally such attacks have provoked defensive response. Essentially the market system is infinitely adaptable to appropriate stimuli given either appropriate time to respond or appropriate compensation (compensation which need be no more than the costs of adjustment which would be borne by the public in a nationalised industry). The appropriate target of the all-too-weak ecological lobby is the political system which makes medium-run planning and still more long-run planning a low political priority.

The remaining criticism of the market system that can be described as 'fundamental' concerns income distribution. Clearly many of the objections concerning the distribution of income refer to consequences of imperfections in the market system rather than to the market system itself. These include the monopoly profits of powerful firms and of the members of powerful unions together

government is — of course — the province of Departments of Politics. There is also little systematic examination of the maze of contradictory government interventions. The tariff is most studied but usually in courses on international trade rather than placed in the context of comprehensive government intervention in the private sector. Similarly the efficiency of the public sector at least where it is engaged in producing non-traded goods and services — for example, education — is just not studied at all in 'core' economics courses. There is no body of theory appropriate for judging its performance and thus it is felt that literally nothing can be said about this massive area of economic activity. There is thus a residual halo effect upon the notion of Government intervention and control in general and *ex ante* which sits oddly with the daily criticism of particular *ex post* actions by governments.<sup>2</sup>

In spite of the unfavourable intellectual environment in which the private sector operates it must be said at the outset that the ethos of a properly function-

1. The theory of social choice provides an extremely iconoclastic view of the meaning of 'public interest' and the extent to which it can be expressed by voting procedures. However, work in this area is not usually integrated with traditional micro-economics courses.
2. At least two objections can be made to this paragraph. The first is that many courses in economics continue to use and refine simple models of the market system and to treat these as 'relevant'. This is a major and much attacked weakness of academic economics and one of the consequences has been a reaction into largely fourth rate 'radical economics'. The second is that there are courses offered which fill in some of the gaps described above, — for example, courses in comparative economic systems. However, judging from their outline and reading lists what is said above appears a just account of the thrust of core (compulsory) courses in micro-economics.

ing market system appears favourable in comparison with any other viable alternative. The allocation of resources — including labour — must be accomplished either by direction or by incentive. Whatever combination of social criteria are used — dignity, freedom, happiness — it seems abundantly clear that the positive reinforcement of rewards is morally superior to the negative reinforcement of punishment needed to support allocation by direction save in the most conditioned communities. Paradoxically it is the fact that the operation of the market system is amoral — that rewards are allocated by impersonal market forces — which gives the system its moral quality. Because we do not depend upon the benevolence of the butcher to supply us with meat we are not merely more likely to obtain our meat but we are not subject to the butcher's power. The market system contrary to the image which some critics have sought to create for it can be seen as a method of minimising the exercise of power not merely by Government but by individuals.

As part of the 'root and branch' attack upon the market economy there has been a predictable revival in the attack upon 'the profit motive'. However, nothing has emerged which tilts the balance in favour of direction rather than reward.

A more explicit criticism of the market system is that the notion of consumer sovereignty is bogus. That instead of the market system serving the consumer, the consumer is shaped by advertising and social pressure to serve the market by a willingness to spend on those additional goods and services that industry chooses to produce. This is clearly an extremely muddled reading of the evidence. While we consume a proportion of trashy, tasteless and worthless objects this is probably less true of our society as a

# *President's Address*

Mr. W. D. Brookes, C.B.E., D.S.O.

This, the 32nd Annual Meeting of the I.P.A., is being held at a time of great gravity in the affairs of Australia. The business community must clearly endeavour to play a full and responsible part in the restoration of good sense, stability and prosperity.

For over two years the private sector has experienced a state of crisis and uncertainty unparalleled since The Great Depression 45 years ago. Business investment and new development are at a virtual standstill. Small businesses, which live more from hand to mouth and lack accumulated resources, are suffering even more than established companies. Thousands are going or have gone to the wall and no doubt more will follow.

Most of us would blame the policies which were pursued by the Labor Government and that would certainly be, in part, true. Nevertheless, the business community itself cannot escape all responsibility for its current predicament.

What the Labor Government did, in a very short space of time, was to engineer a massive shift of resources from the private to the public sector of the economy. In the last two years, the expenditures of the Australian Government expanded by over 20 per cent in real terms, and this at a time when Gross Domestic Product has been virtually stationary. As a proportion of G.D.P., total government expenditures have risen from 31 per cent in 1973/74 to 36 per cent in 1974/75. But even these figures do not reveal the full extent of the change. In the last quarter of 1974/75, government spending reached a staggering 40 per cent of G.D.P.

In addition, there has been an unprecedented transfer of resources into the hands of wage and salary earners. Perhaps the most startling fact in Mr. Hayden's Budget Speech was that the real standard of living of the average wage-earner rose in 1974/75 by over 9 per cent in a year when the total national production actually fell — by 2 per cent. Is it surprising that trade and industry is in such a precarious condition?

These quite extraordinary changes — the increases in resources available to governments and to the people as consumers — have, of course, been at the expense of resources normally available to business. They have come out of profits or reserves and resources needed by business for the maintenance of capital equipment and for investment in development and industrial progress. In the September quarter of 1973, wages and salaries took 54 per cent of the nation's production, company profits 13 per cent. In the March quarter of 1975 wages and salaries took 61 per cent and the share of company profits had fallen to 8 per cent. There has been a quite disastrous drop in business surpluses, and this is having, in turn, disastrous effects on the economy. The startling, indeed, tragic fact is that business — and that really

means the community (for the capital of business is really the community's capital) — has been, to some extent, living on capital. Certain university economists have estimated that, far from making profits, companies in 1974/75, after adjustments for inflation, have, in aggregate, incurred losses of nearly \$500 million.

The policies followed by the Labor Government led to critical levels of unemployment, unprecedented inflation, and to economic stagnation. There is no conceivable means of supporting huge programmes of government expenditure in welfare, health, education, urban and regional development and other fields without a thriving, profitable business sector. This was the cardinal error in the thinking of the Labor Government. A Government intent on ambitious and dramatic projects in the public sector should have done precisely the reverse of what the previous Government did. It should have been at special pains to stimulate economic growth by providing every encouragement to business enterprise. Without the rapid growth of the private sector, there can be no sound or sustained growth in the public sector. Of course, this means that Government would have been compelled to hasten slowly, but would have accomplished more in the final issue. The huge transfer of resources which has occurred in the last year or two may make spectacular reading in statistics of welfare, education and health expenditures, but its net effect has been to cripple the private sector and create an unacceptably high rate of unemployment. Even the previous Treasurer, Mr. Hayden, has said recently that further large expansions in Government programmes are at the moment out of the question. They are out of the question because there are no resources to fund them. But the Labor Budget did little or nothing to increase available resources in the only way that it can be done — that is, by measures to revitalise business and to set the economy again on the path of growth. Is it surprising that business confidence is at the lowest ebb at any time in Australia for over 40 years? The Labor administration persisted with these policies, notwithstanding the fact, which had been clear for some time, that the United Kingdom had got itself into a deplorable mess through the pursuit of similar policies. At the outset of my speech, I said that business bears some responsibility for the present state of the economy. Why is this? The Labor Government was able to pursue policies injurious to business because businessmen, by and large, have failed to speak up to gain public support and understanding for the free enterprise system. We have not done nearly enough to inform and educate the Australian people on how the system works, on the conditions which are vital to its prosperity and growth, and, above all, on how it contributes to the well-being of the whole community. We have, let us face it, been guilty of the sins of omission, of complacency and apathy. When the going is smooth, we have been content to sit back, spend little and do little, on the mistaken assumption that the going would never get tough. We should now have learnt (and unfortunately our country too has had to learn) a bitter lesson. In the future, surely business must take and accept a much larger role in informing its employees, shareholders, indeed all sections of the community, about the way in

which a sound business works, the conditions necessary to its success, and how this success benefits not a few people, not a few large capitalists, not merely those who direct and manage business enterprises, but the whole community.

Let me say emphatically that it is not enough — it is far from enough — for some businesses to contribute money to organizations such as the I.P.A. and do nothing further. The I.P.A. can provide facts and ideas, it can try to influence policy-makers in government, it can suggest ways for bringing about industrial understanding, but it is for businessmen to use this material in educating all those with whom they come into contact — their own employees particularly. The channel of communication to the people at large must come — because it can only come — through businessmen themselves.

How many of us, for instance, have taken the trouble to educate our staffs and workers on what is meant by business profits, how they should be measured, what functions they perform, how they are distributed, how they contribute to the developments which provide new employment opportunities and better jobs for all? How many of us have taken the trouble to explain that the only lasting source of better wages and higher living standards is through improved efficiency and improved productivity? How many of us have tried to explain the role of capital itself, that all economic progress is, in the last resort, dependent upon ever-improving ways of doing things, bringing about work satisfaction to the worker himself, in better equipment and in putting more power at the worker's elbow?

This kind of education is not something that can be achieved through a crash campaign, and then suddenly dropped. It must be continuous. It must be going on all the time. It must never cease. This is a responsibility business will shirk at its peril. I trust that the experience of the last few years will lead the business community to the realization that we should never again lapse into complacency and apathy.

May I now briefly refer to the excellent and dedicated work of our Director, Mr. C. D. Kemp; our Secretary, Mr. H. N. Warren, and Mr. J. Abrahami, Research Economist, for their service to the Institute, not only for this year, but also for past years.

In order to increase the effectiveness of our work on a national basis, we have been engaged in forming I.P.A. Committees in other States. I am pleased to say that we have formed two active Committees in Western Australia and South Australia. The West Australian Committee is under the Chairmanship of Mr. L. C. Brodie-Hall, well-known mining leader in Perth, whilst Mr. R. A. Simpson, a respected industrial leader, chairs the South Australian Committee. Both of these Committees have already made a valuable contribution in widening the distribution of I.P.A. publications. Some details of the members and the work of these Committees is given on page 9 of the Annual Report.

An important development this year has been the closer link forged with I.P.A. in New South Wales, which has been rejuvenated under the able Presidency of Sir David Griffin. We look forward to continuing co-operation in our joint objective.

To conclude, the confidence of business will not be restored until there is convincing evidence that inflation is being brought under control. The Consumer Price Index for the September quarter shows a rise of only .8 per cent — after allowance for the effects of Medibank — but the true increase is around 3 per cent. On the face of it this suggests some slight improvement, but it is our considered view that the current quarter will show a further substantial jump in prices and little, if any, slackening in the annual rate of inflation.

Free enterprise is not perfect. It has faults which must be corrected as they become apparent, and, of course, it will never be perfect, because it reflects, as all human activities do, the imperfections of human beings. But with all its faults, it provides far more hope for the future, far more freedom for the ordinary person, than any conceivable alternative. As Milton Friedman said, "I believe in the free enterprise system because I believe it is the only system which will enable the ordinary man — the ordinary citizen — to have a maximum degree of both freedom and prosperity."

# *Report of the Chairman of the Executive and Editorial Committee*

**Mr. E. Angus Jones, C.M.G.**

During the year the work of the Executive and Editorial Committee has continued to be mainly concerned with the production of the I.P.A.'s two regular publications, the I.P.A. "Review" and "Facts".

The circulation of both these publications is increasing. We now distribute 22,000 copies of the I.P.A. "Review" each quarter and "Facts" has reached 56,000 copies. Judging by the correspondence and comments we receive, reader interest in both publications has been more than maintained. We continue to receive many letters and telephone calls from thinking people in all walks of life who are concerned about inflation, the future of free enterprise and the economic policies which were pursued by the Labor Government.

In every issue of the I.P.A. "Review" there seems to be at least one article which attracts special interest and results in many requests for additional copies. Among these in the past year have been:—

"Justifying Profits" .....	Oct/Dec 1974
"The Corporations and Securities Industry Bill" .....	Jan/Mar 1975
"It's Time" .....	Apr/June 1975
"The English Disease" — by Graham Hutton .....	Apr/June 1975
"Economic Strategy and the 1975/76 Budget" .....	July/Sept 1975

One of Australia's leading Finance Houses, J. B. Were & Son, had this to say about the July/September I.P.A. "Review":

"Your leading article on "Economic Strategy and the 1975/76 Budget" deserves the highest commendation as a piece of honest, readable and common sense logic, which is refreshing to most of us, who are bewildered by the constant flood of comment coloured by political and selfish interest. The accompanying articles are also well chosen and very much to the point. We appreciate what your Institute is doing and the dedication of those who are responsible for it. You may be assured that we are ready to assist in any way in our power to promote the activities of the Institute."

Our article on the Corporations and Securities Industry Bill attracted considerable interest in financial circles and also in Canberra. The Attorney-General requested space in the I.P.A. "Review" for a reply, to which we agreed.

"Facts", with its simple, illustrated presentation, continues to hold a large and appreciative audience among a wide cross-section of the Australian people. I do not intend to discuss "Facts" in detail except to refer you to page 7 of the Report, which draws attention to the impact of "Facts" in the community.

However, I am sure you will be pleased to know that "Facts won one of the four awards in the "Best Magazine" section of the recent Competition, held by the Society of Industrial Editors.

I believe most businessmen would agree that "Facts" has a key role to play in basic education about wages, profits, prices, productivity and living standards.

Last year we published a small booklet, "INFLATION — Everybody's Responsibility". It was produced because there is widespread misunderstanding about inflation. If inflation is to be beaten, people must have a better understanding of the causes behind rising prices. I am pleased to say that we have distributed over 200,000 copies of this booklet throughout the community and especially to industrial and office employees, students, schools and teachers. Our distribution was greatly increased by three companies, Associated Pulp and Paper Mills Limited, B.H. South Limited and Western Mining Corporation Limited, which were so impressed with the value of the booklet that they sent a copy to each of their shareholders.

In August of this year we produced a new booklet "Free Enterprise".

We believe this booklet is very timely and was badly needed, because free enterprise is facing a challenge to its survival. This stems from certain Government policies and the unsympathetic attitude to business of many people who do not understand how the free enterprise system works for their benefit. The booklet deals in a simple factual way with the vital importance of free enterprise to the well-being of all Australians. It was designed especially for widespread distribution among office and factory employees, in schools, universities, professional groups and among people in all walks of life.

At the time this report went to press we had received orders for 110,000 copies. Included in this are about 7,000 copies paid for by businesses for free distribution to schools. We believe all businessmen should play their part in a national effort to educate people about free enterprise and that at this critical time the booklet should be given maximum circulation. In addition to employee and school distribution we hope that companies will consider mailing copies to their shareholders along with their Chairman's Addresses or Reports.

You will see from the Report our deep concern at the impact of very heavy increases in postage rates. These seriously affect non-profit educational organisations such as the I.P.A. which rely so much on the distribution of literature by direct mail. It is important to maintain and expand our mailing list and it is very clear that we shall need additional finance to do this.

In conclusion, I would like to thank all our subscribers for their support during the past year. The I.P.A. Council is confident that the business community will see that funds are adequate for the Institute to carry on the educational programme it has been continuously engaged in for over 30 years.

## **“FACTS”**

“Facts” is now in its 24th year of publication. It has been a success from the first issue in 1952 when we printed 10,000 copies as an experiment. The circulation increased during this year and it now stands at 56,000 copies per issue.

Illustrated by Mr. Robert Calwell, a free-lance artist, “Facts” carries the message of free enterprise to offices, factories, schools, and libraries throughout Australia. Some companies take special steps to ensure that younger people, such as apprentices and cadet trainees, receive copies of “Facts”. It is most important that these young people should be reached by the Institute.

A remarkable amount of material from “Facts” is republished in business journals, the daily press and in company magazines all over Australia. This publication is a valuable means of communicating a viewpoint of free enterprise to sections of the community not reached by the I.P.A. “Review”.

This year for the first time the Society of Industrial Editors conducted a competition aimed at raising the standard of national Industrial publications. “Facts” won one of the four awards in “The Best Magazine” section. In presenting the award, the Hon. D. J. Killen, M.P., said:—

“Facts” was an exceptionally valuable production which reflected great credit on the Institute. I have read every issue since its inception.”

## **“INFLATION—Everybody’s Responsibility”**

Inflation has reached crisis proportions and threatens the stability of our Australian society. If inflation is to be beaten, people must have a better understanding of the causes behind rising prices. At present there is widespread misunderstanding.

In September, 1974, the I.P.A. published a special booklet “INFLATION — Everybody’s Responsibility”. This was designed for wide distribution among people in all walks of life, especially among industrial and office employees and for use by students and teachers.

The booklet has been in tremendous demand and over 200,000 copies have been distributed among people in all walks of life.

Three companies, Western Mining Corporation Ltd., Associated Pulp and Paper Mills Ltd., and B.H. South Ltd., have been so impressed with the value of the Inflation booklet that they sent a copy to each of their shareholders at the time of posting their Chairman’s Address. These companies have set a splendid example because there must be a broad basis of understanding of the causes and effects of inflation and how the people can co-operate in overcoming it.

We have been very gratified by the many favourable comments received on the booklet.

Extracts from the booklet have been printed in many newspapers and journals.

The "Eastern Economist", which has an influential circulation in India, reprinted most of the I.P.A. Inflation booklet and said:

"The pamphlet owes its success to the clarity with which it explains, so that the ordinary man in the street can understand just what inflation is, why it threatens living standards and the very fabric of society itself, and to what extent each of us may be contributing to keep inflation building up.

The I.P.A. naturally cites Australian facts and figures, but because the conclusions are of universal application I have obtained the I.P.A.'s permission — readily and generously granted — to summarise its pamphlet here for the benefit of Indian readers."

## ***NEW BOOKLET—“Free Enterprise”***

In these difficult days for business enterprise, it is vital that the story of free enterprise achievements and its potential should be broadcast as widely as possible among office and factory employees, in schools and among people in all walks of life.

The I.P.A.'s educational illustrated booklet, "Free Enterprise", published in August, has now sold over 110,000 copies. 16 companies have ordered 1,000 or more copies for distribution among staff and employees. Two of Australia's largest companies, I.C.I. and Ansett, have reproduced the booklet in their employee journals, which reach collectively over 20,000 people. We believe this to be a most important way of obtaining a wide coverage for the message contained in the booklet.

A number of companies have contributed to the cost of making copies of the booklet available free of charge to teachers and schools. We have 7,000 copies available for free distribution to schools. This will provide class sets for a large number of schools while supplies last.

We believe many companies could profitably consider the distribution of the booklet to their shareholders along with their annual or periodical reports.

Concessional rates for large quantities are as follows:—

Up to 2,500 copies	....	....	25 cents per copy
2,500 - 5,000 copies	....	....	20 cents per copy
Over 5,000 copies	....	....	17.5 cents per copy

It is now being increasingly realized in business circles that much of the criticism of free enterprise is due to a lack of understanding, arising from the failure of managements to educate the people about the great contribution of business to the development of their country and to the provision of better living standards for all. Too many people are extraordinarily ignorant of the way in which the free enterprise system operates, and of the contributions it makes to Government revenues and to the improvement of Government services in the fields of housing, education, health and welfare.

The booklet, "Free Enterprise", provides business with an opportunity to remedy these deficiencies and thus help to establish the free enterprise system in public esteem. Needless to say, education in these matters must be continuous if it is to achieve worthwhile results.

# ***I.P.A. COMMITTEES IN OTHER STATES***

Since its inception over 30 years ago the I.P.A. has been engaged in a long-term national educational programme on behalf of free enterprise. This programme has been directed from our office in Melbourne. For some years we have been very well represented in Sydney by a distinguished Councillor, Sir Robert Norman, Director and Chief General Manager of the Bank of New South Wales.

In order to increase the effectiveness of our work, the President, Mr. W. D. Brookes, has been active in establishing I.P.A. Committees in other states.

In the last 12 months or so I.P.A. Committees have been formed in Western Australia and South Australia. The names of the personnel serving on these Committees are given below.

## **WESTERN AUSTRALIAN COMMITTEE**

- Mr. L. C. Brodie-Hall (CHAIRMAN) — Director, Western Mining Corporation Limited
- Mr. G. M. Ralph (HON. SECRETARY) — Executive Officer, Gold Division, Western Mining Corporation Limited
- Mr. W. B. Blown — Former General Manager, W.A., Western Mining Corporation Limited
- Mr. C. C. Cheyne — General Manager, Swan Portland Cement Limited
- Mr. F. A. Johnston, C.M.G., C.B.E., J.P. — Managing Director, Jayson's Packaged Meats Pty. Limited
- Mr. J. N. Langford — Former Manager, Mines and Services, Alcoa of Australia (W.A.) Limited
- Hon. I. G. Medcalf, M.L.C.

## **SOUTH AUSTRALIAN COMMITTEE**

- Mr. R. A. Simpson (CHAIRMAN) — Director, Simpson Pope Limited and other companies
- Mr. H. C. Schmidt — Managing Director, Elder, Smith, Goldsbrough Mort Limited
- Mr. L. N. Shorter — Assistant Managing Director, Adelaide Brighton Cement Limited
- Mr. R. O. Jose — Director, SOLA International Pty. Limited

In the short time since their formation, these I.P.A. Committees have helped expand the distribution of I.P.A. publications among teachers, schools, students, newspapers and businessmen. They have also helped to increase the number of our company and individual subscribers.

Last month the W.A. Committee conducted a very well organised Taxation Seminar in Perth in association with the University of W.A. Extension Service and the Tax Payers' Association. Mr. Eric Risstrom, Secretary, Tax Payers' Association, and Mr. Gordon Bruns, Chief Economist, A.N.Z. Bank, were Guest Speakers.

The S.A. Committee has provided us with a valuable list of names of newspaper correspondents who have been added to our mailing list.

# **POSTAGE RATES**

The recent increase to 18 cents in the postage rate, for an ordinary letter, will affect every individual and business in Australia and add considerably to costs. This is an increase of 80%. The rates for registered publications are to rise even more steeply. The newly formed Australian Postal Commission has not made an auspicious start.

The I.P.A. "Review" and "Facts" are registered periodicals in Category B which entitles them to receive concessional rates of postage.

These concessional rates have risen regularly in recent years. The latest increase which will operate from 1st February, 1976, will approximately double the Institute's annual postage bill. This is inflation at its worst, a severe blow to non-profit educational organisations such as the I.P.A. The cost of posting "Facts" is much more than the cost of printing it.

It is probable that Australians are paying the highest postage rates in the world. Australia must be one of the few major countries that expects its postal operations to be in the black. Most other nations subsidise their post offices in order to maintain reasonable rates.

Anything printed that is distributed by mail will suffer. The increased rates are particularly ominous for the publishers of magazines and newspapers, especially many hundreds of educational publications and rural weeklies which depend on mail deliveries.

It is not surprising that a few publishers have adopted alternative systems, including the use of private delivery companies to keep the cost of distribution down.

High postal charges, resulting in less communication between editors and readers, strikes a serious blow at one of the means by which people inform their minds and educate themselves. In the end the major loser will be the nation itself, not only money, but more importantly in the dissemination of ideas.

# **EXTRACTS FROM RECENT CORRESPONDENCE**

**Mr. W. B. Crocker, C.B.E., Adelaide —**

"I would also like to repeat my appreciation and admiration for what you are doing. There is no publication in Australia which excels the I.P.A. Review for quality of informed comment, for statesmanlike breadth of view and for consistent rightness in general."

**Mr. R. L. Cooper, Director,  
Ansett Transport Industries Limited, Melbourne —**

"We think the "Free Enterprise" booklet is first-rate. Its publication is timely."

**Sir Ian McLennan, Chairman,  
The Broken Hill Proprietary Company Limited, Melbourne —**

"As I have usually found with material coming from your office, the "Free Enterprise" booklet strikes me as being well thought out and particularly well timed."

**Mr. J. Campbell Johnston,  
J. B. Were & Son, Melbourne —**

"Thank you for sending me the booklet on free enterprise. I think the material is excellent."

**Mr. R. E. Gregory, Director,  
The Myer Emporium Limited, Melbourne —**

"The Company feels that it is very important to get the message of the "Free Enterprise" booklet over to the younger generation coming on."

**Mr. Leslie N. Shorter,  
Adelaide Brighton Cement Limited, S.A. —**

"Having now seen the new publication "Free Enterprise" I hasten to offer you and your colleagues congratulations on such an excellent publication — excellent because it achieves its objective so efficaciously. I earnestly recommend distribution to University students."

**Mr. J. G. Perry, Director and General Manager, Banking,  
The Commercial Bank of Australia Limited, Melbourne —**

"Your booklet "Free Enterprise" outlines the great achievements of free enterprise. It emphasises the need to preserve and encourage enterprise in a simple but informative way."

**Mr. W. J. Brown, Director,  
Western Australian Employers' Federation, Perth —**

"May we congratulate you on the preparation of the "Free Enterprise" booklet, which we see as expressing in a concise, hard-hitting, easily understood way, the message that must be carried through to all sections of the community."

**Mr. Geoff Crockford,  
Crockford & Robertson Pty. Limited —**

"Congratulations to all involved in this excellent, most suitable "Free Enterprise" booklet expressing the cause of *freedom* and prosperity."

**Mr. W. L. Lapsley, Managing Partner,  
C. P. Bird & Associates, Perth —**

"I am writing in response to your circular bringing to my notice your new free enterprise booklet, with its splendid message. I should like to congratulate the Institute on its efforts."

**Mr. K. R. Grice, North Lambton, N.S.W. —**

"As an avid reader of your publication "Facts", I wish to take this opportunity to congratulate your organisation for this most useful, easy to read booklet."

**Mr. G. W. P. Lawrence,  
Freecor Limited, Salisbury, Rhodesia —**

"Your publication is very well received amongst my associates. It makes for good reading and carries a very sane message."

**Mr. K. Boyd-Gerny,  
Neerim South High School —**

"Facts is extremely useful to me as an Economics teacher. In many areas of study the students of the school, and myself, use it as the only reference because it is topical, up-to-date and presented simply."

**Mr. L. R. Davies-Graham, Highgate Hill, Brisbane —**

"It has been my good fortune to be associated with your Institute almost since its inception. Over the years it has performed an amazing service — it could do more if it had greater support."

**Rita E. Osborn, Yeppoon, Queensland —**

"It's a pity some of the money tossed about by government bodies couldn't be used rather to put a copy of your Inflation booklet in every daily newspaper on some specific date."

**Mrs. P. J. Cooper, Epping, N.S.W. —**

"I was wondering if it would be possible for you to add my name to your mailing list as your publications would be a great asset in teaching up-to-date economics to my senior classes."

**Mr. John P. Young,**

**John P. Young & Associates (Aust.) Pty. Ltd., Hawthorn —**

"I think I.P.A. is doing an excellent job in producing booklets such as the "Free Enterprise" one — which I have been promoting in various companies and distributing a few copies."

**John Hooper, Caulfield, Victoria —**

**Former Finance Editor "The Herald", Melbourne**

"You express appreciation of "The Herald's" use of I.P.A. material. Let me say we were always happy to receive I.P.A. bulletins so we could pass informed opinion on to our readers."

# FINANCIAL SUPPORT

The I.P.A. is deeply appreciative of the generous contributions of its subscribers. In the last financial year we received support from 1,802 contributors as follows:—

	<b>Number</b>
Companies .....	515
Individuals and Sundry Subscribers .....	1,155
Schools (Concessional Rates) .....	132
	<hr/>
	1,802
	<hr/> <hr/>

During the year the subscription for individuals was increased from \$3.00 to \$5.00 per annum.

It is essential to spread the free enterprise story among more and more people — employees, teachers, school and university students, libraries, debating clubs, discussion groups, public servants, parliamentary and trade union officials.

Owing to inflation, the cost of every item needed to maintain the Institute has increased. Postage is a major concern.

We therefore ask all our old and valued supporters to maintain and, if possible, increase their annual contributions. At the same time we invite those companies which do not at present support the Institute to become subscribers.

## I.P.A. SUBSCRIPTIONS

	<b>Entitlement</b>	
	<b>No. of copies of each issue</b>	
<b>Companies</b>	<b>IPA Review</b>	<b>Facts</b>
\$50.00 per annum .....	3	10
<b>Individuals</b>		
\$5.00 per annum .....	1	1

The above are minimum rates and entitlements increase with larger subscriptions. The I.P.A. relies in the main on the financial help of Companies and organizations which contribute larger amounts.