

The Rewards of Enterprise

I. C.S.R. 1887-1955—INNOVATION AND GROWTH

II. CORPORATE CAPITALISM IN A MIXED ECONOMY

III. CONCLUSION

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Having related how C.S.R.'s activities have grown and how it functions today, this concluding chapter is a description of the main policies which have guided its directors and management, and an account of the rewards received by the shareholders and the corporation's role in the community. The theme of the chapter is rewards—for C.S.R.'s proprietors and for the community.

The first part of the chapter deals particularly with financial policy and economic growth since C.S.R. was incorporated as a limited liability company in 1887. Some of these matters which were dealt with in passing in Chapter 2, The Historical Background, are now described more fully. It is against the background of rewards that C.S.R.'s pioneering work in the development of large-scale production and application of science to production is seen most strikingly.

The second part of the chapter, Corporate Capitalism in a Mixed Economy, considers the problems which confront both the corporation and the community in ensuring material progress, gaining higher productivity, preserving freedom and achieving other social objectives. These issues are considered in relation to the far-reaching and rapid developments which have been taking place in social evolution. This part of the chapter could have been treated as a separate essay, but it has been included here because the issues raised are so vital to the ability of corporate enterprise to contribute its best in rewards both for shareholders and for the community. Some of the more detailed and technical argument in relation to such matters as inflation, high taxation and government controls has been dealt with in supplementary notes.

The concluding part of the chapter gives in concrete terms a very brief summary of the contributions of C.S.R. to the societies in which it operates. Some of the non-material contributions are mentioned briefly. The material achievements are summarized finally in a few simply presented and highly significant facts.

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I

C.S.R. 1887-1955—INNOVATION AND GROWTH

ON 1 January 1855 the Colonial Sugar Refining Company was formed as a partnership of ten persons with unlimited liability. The paid-up capital was £150,000. The business was confined to sugar refining, and distilling on a small scale, in Sydney. Within two years a dividend rate of 50 per cent was paid—never to be repeated. The story of the crash and near-bankruptcy that followed has been told in Chapter 2. In it originated the policy of saving and accumulation.

1887-1914

FROM INCORPORATION TO WORLD WAR I

The company was incorporated as a limited liability company, registered under the laws of the Colony of New South Wales, on 1 July 1887. The Statement of Assets and Liabilities of 30 September 1887 shows the assets as: "Pymont and Yarraville Refineries"; "Sugar Mills"; "Ocean Steamers"; "Interest in the New Zealand Sugar Company Limited"; stocks, debtors and sundry items. The paid-up capital of the company, at £600,000, put the company amongst the large companies of the day but some way below the largest in capitalization.

At 30 September 1887 the funds used in the business were derived from:

	£
<i>Capital paid up</i>	600,000
<i>Reserves and undistributed profits</i>	356,513
<i>Shareholders' Debentures</i>	351,422
<i>Debentures</i>	515,000
<i>Creditors</i>	385,307
	£2,208,242

The great depression and the bank crisis of the 1890s were at hand, unknown to the board and the proprietors of 1887. But they knew that they did not possess a "strong balance sheet"—debentures were too high. For the nine months to 31 March 1888 a dividend at the rate of 6½ per cent per annum was paid, using only £31,705 out of the profit of £74,062.¹ Thus the first accounts indicated the policy of the new

¹ Tabulations of movements in the company's capital and annual profits are given in Appendix 31.

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public company under the leadership of the merchant-banker-industrialist, Edward Knox.

The business was recovering from losses and a severe depression when it was incorporated with limited liability. The losses had been caused by a heavy fall in world sugar prices in 1884. The dividend rates indicate the situation:

1883	..	..	20 per cent
1884	..	..	10 " "
1885	..	..	Nil
1886	..	..	5 per cent
1887	..	..	6½ " "

From 6½ per cent in 1888 the dividend rate had risen by 1892 to 10 per cent on share capital which had more than doubled, but with debentures more than halved. There it stayed, apart from a 2½ per cent jubilee bonus, for 20 years until 1911, while paid-up capital increased from £1,438,820 in 1892 to £3,000,000 in 1911; and debentures were further reduced from £348,600 to £61,850. By 1914, at the outbreak of World War I, the dividend rate had risen to 12½ per cent, the paid-up capital stood at £3,250,000 and the last debentures were paid off in that year.

In the 27 years since incorporation there had been an increase in capital of £2,650,000, derived two-thirds from shareholders' direct contributions, including those contributed as assets of amalgamated concerns, and one-third from profit retained in the business.

The period from 1887 to 1914 was a particularly significant one in the financial history of the company, as well as in other respects. During it, and for long afterwards, E. W. Knox was the dominant force and in the record of events we can see the influence of his mind and character, themselves greatly affected by his father's precepts. The main developments of this period were:

Expansion: The business was expanded at an exceptional rate in the context of those times in Australasia, and with boldness and even daring.

Debt Repayment: The unshackling of the business from creditors was made possible partly by the conversion to a public company and partly from its profitable accounts, which facilitated both the reduction of debt out of undistributed profits and the raising of further funds from an increasing range of shareholders to substitute for debenture money. (The partners in the unlimited company prior to 1887 and the public company in its early years

had been forced to raise debenture finance to cope with the expansion.)

Capitalization: The policy was applied of writing down fixed assets heavily—or, rather, of not writing them up—and charging to operating expenses large sums that would nowadays be regarded as capital expenditure.

Staff: A strong staff was built up, for the most part of professional outlook and status, and possessed of *esprit de corps* in high degree.

Manufacture: Great gains were made from reduction of process losses and from the exploitation of mass production methods by the business and production genius of E. W. Knox, who, in Australia, was two generations ahead of his time.

While some of these things were, of course, not unknown in the South Pacific, several of them were new and, in particular, the company was clearly an innovator in their combination. But these five developments within the company gave rise to a sixth external development of considerable consequence:

Political Hostility: C.S.R. entered the twentieth century the largest manufacturing organization in the South Pacific, and because of its unique size and success it became at that time a convenient focus for the attention of newly-developing socialist forces.

Expansion

The development of the business from about 1880 until 1903 was a new phenomenon in the South Pacific, not understood by the new political thought that was coming to the fore in the youthful Australasian democracies. It is described elsewhere but is summarized here in juxtaposition to the financial story. Fourteen sugar mills and refineries were built and two were bought; all the mills were large by the standards of the day. A heavy slump in sugar prices was overcome, then the bank crash and depression of the early nineties; technical control of processes was introduced and developed with remarkable speed; the company was converted to a public company; three amalgamations were effected. From 1880 to 1905 raw sugar production increased from 5,352 tons to 119,343 tons per annum and refined sugar production from 13,550 to 180,230 tons per annum. The scale of increase shown by these figures is in itself a measure of the company's social value, in terms of its contribution of goods for internal con-

sumption or for export to help pay for the imports required by these developing countries.

The increased spread of milling activities—from New South Wales to Queensland and to Fiji—was of great assistance in this period by evening out the effects of fluctuations of seasons and crops, to which raw sugar mills in particular localities remain today especially susceptible.

Removing the Constraints of Borrowed Funds

The directors, led by Edward Knox, H. E. Kater (who followed Edward Knox as chairman from 1900 to 1920) and E. W. Knox (who became a director on the death of his father in 1901) were anxious to get freedom of policy-making and risk-taking. They disliked the restraints on freedom of action caused by such a high proportion of debenture finance, and determined to reduce it gradually. The directors' report in 1899 stated, "... you are aware that it has long been the wish of the directors to gradually replace the interest-bearing liabilities with capital provided by the shareholders." And in 1900, "Since 1889 about £1,100,000 has been added to the paid-up capital, and as this has for the most part been applied to the reduction of the interest-bearing liabilities, the company has been put in a strong position in this respect." The greatly reduced debentures then stood at £292,000. All debentures were finally paid off in 1914 and debentures do not reappear in the balance sheet until 1953.

The risks inherent in the rapid expansion at the end of last century did not greatly worry the directors of the time in relation to shareholders, on whose behalf they were fully prepared to take big risks. But whether such risks were justified while so heavily in debt, because of the legitimate interests of lenders and, doubtless, because of what they might do in a crisis, was a question that worried conscience and hindered action. As long as they were reducing the outside debt and increasing the proprietors' equity in the whole business, however, the Knoxes and the other directors felt justified in pushing on. This is summed up, following numerous references in earlier years, by the remarks of chairman Kater in 1910:

The former [the substitution of shareholders' capital for borrowed money] has told greatly to our advantage in this way. It is necessary in every business like ours to look forward to the complete replacement of the plant after about twenty years of work, and if, as is so often the case, this has been purchased with money borrowed on debentures or otherwise, there should be set

aside yearly a sufficient sum to pay the debentures at maturity or to provide new machinery. Now, we have asked you from time to time to pay off all liabilities as they fell due out of capital subscribed by the shareholders, and, in consequence, the large amounts which, under other circumstances, we should have reserved to meet such payments, have been available for new ventures.

If the proprietor, and not creditors, owns the business, he can take risks, including the expenditure of replacement reserves; then replacement falls on him to provide out of earnings held back, subscription of capital from shareholders, or, if he likes, he can try and repeat the process of borrowing and paying off. But first he must clear or greatly reduce his existing debt. That, at any rate, was the policy of the Knoxes and their fellow directors; and in a number of statements they made it clear that the policy was rooted in conscience.

Capitalization

Accountancy had not in those days assumed the dominance it now holds in business affairs, and perhaps something of a loss in the common-sense practical business approach has to be recorded as some offset to the great developments and added precision of modern accountancy, deeply influenced as it has been by the necessity to assess profits according to strict rule for income tax purposes. Accountancy methods and those two new techniques which depend on accountancy—income taxation and price fixing, with their emphasis on historical cost in money terms—have distracted attention from more real values. The Knoxes refused to consider as real assets anything that was not obviously of permanent value, or exchangeable for value. They regarded "value" as the paramount thing—a concept partly submerged in modern times; to them the monetary cost of the assets was an incident that had happened in the past. Land was real enough and so, up to a point, was machinery. But buildings and installation costs were not permanent assets in their eyes because, while they believed in sugar production, they did not necessarily believe in any specific locations for it.

Several times they closed mills and moved the machinery; many more times they contemplated and prepared for such moves. A few examples will help to show the reasons for their views and some of the unusually precarious features of the business. In New South Wales, Southgate Mill was closed and Darkwater was moved from the Macleay River to the Clarence (and renamed Harwood). In 1885 the Queensland Government had passed an Act to bring the immigration of

Kanakas to an end in the early nineties. The alternative to what was considered at the time to be the forlorn hope of producing sufficient cane for the *tropical* mills in Australia without Kanakas for field labour was to move mills to Fiji. It was announced that Victoria Mill would be moved to Fiji.

In 1891 Edward Knox told the shareholders: "The Queensland Government has introduced a bill which will allow the acquisition of properties—such as our plantations—by the neighbouring settlers, and if this measure passes in this or the next session, we expect to dispose in this way of the Victoria Mill at a price which will return to us the sum to which it has been written down, and we have intimated our willingness to accept such an amount."

There were further threats and risks. The New South Wales raw sugar industry had grown up under an old duty on sugar instituted, as chairman Edward Knox said, "many years before anyone knew that sugar could be made in New South Wales, and for revenue purposes only". The Government of the Colony of New South Wales proposed in 1896 to remove this duty and this put the company in an awkward position. The board considered that though the company was a free trader in principle it should point out the facts.² These were that without the duty, most of the protective value of which the company was paying over to the growers, the New South Wales industry could not compete; and the company would not condone, support or take part in the employment of Kanakas in New South Wales to reduce costs of production. The board referred to "the losses which we shall necessarily sustain by writing down the plant to its value for removal"; but also said that, while it would be prepared to carry on at a reduced price for cane, such a reduction would probably put the farmers out of business. After some years, the New South Wales Government abandoned its contemplated abolition of the duty. In the same decade, however, gumming disease in cane seriously threatened the existence of the industry in New South Wales and forced a number of non-C.S.R. mills to close.

There were direct political risks too. Nationalization of the refining industry was one of the points considered by the 1912 Royal Commission (which recommended against it mainly on the grounds that the company's refineries were of "high efficiency", and "we do not

² This kind of business problem can be compared with the position of a cricketer who considers the "laws" of cricket need amendment; but until they are altered he has to play under the existing laws. It is typical, too, of a range of problems to which companies have to decide their practical approaches, and with increasing frequency today in our "mixed economy". A company may disagree with conditions and policies that the community applies, for instance in tariff or trade matters, but in practice has to work under such conditions.

think that the public ownership of the refineries would prove as financially successful as the present private ownership").

There were thus enough threats and risks to justify the directors' decision to value the plant at its "value for removal". Indeed, they considered that to value it otherwise would be to mislead the shareholders and, even more serious in their eyes, the creditors (i.e., the debenture holders).

As free traders by belief, and actually conducting refining in Australia and New Zealand on a free trade basis (this included the refineries in the several States with the exception of Victoria before Federation), they did not capitalize duties on any plant, practically all of which was imported; nor did they capitalize the ocean freight. The directors made no secret of what they were doing, as has been indicated by some of the quotations given. And there were many similar references; for instance, the address to the "proprietors", as they were generally called, stated in April 1896: "... our investments in sugar mills in New South Wales represented an outlay of nearly £550,000, without taking into account large sums paid for duty on plant and for alterations and additions, which we did not think fit to charge to capital account."

In the period of the great expansion the load to operating expenses of charges for freight, duty, buildings and installation work must have been a heavy one, and could only have been sustainable out of high annual returns. These the company was getting, owing to chemical control, mass production methods, increasing quantities made and sold, and expert management.

This process of writing off so much to operating expenses also meant that, when most of the threats had been overcome or had subsided, when consolidation had occurred, when duties were not removed, when most of the ventures proved to be soundly located and when cane diseases were controlled, the real value of the assets (despite several casualties) was much more than the figures at which they stood in the balance sheet. Thus, the directors reported in 1913 "... our assets in the Commonwealth stand at less than their cost."

The Administrative and Managerial Staff

As it developed in size the company quickly came to appreciate the importance of a strong administrative staff and a loyal general body of satisfied employees. There are reports to the board in the 1880s that even today make enlightening reading. The facts and records show that the company had the practice as well as the understanding. The

board understood the close link between management and staff, on the one side, and rewards for shareholders, on the other, and wished the shareholders to know it too. On the occasion of the company's jubilee in 1905 the shareholders were told by the chairman that "you will know that it is to that [administrative] staff that all businesses look for their well-being". E. W. Knox spoke on that occasion, as on others, almost in the tone of an Old Testament prophet leading and admonishing his people; he mentioned the above-average remuneration received by the salaried staff and other employees and referred in terms of austere fervour to the effort, spirit and vision the company counted on from the senior staff. On the material side the company was then also strongly developing the Employees' Provident Fund and the separate Employees' Benefit Society, on contributory bases.

Financial Consequences of Chemical Control and Mass Production

The internally-developed methods of chemical control and of mass production in large factories were powerful assets, although they could not appear in the balance sheets. The additional profit benefits they gave the company over its competitors, the extent to which it outdistanced the latter, some by a very great margin, and the long period over which it sustained these advantages made possible the rest of the financial policies.

The concepts were well understood, as shown by E. W. Knox's 1890 address, reprinted as an appendix. Thomas Buckland, chairman in Edward Knox's absence, told the proprietors in 1892: "We keep in view our constantly increasing trade, and the desirability of maintaining our profits by selling more largely at a narrower margin of profit, the larger output reducing the working expenses [per ton], and thus permitting us to accept lower prices."

The annual reports for many years are sprinkled with references to the gains from chemical control and from the reduction of process losses. That great profits could come from this source may be difficult for people who do not know sugar to understand. But it was so, three features of the situation being: the very high proportion of the total cost of the product represented by the sucrose bought as raw material in the cane or raw sugar; the highly unstable nature of sucrose, chemically, physically and microbiologically, when dilute and in process; the difficulty in separating it from several of the chemical "impurities" with which it arrives in the factory.

By 1910 losses of sucrose had been reduced by about half compared with the first full year of chemical control in all the factories in 1885.

The extra sugar so made in the year 1910 was 28,900 tons, worth at then current values £289,000; and E. W. Knox was saying, "there is room for further improvement". The total profit in 1910 was £344,470. The company stated that its assets outside Australia, "worth between £2,000,000 and £3,000,000 had been paid for out of profits", and made it clear that these profits were substantially the fruit of superior technological skill.

Chairman Kater and E. W. Knox both publicly named, as the two secrets of the company's success, the debt-reducing financial policy followed since 1888 and chemical control, and gave the greatest weight to the latter. E. W. Knox was not the man to refer to another factor, key to all the others—his father's and his own great abilities.

Size, Success and Political Hostility

Edward Knox's financial outlook had been hardened into set policy by the sugar market crash and near-bankruptcy of 1858. He seems to have remained in control, at least of broad financial policy, until the end of the century. His life's work was building up business and financial enterprises. To him dividends for the shareholders were subordinate to building, and he left a strong financial structure to benefit his successors and the shareholders of the future.

E. W. Knox was a builder equally great or even greater and his financial policy is hardly distinguishable from his father's. He acknowledged that he had been greatly influenced by tradition, by the family's financial stringency when he was a young man, and by his father's precepts. If tendencies inborn or thus developed needed strengthening they received it. In 1884, four years after E. W. Knox became general manager, the Victoria Sugar Company (half-owned by C.S.R.) lost, through the sugar market crash, £400,000, a tremendous sum for those days and for the scale of the business then—compare it with the £600,000 total paid-up capital of C.S.R. on 30 September 1887, three months after incorporation. C.S.R. was deep "in the red". Soon came the bank crisis of the 1890s. There were threats from climatic and soil deficiencies, from cane diseases, from labour shortages, from duty variations, and from political action. All these things would have convinced a man of E. W. Knox's temperament that his financial structure had to be unassailable. By 1914 it was, and the company was in a position of great all-round strength, financial and otherwise.

Indeed, it had succeeded too well for the temper and educational standards of the time. Its services to Australia, New Zealand and

Fiji had been large and important and, as it had to demonstrate publicly, it had gained its size and strength by exploiting no one.

W. M. Hughes had led a series of attacks upon the company in parliament and press. This criticism and the general situation in the sugar industry of Australia brought about a Royal Commission, which was appointed in October 1911 and made its report in December 1912.

The proceedings of this commission covered all phases of the sugar industry—growing, milling and refining—and are referred to in the historical chapter. Almost without exception witnesses who had experience of the company's business methods, as customers, cane suppliers, competitors or technical experts, spoke of the company in terms of commendation. Of the many such witnesses two can be quoted briefly here. They were independent, knowledgeable and experienced in the industry and their testimony was given under oath and subject to cross-examination.

J. C. Brunnich, chemist in the Queensland Department of Agriculture:

The whole sugar world should thank the Colonial Sugar Refining Company for the efficient way they started in the early days. They gradually worked the business up and economized in every respect, and their system has gradually spread to the other mills in more or less complete degree.

Charles E. Young, prominent sugar plantation proprietor:

I wish here to state that the industry owes a debt of gratitude to the Colonial Sugar Refining Company for showing the way to improved machinery. This industry would have been a one-horse industry had it not been for the lead given to us by the Colonial Sugar Refining Company. . . . We are active competitors [of C.S.R.].

The report of the commission said: " . . . in the case of the Colonial Sugar Refining Co., monopolistic control [of the market situation, based on refining]³ is the result, less of the pursuit of 'predatory' methods of certain American Trusts, than of large scale industry and a high efficiency of organisation . . ."

³ The situation was complicated and quite different from that obtaining now. The company had a major degree of monopoly of refining *vis à vis* other Australian refiners, for the reasons stated by the Royal Commission, but it faced real competition from imported refined. Then, as now, there were many other millers, who as millers were in substantial competition with one another; and some of them, in addition, marketed certain types of raw sugar in competition with one another and with the refiners.

The company, E. W. Knox pointed out to the commission, was in receipt of no public aid, protection or subsidy, and was faced with competition. The rewards won for the proprietors had been won against all comers in an open field of opportunity. Refining in Australia was on a free trade basis⁴ and competition from imported refined was keen. Moreover, C.S.R. prices to consumers were shown to be lower than in the United Kingdom when both were expressed on a duty-free basis. In milling in Queensland, where comparisons could be drawn, C.S.R. paid somewhat better prices for cane than government and co-operative mills. The company, as much as or more than anyone else, was responsible for the system of independent farmers and there was a preponderance of successful farmers supplying the company's mills. Wage-earners were paid a little better than current rates, taking all things into account, and, as one of the commissioners said, "everywhere we went, we could not help being struck by the fine type of men the Colonial Sugar Refining Company employed, whether managerial, professional, or mechanical".

Judged by the facts and the details of the arguments, E. W. Knox had in public exchanges regularly worsted W. M. Hughes, careless of his facts but acute in his political sense. But, as one would expect, the overall political result, with such a master as Mr Hughes in the controversy, was not favourable to C.S.R. Mr Knox did not always deign to reply and his infrequent, belated and cold statements and plain facts were without popular appeal. And although the published report of the Royal Commission substantially vindicated the company, it was not the kind of material to make popular reading, and adverse publicity over a period has long-term effects not easily eradicated.

Later, in 1919, the company was asked by another sugar commission to give "the private details of the working of our mills and refineries" but refused "to explain to our competitors all that we have done in this direction". Chairman Kater told the shareholders, "Many allusions have been made in the newspapers of late to the application of science to industry, and you can estimate for yourselves the depth of feeling on this subject by the continuance of the efforts to break up the one business in which some success has been achieved by the adoption of the methods of scientific control."

In the unindustrialized period in the South Pacific preceding World War I, C.S.R. must have looked like a mountain on the industrial landscape. Amongst business organizations only one or two banks

⁴ There was a Commonwealth import duty on sugar entering Australia but C.S.R. as refiners passed on the whole of its value to the raw sugar industry in the price paid to the mills for raw sugar; as shown in the evidence to the 1911-1912 Commission.

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could compare in financial strength. But the company, pre-eminent in size and success over all other manufacturers, and by now very strong in its organization, its administrative personnel, its technology, its market experience and its finances, was to remain for some time a favourite target for political attack. Its lack of success in this field was an offset to the rewards otherwise accrued to shareholders and might prove their great weakness if it were to continue.

1914-1924

WORLD WAR I AND AFTERMATH

Once a company has achieved a position such as C.S.R. held just prior to World War I, it has a good chance of being able to operate in the future on the basis of self-generated and internally-financed expansion; generally its prospects are excellent. But the dangers are real enough: major economic or technological change; political action; labour supply difficulties; failure to keep the enterprising spirit; failure to remember the lessons learned in the era of development; idolization of the past—"resting on the oars". Some of these occurred and were overcome, after a time, such as the labour shortage in Fiji; others did not happen or were prevented from developing by the company's policies.

There was nothing new in the company's business philosophy, even though in its manufacturing organization there were elements new to the South Pacific. To most people, the general and financial philosophy is, perhaps, best understood and most clearly seen in farming communities. Save some money, buy a farm with as good a rainfall and soil as you can, borrowing half or more of the purchase price. Work hard all your life, live hard in the early days, and save and save. Pay off the debt and repeat the process. Never live up to your income. If markets and seasons are not unkind, by the time you are elderly, and perhaps sooner, you are comfortably off, maybe better than that, and you leave your children in a sound financial position. If they are lazy, or spendthrifts, or dead unlucky, they or their children will be back to shirtsleeves. If they are reasonably hard-working and reasonably thrifty they will have easier lives than you had. If you and your children keep on living below your income, and the income is now good because of past self-denial, you go on progressing and accumulating, subject to market changes, drought, income taxes, resumptions and death duties.

This is one important side of the capitalist method. It presents a fairly close analogy to the development of C.S.R., although the

company was also an innovator, which brought additional gains. It is an apt picture of where the company stood and what its prospects were before the first world war. But big changes, which were to have great effects on the capitalist method of production, were coming to the whole western world. The virtual absence up to that time of income taxation on companies had made the accumulation of capital very much easier than it was to become later. This situation was an important factor in the progress of the company and in the rewards then obtained for its owners. There was no governmental "sleeping partner" to claim a high share of profits as soon as they were made. Prior to World War I, there was no company tax raised in Fiji or by the Federal Government in Australia and the tax rate in the Australian States and in New Zealand varied from 6d to 1s 0d in the £.

C.S.R. in Australia, 1914-1924

In 1915 the business outside Australia was turned into what was in most respects a subsidiary company, the "Colonial Sugar Refining Company (Fiji and New Zealand) Limited", which remained under the control of and was operated by the board, management and staff of the original company. C.S.R. owned the ordinary shares but practically all the issued capital was in the form of 6 per cent preference shares issued free to C.S.R. shareholders individually, who thus, if they did not sell the shares, received profits from the ex-Australian activities directly.

The parent company's dividend was practically halved (from 12½ per cent to 6½ per cent), thus confirming the situation as stated before the war, namely that about half the total profits were coming from the £2,000,000 to £3,000,000 of assets in Fiji and New Zealand. These assets, as the directors had repeatedly said, had been created mainly out of saved-up profits, combined with what would now be termed depreciation and replacement reserves. The level of retained profits continued high enough for replacement of buildings and plant, when it became necessary, to be self-financed.

In 1915, under wartime arrangements, the Australian company started refining on contract to the Federal Government and henceforth, unsought by C.S.R., profits from refining were insulated from the competition of refined sugar from abroad and were to be affected mainly by the less marked variations in the quantity refined and sold. This moved slowly but steadily upwards with population increases.

The Australian mills were affected during the war by lower production and the control of raw sugar prices at a low level. But in 1920

the mills in the Queensland industry generally considered that they were being unfairly treated and made strong representations. The Commonwealth Government "jumped up" the price of raw sugar from £21 to £30 6s 8d, partly to help rehabilitate the milling side of the Australian industry. With good seasons and this price fillip, C.S.R.'s Australian mills did well. The price was reduced in 1923, but not very heavily. It was at this time that the sugar marketing pool was formed in much its present shape under the control of the Queensland Government, with refining and some other matters contracted out to C.S.R. and the Millaquin Sugar Company.

Through the war profits had remained stable, as had dividends at 6½ per cent, while reserves increased moderately. In 1919 chairman Kater said: "It is time the shareholder should be remembered; the salaried men have had bonuses during the war, the wage-earners higher pay, and the farmers more for their cane; but since the war began, the owners of the business have had nothing extra."

In 1920 a bonus dividend was paid, because "the higher prices now being received for our [Australian] raw sugars justify the addition to your income". From then on there are several statements about the satisfactory results obtained from the Australian mills.

By 1923 the profit from the Australian activities alone was, in terms of money, nearly back to the prewar level from Australia, Fiji and New Zealand, although in value only some two-thirds of prewar because of the fall in the value of the £. There had been increasing volume of business at the unchanged margin per ton on refining, but the postwar elevation of raw sugar prices, which favoured the mills, was the most helpful factor inside Australia.

The Fiji and New Zealand Company

In Fiji, during the 1914-24 period, C.S.R. enjoyed the most spectacular monetary success in its history. The world sugar price rose each year from £10 9s 0d a ton average for 1913 to £65 14s 0d in 1920, with peak prices of £80, and in isolated instances even more. The mills in Fiji obtained the benefit of the rise in the market and a lot of money was made. The company in Fiji sold to New Zealand, at less than market price, enough raw sugar to keep that country supplied; New Zealand consumers received the benefit and the company was thanked by the New Zealand Government. The benefit to the company of the high sugar prices would have been much greater if the ending of the Indian indentured labour system had not reduced the production level in Fiji before 1920, the year of extraordinarily

high prices; the labour shortage, however, had its worst effects after 1920. The Fiji and New Zealand company retained most of the good profits, paying its 6 per cent preference dividend to the rank and file of shareholders and a low dividend on the small ordinary capital held by the main company. Prices and production both fell after 1920.

The ex-Australian company, starting with assets of £3,500,000 from the parent company, and after paying low dividends and conserving profits, terminated its separate existence in 1923. Almost entirely out of the operations in Fiji, it then:

Paid off the individual preference shareholders with a premium of £203,000.

Repaid the ordinary capital to the parent company.

Paid the shareholders of the parent company £325,000 in cash, and paid £650,000 to the parent company on their behalf to restore the paid-up amount of their shares from £16 to £20 each. (£4 per share had been returned to shareholders in 1920.)

Returned the balance of its assets to the parent company.

Shareholders in the parent company then received a share issue of £1,625,000 (1 for 2) as the counterpart of the assets received back from the subsidiary.

The Fiji fixed assets were taken back into the parent company's books at the low figure of £1,139,000. The board considered the low valuation of assets was necessary because, despite the spectacular business success in Fiji in the recent past, the industry there was at that time threatened with extinction by the ending of the indentured labour system. Sugar production in Fiji had fallen in two years to about half its previous level and the market price had also fallen very heavily. The serious threats to the business in Fiji were, however, ultimately to be conquered by initiative and resource—the installation and development by the company of the unique Indian small farm system.

The results from Fiji had been exceptional, especially in the 1920 bonanza of very high world market prices. A recent analogous situation is the profitability of wool in Australia, especially in 1950-51, and its subsequent decline in value. In both cases, world markets were responsible. They form a risky basis for operations, at times cruel but occasionally very fruitful. And C.S.R. in Fiji had no company tax to pay until 1921. Of the gains made in Fiji, some were distributed and some retained in the parent company.

With the issue in 1915 of the preference capital in the Fiji and New

THE REWARDS OF ENTERPRISE

Zealand company, combined with the termination of that company's existence in 1923, had come the first major release to the proprietors of the savings of the great builders and conservers, after nearly 70 years of operations. Until then the releases of saved-up profits had been small and piecemeal. But the world raw sugar market in 1924, although momentarily brighter, was in reality sick and, although E. W. Knox had loosened the purse strings, this man in these circumstances could be counted upon not to let them go.

Shareholders' Position in 1925

When the company's affairs had settled down after World War I, the comparison with the prewar position for shareholders was as follows:

		<i>Years ended:</i>	
		<i>31 March 1914</i>	<i>31 March 1925</i>
		£	£
<i>Paid-up Capital</i>		3,250,000	4,875,000
<i>Profit for Year</i>		519,201	760,653
<i>Dividend Amount</i>		406,250	548,437
<i>Dividend Rate</i>		12½ per cent	11½ per cent

These seeming improvements for the owners had come from their past savings and otherwise mainly from the mills, and more from the mills outside Australia than those in it. Superior technical efficiency had continued to play its part. Over the 11 years from 1914 to 1925 production of raw and refined sugar (in tons, not in value) had increased by 25 per cent. The value of money had fallen in Australia some 50 per cent. These two facts, taken in conjunction with the financial tabulation, show that at that point the shareholders had lost ground *as to their annual income from the company*, the purchasing power of profits and dividends having declined. This was the more marked when compared with the increased productive contribution their company was making to the community. Gains had been made, however, which are not shown by the above tabulation: the owners had received a large distribution from savings accumulated over a very long period—almost since the company first ventured outside Australia—and greatly augmented by a windfall financial crop in Fiji. Also profits were soon to improve and a further distribution of accumulated savings was made in the form of a share issue of £975,000 in 1927.

Relations with Governments in Australia

This war and postwar period had another effect on the company which was ultimately fruitful in consolidating the interests of shareholders. A start was made in this period, fortuitous and not by design, in mitigating the suspicion in which the company had been held politically. The company had always carefully avoided politics and political contacts, irrespective of party. It did not fundamentally change this outlook or practice, but circumstances forced it to work with and for governments. It managed and operated the wartime sugar supplies for the Commonwealth, and W. M. Hughes and E. W. Knox came to know and respect one another. Senior men on both sides came into close contact. In 1923 a similar relation commenced and has continued ever since with the Queensland Government. The company began to learn how to work with governments in business, while eschewing politics and party politics; and responsible persons of every political interest began to understand something more of the corporate capitalist system and method of production, at least as represented by C.S.R.

1925-1955

THE LAST THIRTY YEARS

E. W. Knox resigned early in 1933 and died a few months later. In his last years he made occasional observations that showed the nature of his financial thinking, which largely dominated the company's policy.

In 1927 the Adelaide refinery was rebuilt after being half-destroyed by fire. Said E. W. Knox to the shareholders:

The actual expense will be nearly three times that amount [the book value of the property destroyed]. As we do not care to swell the figures in our books by that sum, we have written off from reserves nearly two-thirds of the expenditure and leave the balance as a reminder of the need for avoiding fires in future.⁵

In the same year came an explanation:

... About the proposal to increase the paid-up capital of the company [by using undistributed profits standing in the balance sheet] ... I may now remind you that this is merely the continuance of the policy of the company to keep the shareholders' capital in a more or less reasonable proportion to the cost of the assets of the business.

⁵ C.S.R. carried its own fire risk on factory buildings and plant.

In 1927 also:

. . . in a business affected by droughts, cyclones, strikes and political hazards, you should take what is offered to you, and be thankful that the amount is not less than you desire or expect.

. . . the sum paid annually for dividend and bonus has never yet amounted to 5 per cent on the cost of the assets . . .

The last statement about the dividend not exceeding 5 per cent on cost of assets had been repeated many times over the years from 1900 to E. W. Knox's death.

In 1928 Mr Knox tilted at the conventions (to which he himself nevertheless paid some regard, as shown by the second of the above quotations) and showed something of his personal convictions about shareholders and proprietors, as distinct from rentiers who loaned money. He said:

Any outside liabilities we may incur are for a short term and are discharged by the sale of the sugar stocks, so that your business stands on its own feet. It does not, therefore [i.e., if not employing borrowed funds], matter whether the factories or other fixed assets appear in the balance sheet at something under cost—as is our practice—or, as in the case of an important Dutch company, carrying on a similar trade, each factory is put down in the assets as valued at £1. The point to be borne in mind is that the capital needed for the extension of the trade should always be provided by the shareholders, or from undistributed profits, so that you may continue to really own this business, as is now the case.

In his mind shareholders were what the word said they were—sharers, partners, part-owners. He would have nothing to do with any misconceived idea that such entrepreneurial investors and co-owners (although he did not use the words) were to be rewarded, as if they were rentiers, by some percentage on the amount of money they originally put into the company or were persuaded to leave in it.

The value of the business to its "proprietors" was what mattered to E. W. Knox and it had little or nothing to do with the cost of its assets but a great deal to do with its potentiality for earning in the future. Cost of assets was to him an incident that had occurred in the past—something now dead and of no significance in respect of current realities. It certainly could not represent true value. It would be better, he thought, to use a purely nominal value, which could not in any circumstances be confused with real value. As has been shown, however, he could not in practice turn so far away from convention, despite his

inclination. During the period when the company was in debt he and his father had been scrupulous that the balance sheet values should not exceed real or realizable values (e.g., factories at their value for removal) so that creditors would not be misled.

The Meaning of Shares and Dividends

A point of interest is that within a year of E. W. Knox becoming chairman the board's reports ceased to refer to dividends as a percentage and stated them as an amount per share, a practice which has continued ever since. A dividend of $7\frac{1}{2}$ per cent on a £20 share became a dividend of "30s od per share". Such seemingly simple concepts and expressions can have importance.

There is a class of investor, of high value to individual businesses and to the community, which prefers a contract that defines the investor's position very firmly in terms of precise money sums—as to the amount of investment, the annual interest and the amount to be repaid—and generally also gives him a mortgage for security and fixes the date of repayment of the capital. In such contracts and on the certificates issued under them the "£100" and the "6 per cent interest per annum payable half-yearly" have exact meanings, contractually enforceable. But the real wealth of a business has no fixed value in terms of money (even in times of no currency inflation), whether one considers the value of the assets or the estimated current value of future profits. Forming and operating a business cannot be financed fully by investors of the class just described—generally included in the broad term "rentier". Some investors must be found willing to bear the risks by accepting the element of values which fluctuate—up and down. These are the equity shareholders or ordinary shareholders. They must be content to wait for and accept the unpredictable residues of value, both annual profit and capital, after all the others—creditors, employees, suppliers, governments and the rest—have taken their dues.⁶

One purpose, and perhaps the basic purpose, of equity capital is to absorb variations in the value of the company as a whole. As this value constantly fluctuates so the value of the equity capital constantly fluctuates—and so the value of the respective shares in the total equity capital must also fluctuate. Any label on the "shares" which implies a fixed money value is misleading, once it passes the stage of indicating

⁶ A recent review of the results of 1,070 Australian public companies (in *Australian Financial Review* of 26 April 1956) for what most people would regard as the very prosperous year 1954-55 showed that one company in thirty-six made a loss, and one in twelve paid no dividend to its ordinary shareholders.

the amount the investor originally agreed to contribute to the enterprise. Taking the owner of 10 "shares" in C.S.R. as an example, the *ordinary* or equity shareholder should think of himself as the owner of a fraction of the whole C.S.R. company equal to $\frac{10}{702,000}$. He owns

that fraction of the net assets of the company and of its profits. It makes no difference to the respective real shares in the business of the co-owners whether the "shares" are stated to be of £100, £20, or £1, or are of no stated value.

This is recognized in the United States and Canada where companies may (and very many do) divide their capital into no-par-value shares. This system has been in operation in those countries for over a quarter of a century; after some initial difficulties, it has worked well and is not a subject of controversy.⁷

There have been mischievous consequences for both business and the national welfare from the customary machinery of calculating and expressing ordinary dividends as a percentage of a money figure. This practice confuses the proprietorial and risk-taking class of venture capital with rentier finance. It causes further confusion in the minds of those unacquainted with such business matters when over a period of years profits have been withheld from distribution to shareholders (although owned by them); the percentage figure for profits paid out in later years as a result of employing all the shareholders' funds, but expressed as a percentage of the lower figure—of the par value, or of the "paid-up" value—may appear as a high percentage.⁸ The confusion outside business circles often becomes still greater when the time comes to reorganize and restate the balance sheet, as a result of relative business success (or failure) or of changes in the value of money. To this confused state of affairs can be added the misleading effect of the admittedly convenient administrative or mechanical device of calculating dividends paid in current £s as a percentage of a very different thing—the older and more valuable £s originally contributed (e.g., perhaps as a percentage of prewar £s worth three times as much). These things have almost certainly had most serious inflationary consequences for the nation in the mistaken impression about the level of profits and dividends given to the public, arbitration courts and others. The problem seems to arise because large sections of the public

⁷ A committee appointed for the purpose by the British Board of Trade has recommended that companies in the United Kingdom be allowed in future to issue shares of no-par-value.

⁸ A further example of the complexities is that often shares are paid up in cash to a higher figure than the par value; e.g., C.S.R. shares issued "at a premium" in 1950. Shareholders paid in £27 per share for a share of £20 par value; they receive the same dividend per share on the new shares as on the old.

are taking an interest in business results but the language used by business carries many words and phrases the meanings of which are not completely what they seem. Business men, accountants and others in the commercial sphere almost subjectively place their own qualifications and meanings on some words and phrases which, in other spheres, often become a misleading means of communication. As a consequence, facts and ideas get distorted and actions are misdirected.

The Result of Prolonged Saving

In 1931 E. W. Knox told the shareholders: "For forty years we have, each half-year, left in the business more or less of the profit we earned", and he referred to "the effect of the law of compound interest on such a disposition of our earnings . . ." This can be considered in the light of repeated statements that dividends had not exceeded 5 per cent of the cost of assets and of the business having been operating for about 75 years on similar principles.

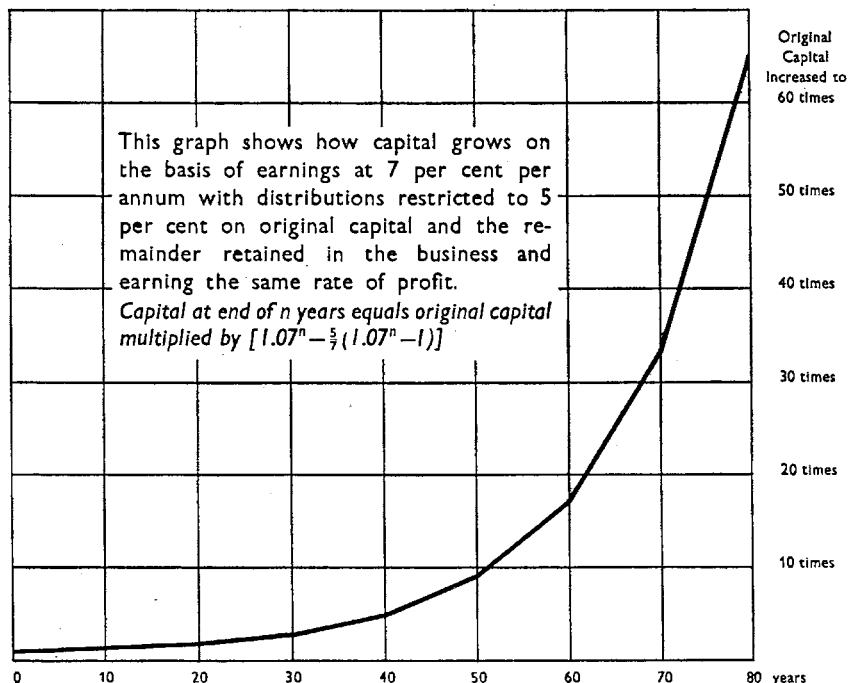
There are not many who do appreciate what can be accumulated over a really long period of compounded savings, if one has the ability and force of character to adhere to the practice. We can calculate the results, taking for purposes of demonstration assumed figures which suppose an earning rate of 7 per cent on all funds held and a limitation of dividends to 5 per cent on the original capital.

As the starting point we can take 1887, the year of registration as a public company. Under the conditions stated, the 1887 funds in 13 years to 1900 would have increased by nearly half, to one and a half times the original funds. By 1934 (the year of the last major reorganization of capital) the 1887 funds would have increased after 47 years to about 8 times, i.e., an original £100,000 would have become nearly £800,000. These calculations make no allowance for further cash subscriptions by shareholders, nor for changes in the value of money and consequent so-called "appreciation" in asset values. If the process were continued for 100 years the capital would increase 248 times. The results of this compounding process, together with the formula, are shown in the accompanying graph.

These are startling figures. While they show what can be done from fairly low profit levels with enough self-denial and determination, such results were not approached in practice by C.S.R. over a long term. The transferring to individual shareholders as share capital of part of the profits so gained, after being held for a time, and the subsequent payment of dividends thereon entirely alter the mathematical effect compared with continuous compounding.

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POSSIBLE CAPITAL ACCUMULATION FROM INVESTMENT IN THE BUSINESS OF RETAINED EARNINGS



During the depression the company's profits declined some 20 per cent, in terms of money, but the dividend rate and amount were sustained. Therefore shareholders' current spending power was well catered for because the value of money rose 15 per cent, or perhaps 20 per cent. Total profits about held their own in purchasing power.

In 1934, within two years of E. W. Knox's retirement, a large issue of ordinary shares was made without getting in cash from the shareholders. This is generally called a "bonus" issue, but the adjective should be properly understood. Share issues of this kind are really a subdivision of a company into a greater number of shares; while no cash is received, neither is any paid out; the profits and earning power of the company concerned are not affected. In this case, the issue being one new share for each one held, the dividend rate immediately fell to half and each shareholder, if he sold no shares, would have received the same total dividend as previously. The shareholder's equity in the company and the fundamental value of it did not alter.

The value assigned to the issued shares for internal accounting purposes was obtained partly from previously-published profits held undistributed in the business (£1,950,000) and partly from a revaluation of some of the assets (£3,900,000). The distribution of the previously-retained profits as capital instead of as dividends is a normal procedure and needs no comment. In regard to the assets revaluation the new chairman, E. R. (now Sir Edward) Knox, told the shareholders that it was "in order that they [the revalued assets] may stand in the balance sheet at values approaching their present worth"; and he added, "This adjustment has no bearing whatever on the price of sugar nor on the earning capacity of the company."

The company in its history has made three share issues from sources not previously specifically disclosed in money terms in the accounts. In those three cases it had been apparent for some years beforehand from the information given to shareholders that the real current value of the company's assets was in excess of that appearing in the accounts. The three issues were:

the allotment in 1915 of £3,250,000 worth of fully-paid-up preference shares in the Fiji and New Zealand company;

the £2,275,000 in 1923 from the Fiji and New Zealand company, made up of £650,000 used to pay calls on shares and the allotment of £1,625,000 in new shares as the counterpart of the Fiji and New Zealand assets brought back to the parent company;

the amount of £3,900,000 assets revaluation in 1934.

All other issues were paid for in cash, or kind, or derived from published profits held back from distribution in the normal process of thrift.

Changes in Profits, Capital and Output Since 1934

After the 1934 issue the dividend rate fell from 50s *od* per share to 25s *od*; that is, conventionally expressed, from 12½ per cent per annum to 6¼ per cent. The highest it has reached since, including bonus dividends, was 42s *od* in 1949, until the isolated centenary bonus was paid in 1955. The ordinary dividend rate in 1955 was 38s *od* per share and in 1956 40s *od*. (While C.S.R. practice is to express dividends as an amount of money per share, the conventional method of expressing them as a percentage seems certain to continue for the time being as the method of common usage and stock exchange parlance. In the absence of the development of no-par-value shares the consequences will, however, be mitigated the more widely the weaknesses of the conventional method are understood.)

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During the war money profits declined, owing mainly to the effect of the war on the milling side of the business. Production declined heavily and the United Kingdom Government bought all the Empire's sugar exports at prices which were generally below the world market price although satisfactory in relation to prewar prices. There was no repetition of the gains made from milling during and after World War I. Raw sugar markets had become much more organized and controlled, as explained in the chapter on the structure of sugar markets. This removed some of the risks and losses when times were bad, and it prevented gains when war and world shortages of sugar occurred. During the war taxation was heavily increased and inflation was considerable. Inflation became very severe in the postwar years. By the time it became possible to get the materials and labour for deferred replacement, and even for deferred maintenance, the cost of carrying out such work had risen enormously.

The position following the major reorganization of the balance sheet in 1934 is shown below and compared in monetary terms, without correction for changes in the value of the £, with the 1956 results:

		1935	1956
		£	£
<i>Paid-up capital</i>		11,700,000	14,040,000
<i>Profit for year</i>		931,949	1,679,636
<i>Dividend</i>		731,250	1,404,000
<i>Rate per share</i>		25s 0d	40s 0d

During the last 21 years capital has been increased by £2,340,000 paid in by shareholders (plus a premium of £819,000 on the new share issue). Also £7,000,000 was raised in 1952-53 by two issues of debentures.

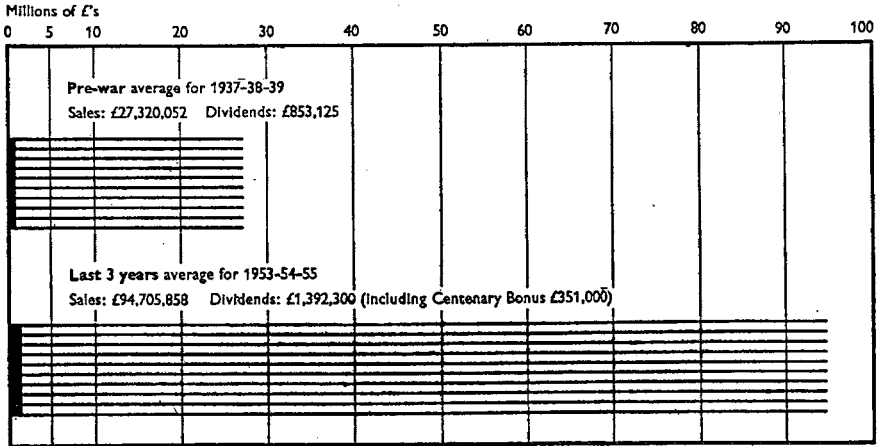
The shares and debentures were issued to provide funds to carry out "the programme of expansion and replacement". The shareholders were informed that "the declining value of money has increased the financial requirements. . . . The provision of adequate capital is one of the major problems facing private enterprise in Australia. The incidence of taxation and other aspects of government policy are making it increasingly difficult for companies to save the money needed to maintain themselves, let alone allow them to accumulate funds for expansion." And, "Considering present conditions, your directors decided it was in the best interests of the shareholders to obtain additional funds by issue of debentures." 6,900 investors—individuals and institutions widely spread in the community—quickly took up the £7,000,000 of debentures.

SOUTH PACIFIC ENTERPRISE

The accompanying chart from the 1955 annual report of the company shows the total value of goods and services handled by C.S.R. The annual average for the immediately preceding three years was £94,705,858.

C.S.R.'S SALES REVENUE AND DIVIDENDS

This diagram compares dividends received by shareholders (black, on left) with the company's total revenue (lines, on right). The figures for total revenue from sales of goods and services include investment income.



In the figures set out below the upward trend of the company's economic contribution to the community, as indicated by the aggregate tonnage of products manufactured by the company, is compared on an approximate basis with the downward trend of the economic rewards for the owners of the company, as indicated by dividends after correction for the change in the value of money. Qualifications would be needed for fine comparisons but the broad general directions of movement in the rewards for the community and for the owners are clear. The extent of the error that arises from not adjusting monetary figures in a period of inflation is also indicated.

	<i>Tonnage of Manufactured Products</i>	<i>Total Dividend in £s Uncorrected</i>	<i>Total Dividend in 1956 Currency^a</i>
1935 ..	633,819	£(1935) 731,250	£2,159,863
1956 ..	1,168,431	£(1956) 1,404,000	£1,404,000
<i>Tons Increase</i>	<u>534,612</u>	<i>Increase</i> <u>£672,750</u>	<i>Decrease</i> <u>£755,863</u>
	<i>Increase 84 per cent</i>	<i>Increase 92 per cent</i>	<i>Decrease 35 per cent</i>

^a The corrective factor is the Commonwealth Statistician's "C" Series Index of retail prices.

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In this period the company expanded in sugar and developed outside sugar. The first new development was into building materials; the initial major step was taken shortly before the war with the erection of the "Cane-ite" factory, but most of the development was postwar. The second development, into industrial chemicals, occurred mainly after the war. Some of the new ventures have been prompt financial successes and some have been slow to contribute to the company's profit. In this period the business and the owners of it have felt the effects of World War II, of the postwar inflationary spree and its numerous attendant problems, of very high taxation on public companies and of various controls and shortages. These matters are discussed in *Notes on Some Effects of Inflation, Taxation and Direct Controls*, p. 355 (Subsequently referred to as the *Notes*).

II

CORPORATE CAPITALISM IN A MIXED ECONOMY

The following section, as was indicated in the preamble to the chapter, considers the functioning of corporate capitalism in its relationship to the economic and social structure of our community. Consideration of such complex matters does not lend itself to easy exposition. In this field there are, inevitably, differing views. But it is important that here is a considered and responsible statement of a point of view which reveals an appreciation of capitalism's social significance.

The section begins with an introduction which refers to the mixture of governmental and private activities in our communities. A main proposition is that capitalist institutions such as C.S.R. have, as well as an economic role, an important social role and play a part in the maintenance of the basic freedoms of Western civilization.

Having developed these general themes and expressed views on the part to be played by private capitalism in social and material progress, the section then proceeds to examine several of the factors which determine the effectiveness of capitalist institutions in making their best contribution. The introductory section is recapitulated briefly and the subsequent discussion is outlined on page 316-17.

Introduction

The financial history traversed in this chapter is largely a story of how Edward and E. W. Knox and their assistants and successors faced difficulties and overcame them, grasped opportunities and, above all, adventured into new fields; and how in the process they enhanced their own fortunes, the fortunes of their shareholders and the fortunes of the communities in which they built their productive organization.

Since the period of the first two Knoxes there have been changes in the nature of that organization and of the environment in which it operates. Both have become more complex. There has been a steady and accelerating evolution over the last fifty years towards a mixed economy in which considerable segments have now become publicly owned or controlled while the bulk of society's productive equipment remains in private ownership, although much more widely dispersed than previously.

In Australia and New Zealand this trend has moved along much the same lines as in the United Kingdom. In the United States, the most productive economy in the world with by far the largest real

income per head,¹⁰ and in Canada, another highly productive economy, some of the same trends have occurred. The emphasis has been somewhat different in these two countries, however, and public ownership and control have not developed to the same extent. In all of these countries dispersal of ownership and reduction in inequalities of wealth and income have proceeded steadily; and ownership and management over large areas of the field of production are no longer concentrated in almost identical hands.

Within such mixed economies much of the responsibility for the task of producing goods and services lies with the private corporation. The Colonial Sugar Refining Company of 1955 is typical of those large-scale corporate capitalist institutions on which much of this responsibility rests. It has a separate legal entity and pursues its own particular objectives, but it exists only as a part of the society to which it belongs and its special ends must, therefore, be subordinate in the long run to broad social ends. But it is a concern of society that in the pursuit of those broad ends the productive vitality of industry is not unduly impaired.

The specific problem of ensuring material progress is one in which C.S.R. has a direct and "vested" interest for, as a capitalist element in a mixed economy, the company cannot prosper in the long run if the community does not also prosper. And to recognize this is not to disregard the fact that modern civilization has objectives other than the engendering of purely economic prosperity (high though it places it as a goal) and the modern capitalist corporation, as part of that civilization, must contribute towards the achievement of these other goals.

The fundamental role of the corporation, however, is economic—to advance the frontiers of material welfare. The effectiveness of the corporation in performing this task is affected greatly by the way in which some matters of prime importance to the community are handled: there are decisions on the proportion of total resources to be set aside for armed defence; methods of increasing the proportion of resources saved and accumulated in order to provide for the material foundations of the future; the manner of influencing or arranging the

¹⁰ Average national incomes per head in 1954 in local currencies were:

United States	\$ U.S. 1,845
Canada	\$ Can. 1,234
United Kingdom	£ Stg. 310
New Zealand	£ N.Z. 383
Australia	£ Aust. 440

The figure for the United Kingdom is gross national product per head.

—Source: *United Nations Monthly Bulletin of Statistics*.

distribution, or redistribution, of what remains of total prosperity for consumption in the present.

Widespread distribution of material welfare, in sufficiently large individual amounts to ensure a high degree of material freedom for individuals and groups, is utterly and fundamentally dependent upon the total amount of production. Although there is such an obvious contrast between primitive communities having little surplus above subsistence needs and our societies with their remarkable wealth of goods and services, it still seems necessary to remind ourselves that the sharing of goods and services depends first of all on ensuring that they are actually produced. Our high levels of welfare are the outcome of combinations of many factors such as the harnessing of power, the use of machines, the fertility of acres, the application of science, the willingness and ability of men to work, the device of limited liability, the re-investment of savings to provide capital tools for the future, and the incentive of profit. Much attention has been devoted in recent generations to the comparatively simple matter of distributing the product. And less attention has been apparent in Australia and New Zealand, at least in the political sphere, to the difficult and delicate problems of preserving and enhancing the circumstances which made the product available for distribution in increasing quantities.

These problems are more and more affected by the increasing complexity of the productive system on the one hand and of social organization on the other. The economic, technological and social facts necessary for right judgments are intricate and difficult to discover. The techniques and even the nomenclature of economic mensuration are still inadequate and imprecise, and the whole field has been immensely complicated by inflation.

As to the roles other than the production of goods and services, the modern corporation has its own part to play, in varying degrees, in such matters as the social relations of people as individuals and groups, the reconciliation of their respective interests and aspirations, and the reconciliation of group interests and public interests. These responsibilities stem from the fact that a corporation is more than a legal concept, for it is owned by people, operated by people, supplied with goods and services by people, and sells its goods and services to people; thus the corporation becomes endowed with a character and a personality which are the reflection of the individuals who compose it. To promote co-operation, harmony and long-term efficiency the owners, operators, suppliers and customers need to be satisfied, as people, with the respect and recognition, as well as with the material rewards, accorded them through the relations established by their association

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with individuals and groups through the corporation. It is important for the people in each group to remember, if co-operation is to be engendered, that those with whom they are linked through the corporation are people like themselves, with similar hopes, desires and motivations. In this field the basic consideration is the responsibility of people to people.

One of the biggest problems which people have always faced, and probably always will face, is that of ensuring consistent effort towards the fulfilment of the communal goals of an organized society without surrendering individual liberty and vitality to a too-powerful central authority. Part of the answer has perhaps been found in those Western democratic communities of educated and mature peoples with parliamentary systems of government, where political responsibilities and experience are spread and there are checks to both political and economic power. It is no mere coincidence that joint-stock capitalism developed furthest in the same communities that adopted those forms of political organization; joint-stock capitalism seems even to be another part of the answer.

While the basic concepts of Western society have not changed, social conditions have not remained static and capitalism also, as part of the whole society, has been progressively evolving. It must continue to do so. Because capitalism's role in such communities is both economic and social, those who hold positions of leadership in private industry carry responsibility to ensure that, while its productive efficiency is continually being increased, it is enlarging opportunities for people to lead still fuller and more significant lives.

Capitalism already provides a means of obtaining high production and of allowing at the same time wide participation in responsible activity and in the ownership of property. It already allows considerable personal freedom in many fields—in choice of employers and employment, in choice of consumption, in association and dissocation; and it already provides wide scope for individuality, initiative and the enhancement of personality. As part of a social order in which men seek not only increasing material welfare but also opportunities to lead more meaningful lives, capitalism can continue to contribute. Two factors will assist its progressive development: the manner in which members of capitalist enterprises discharge their diverse responsibilities; and the encouragement and approval bestowed by the community upon such enterprises. This paragraph states a vital point, to which we shall return.

The system of production employed by a community largely determines its level of material welfare, but in addition it inevitably

and greatly influences the nature of social organization, the quality of lives led by people, and the practical degrees of freedom *from* coercion and freedom *for* individuality. It is not easy, therefore, to avoid the conclusion that the continuation of the Western way of thought and life will be most difficult, and perhaps impossible, without the continued existence and progressive development of capitalism.

Alternatives to the capitalist system of production are often advocated but none could be substituted for it without at the same time substituting other values and other standards for those we regard as representing the Western tradition. Neither is it possible to return to those earlier economies where families or groups shifted for themselves on the basis of subsistence husbandry and cottage industry; nor even to the *laissez faire* capitalism of a century ago. Evolving capitalism seems to be, in our time, the only real alternative to government ownership or control of "the means of production, distribution and exchange"—in other words, the only alternative to a centralized authoritarian state and the rejection of the Western tradition.

Summary of Argument

The issues in this field are complex. Slogans and rallying-cries prejudice balanced discussion. Some of the words normally used to discuss the varied ideas have several meanings. Any attempt to summarize shortly in this field runs the risk of over-simplification, also the risk of the summary being quoted out of context. Nevertheless it may promote readability to outline the general theme by summarizing the arguments already put and sketching the discussion to follow.

The two main propositions that have been set out can be combined and expressed in another way even if somewhat over-simplified: evolving and encouraged private capitalism, aware of its various responsibilities and functions, seems to be a requirement for the continuation of progressive Western democracy. The assumption is that our democratic society should maintain its freedoms for the individual in the economic, political and cultural fields, while continuing steadily to expand its level of material welfare. Economic conditions and methods of organizing for purposes of production have a tremendously powerful effect on the other conditions of any society. There is no evidence to support the view that freedom is divisible; that it can be removed or greatly reduced in the spheres of production and economics and permanently retained in other spheres; that freedom of the person is not endangered in any society that tends increasingly to disregard freedom for the person's property and for his economic actions.

It has only been possible in the introductory section to give a fragmentary view of our mixed economy and of the role of the corporation, but it sets the background for the further delineation of the main propositions. The discussion which follows starts with an examination of the progress in recent years in Australia in raising material welfare. This leads to a discussion of policies and steps to be followed in order that material progress may be steadily advanced; and mention is made of some of the factors holding down production. These inhibiting factors include the inadequacy and inaccuracy of economic, accounting and statistical data; the preoccupation with questions of consumption and distribution to the detriment of attention to production; and the failure to develop a co-operative approach to the goal of higher production—which in turn requires appreciation of the roles of investors and owners and of managers of corporations. Reference is made, subject to the limitations of a very short essay, to the links between, as well as to the conflicts between, capitalism, freedom, authority and the traditions of our civilization. Finally a warning is given that steps taken to solve the problems and difficulties of the moment, or perhaps to camouflage them so that they are lost to sight and conscience is eased, can surreptitiously, and even unwittingly, undermine some basic values and basic conditions. The danger is that fundamental considerations are often lost to sight and largely ignored in the contemporary hurly-burly and through the application of opportunistic palliatives.

All these matters are relevant to the functioning in our mixed economies of that corporate capitalism to which C.S.R. belongs.

The Unsatisfactory Trend of Real Income per Head in Australia

The material standards of a community are indicated by "the total amount of goods and services becoming available for consumption or for adding to wealth". (Consumption includes usage for defence purposes and for social services.) The greater the amount consumed, the less is the amount available for savings to be used to generate increased future wealth.

The total amount of goods and services becoming available, measured in money terms, is called the *national income*. One of the best available measures of material standards is provided by dividing national income by the total number of persons in the community. The resultant figure is known as *national income per head*. National income statistics are compiled and expressed in terms of money values, but money values vary, particularly in times of inflation, so that valid comparisons between one year and another can be made only by adjusting nominal

money values to allow for the variations. By using such adjusted values one arrives at the trend of *real income per head*. Progress in raising material standards is indicated by the rate at which real income per head is being increased.

In recent years there has been marked progress in increasing real income per head in the United States, Canada, the United Kingdom, Western Germany and the Soviet Union. How does progress in Australia compare? There are different measures of the rate of growth and somewhat differing opinions about what growth has occurred. These differences are sometimes accounted for by differences of definition. We have taken some trouble to have the facts checked, however, and we believe that a fair view of the position in Australia is set out in Appendix 33, *Postwar Economic Progress in Australia*. This appendix is a survey by Economic Services (Messrs Colin Clark and H. W. Herbert).

One of their main conclusions is: "The discouraging thing . . . is that the long-term trend shows practically no progress at all [in Australia] in real income per head. This stagnation of real income per head has been obscured by the growth of the Australian population and by the inflation with consequent big money turnovers. Turning now to the comparison between Australia and other countries in growth of real income per head . . . relative lack of progress in Australia is striking. Summing up we can say that in seven years since 1947-48 real income per head in Australia, although experiencing a temporary increase in the wool boom, has not increased. The figures for Australia are:

Base 1947-48 = 100; 1954-55 = 102."

Comparative figures, calculated from Appendix 33, are as follows:

				<i>Index of real income per head in 1955 on base 100 = average of 1947 and 1948</i>	<i>Index of population increase over 7 years to 1954 on base 100 = 1947</i>
<i>Canada</i>	..	..	..	117½ (7½ years)	118
<i>United States</i>	..	..	..	117 (7½ years)	113
<i>United Kingdom</i>	..	..	..	116 (7½ years)	102
<i>Australia (on base year ending 30.6.48)</i>	..	..	..	102 (7 years)	119

Furthermore it is likely that these figures, particularly in the case of Australia, the country with the greatest inflation in this period, overstate the increase in national income to an extent that cannot be estimated.

This is because in a period of inflation the *National Income Papers*, from which the Australian data are drawn, overstate net "National Income" and also the increase in it (unintentionally but not necessarily unavoidably), insufficient allowance being made for the replacement of assets used up in production.¹¹

These facts are indeed "discouraging". The position is partly due to the high rate of immigration and the larger proportion of the population of school age. This does not appear to be an acceptable excuse for Australia's poor performance, however, because Canada has increased her population by an almost identical proportion, while raising real income per head satisfactorily. In the United States, too, there is positive achievement in both directions. Other comments by Messrs Clark and Herbert on the significance of the switch from primary industry to secondary industry and on the increase in government spending also warrant serious thought; and they direct attention (if these movements continue unchecked) to the still more pressing need to raise productivity in secondary industry and probably most of all in the transport and service industries. But the overall situation appears beyond doubt: our average real income per head is stagnating and this must be a cause for real concern. Even if finer analysis can present a somewhat better or a somewhat worse verdict on the Australian performance, this would not alter the broad conclusion; nor alter the emphasis in the discussion which follows on the need for greater production per head.

Unrecognized Effects of Unmeasured Redistribution

Most Australians who now feel prosperous will have difficulty in believing that average real income per head has not been rising sharply in recent years. Many people are convinced that they are better off and there is little doubt that this is true. But since the average has not improved there must be numerous losers, and some heavy losers.

It is generally appreciated, for instance, that unskilled workers have improved their position in comparison with retired people on fixed monetary incomes, but the comparative gains and losses of many groups in the community are not so apparent. Much of the evidence on which comparisons could be based is not readily obtainable for it is a field where data are scarce and where little research has been undertaken. Moreover, the facts have been obscured by the habit of looking at statistics and thinking in money terms which, being

¹¹ In order to assist the reader, much of the detailed argument and the statistical analysis which bear upon this discussion are submitted later in the *Notes*.

variable, are misleading and constitute an entirely unscientific and unreliable yardstick.

There seems to be considerable evidence that the economic position of many people has been worsened in comparison with other sections of the community to an extent which involves, *prima facie*, some degree of social injustice. That there has been little widespread appreciation of the element of injustice, and no energetic movement to redress it, are due to two main reasons: those who have suffered have not generally been organized in politically articulate and influential groups, and there has been no adequate measurement of the degree to which the national income has been redistributed. It must be granted that, in a field where subjective value-judgments apply, it would remain difficult to obtain a high degree of general agreement on the justice of the present distribution of national income. But in an important field where social justice is in question and economic progress is involved it would seem fair to ask that, as a matter of honesty in national stewardship, the facts should be examined and, as far as is practicable, made known; and that established methods, used in other countries, of improving the accuracy of the yardsticks be employed.¹²

Much of the redistribution of national income has been haphazard. For instance, inflation has probably been responsible, more than any other single factor, for arbitrary and capricious alteration of the comparative economic position of various groups in the community. But other factors have also influenced the situation. There have been high taxation, sometimes of an unintentionally discriminatory nature; rent and price controls administered with more regard to political expediency than to either justice or economic facts; and higher wages for shorter hours—even higher *real* wages—without greater output. All these are factors which have effected probably as great a redistribution of national income as measures such as social services, undertaken as matters of considered social policy.

Those groups which appear to have suffered a worsening of their economic position include retired persons, many professional people, owners of rentable houses, owners of claims to money such as bondholders, most producers of exports, salaried men, and others who include shareholders of a wide range of industrial companies such as C.S.R.—most of them making a considerable contribution to the welfare of society.

The facts about the financial rewards for shareholders in industrial companies have been masked not only by the inflation of monetary

¹² It is recognized that measurement in this field is difficult and it appears that in Australia some improvements are planned, although others have not been mentioned.

values but also by the undoubted success and prosperity in recent years of certain types of business which operate close to the consumer, as in the hire purchase field. But these are not typical of the whole field and especially are they not typical of a large part of long-established and more basic industry, whose shareholders have suffered a worsening of their economic position to an extent which very few people realize, and for which no justification is apparent.¹³

Judgments, even on the grounds of utility, of the present distribution of the national income are beset also with problems arising from the absence of adequate data. Some will argue that, compared with twenty years ago, the direction and perhaps even the extent of the redistribution are desirable. To some degree, and in respect of some recipients of a greater share, there would be little disagreement. But the gains and losses of others, particularly those who have benefited or suffered arbitrarily, and indeed surreptitiously, because of inflation, are difficult to justify on the grounds of either justice or utility. Some groups which have contributed little or nothing to the material or non-material advancement of the nation have gained from inflation. Others have gained by organized political pressure without attempting to make a fair contribution to the community. Other groups whose efforts have been genuine and some whose contributions have been substantial have lost ground.

Answers to questions that naturally arise in this field are not easy to obtain. Who exactly are the gainers and losers? What is the extent of the gains and losses? Given an answer to those questions, one may ask: Has the redistribution been equitable—in direction and in degree? Has it promoted economic development if it has not promoted justice? Or has it inhibited total growth? Would a higher rate of total growth have been better, thus providing more to be shared?

The answers would be sought in three different fields: that of the depth and intensity of the community's interest in increasing total material welfare, that of justice, and that third field without which answers on material progress and justice cannot be given—more complete and more accurate information.

The Advancement of Material Standards—"Productivity"

If the improvement of material standards is to be stimulated by purposeful and consciously-developed policies, it is desirable to consider the means available in a mixed economy within a non-authoritarian

¹³ See the *Notes* for a discussion of the whole field of company incomes, based on figures in the *National Income Papers*. Results of a sample of prominent companies are also given in these notes.

society to achieve the advancement. There is no general agreement on these things, for both individual and community values vary greatly in such matters as the desirability of quickly-rising living standards, the relative importance attached to more work as compared with more leisure and the desirability of doing without things in the present in order to be militarily secure or better off in the future.

If we lived in a non-competitive world we could afford to take an easier attitude to some of these problems. Even then, it is hardly likely that people in Western countries would decide against increasing material production and the benefits it confers in higher standards of living—goods and services, health and education, and leisure. We must continue to progress—it can hardly be argued otherwise. Even Albert Schweitzer, concerned as he is with the imbalance of material and spiritual forces in civilization, considers that “the highest possible material freedom for the greatest possible number is a requirement of civilization”.¹⁴ In another place, too, he says: “In what does it [civilization] consist? First of all in a lessening of the strain imposed on individuals and on the mass by the struggle for existence. The establishment of as favourable conditions of living as possible for all is a demand which must be made partly for its own sake, partly with a view to the spiritual and moral perfecting of the individuals, which is the ultimate object of civilization.”¹⁵

There is no general agreement on optimum rates of increase in material welfare as measured by the national income per head. 4 per cent per annum would probably be a high rate to sustain for long in a democratic country already fairly well advanced. Several Western countries have comfortably exceeded 2 per cent per annum in the postwar period. 3 per cent is often referred to as a practicable and desirable rate and has been sustained by some countries. It would certainly be a far better performance than Australia has achieved in the past ten years.

How can a reasonably high rate of increase be attained in Australia? Leaving aside the effects of bountiful seasons, droughts and other acts of God, changes in the proportion of workers to total population and lengthening the average working life, and assuming that there will be full employment (as has now been the case in Australia for sixteen years), it becomes mainly a question of achieving greater average production from men and women at work. This seems to

¹⁴ *Civilization and Ethics*, Chapter XXII.

¹⁵ *The Decay and Restoration of Civilization*, Chapter III.

be the crux of the subject generally referred to as "increased productivity".¹⁶

Longer standard hours can be ruled out as contrary to existing social trends.

More effective and more continuous effort within accepted working hours could make a significant contribution in some sections of industry. It is mainly a question of organization of work and of attitudes, and not primarily a question of harder, more wearing and more rigorous effort.

Better efforts in this direction seem to depend partly upon incentive schemes, difficult to devise and introduce though they often are. Such schemes, however, combined with better employer-employee relations, a reduction of restrictive practices and an increasing awareness of the social responsibilities of employees as well as of employers to raise production, could bring important gains in productivity.

In addition to striving for a situation in which people may operate more effectively by better organization of work, one of management's principal contributions to higher productivity is to provide more and better tools of production. And management can do this only if the owners are willing and able to provide more capital.

Associated with the provision of tools is technological improvement with its almost unlimited and still unpredictable potential. But capital investment, sometimes at very high levels indeed, is an essential ingredient and, again, the best results will not be obtained without employee co-operation.

Expansion into industries where the production per worker is high as compared with others where it is low can have significant results for the nation, especially in conditions of full employment. If expansion takes place in industries with high output per worker, then average productivity will rise and so will material standards. And these industries, too, tend to be those where assets per worker are high. Much of Australia's former favourable position was due to the big proportion of production coming from primary industries with their large resources and high output per worker. In the industrial field there are advantages in developing industries with a high level of "horse-power per head". Capital investment comes into the picture again.

An important factor in the national income is the favourableness of the terms of overseas trade. This is affected by skill in buying and selling overseas, and by trade policies; but it can be fortuitous and

¹⁶ It is not thought necessary, in the context of this chapter, to define productivity closely, to discuss various kinds of productivity, to point to distinctions between "production", "productivity", "labour productivity", and the like.

temporary, as in the 1950-51 wool boom. It is affected also by movement in the costs in export industries as compared with costs in countries competing for our export markets. In addition, the terms of trade will be affected by productivity in local industries producing for internal consumption as compared with productivity in overseas countries from which we draw imports. Stated broadly (and despite exceptions in some areas of industry), if productivity were increasing in Australia by 1 per cent per annum but in competing countries at 3 per cent per annum Australia would be losing ground in the terms of overseas trade, with serious consequences for prosperity here. Since Australia's national income is affected importantly by the balance of trade, Australia needs to run quite fast merely to keep her place in the productivity race.

Some Other Benefits of Higher Productivity

The Australian Ministry of Labour Advisory Council¹⁷ made a comprehensive report on productivity in March 1956. It explained that "Productivity gains may be distributed among:

- (a) consumers, through lower prices,
- (b) workers, through higher real wages and salaries and other improvements in working conditions,
- (c) proprietors and shareholders, through higher profits,
- (d) businesses and undertakings, through the building up of reserves to provide for re-equipment and expansion."

The Labour Advisory Council also pointed out that higher productivity has significance beyond the increasing of material standards for the individual or for particular groups: "increasing productivity is essential if there is to be a sound and enduring basis for the attainment of our national objectives, such as raising standards of living, maintaining full employment and economic stability, sustaining a high level of population growth and providing for our defence and future national development."

There are those who doubt whether a high rate of economic growth is really wanted and who would be content with existing standards and slow economic growth. In the South Pacific, where the English-speaking democracies are still little more than outposts of Western civilization, it seems that such doubts about the necessity for economic vigour and growth, and excessive concern with greater economic

¹⁷ The council consists of the Minister of Labour, the Secretary of the Department of Labour and seventeen leading representatives of employers and trade unions.

egalitarianism, should be subordinated to the even more vital question: Can we survive *without* vigorous growth? Every change in the political situation to the north of Australia in recent years suggests the answer.

Increased productivity could also ease the tax burden. A recent article¹⁸ dealing with the situation in England estimates that, if production were increased at the cumulative rate of 2 per cent per annum, government expenditure as a percentage of gross national product could fall from 34 per cent, the figure in 1953, to 29 per cent in 1964 and to 22 per cent in 1979. Professor Lionel Robbins commented:¹⁹ "These are very substantial reductions and the rate of increase of production assumed is very cautious. But the underlying assumption is critical; namely, that we do not change the real rates of present commitments. Over the years, a substantial easement is attainable without any positive cuts; all that is necessary is to mark time where we are, not to increase the rate of commitment in one line unless it can be diminished commensurately in another. This is not very much to ask. But whether this degree of self-restraint can be expected of future governments is anybody's guess. Personally, I should be very unwilling indeed to bet heavily on no net increase. But I should be disagreeably surprised if what increase there is should be so large as to wipe out the whole of the possible relief."

If, however, governments continue to take little action to assist industry and the community to deal with the basic causes of inflation, and try to counter merely its surface manifestations at intervals of crisis by raising taxation (which extra revenue it seems they then tend to spend), there is little hope for relief from taxes, and therefore from costs, by this route. Nor is there any hope of preventing further increases in costs and preventing progressive inflation if there is a continuation of the practices of recent years in Australia, where the greatest continuing inflationary force has been the raising of wages and shortening of hours *ahead of or to a greater extent than* the increase in productivity. The possibility is there, nevertheless, that the fruits of higher productivity could be applied towards countering the inflation itself, keeping prices down and, by reinvestment, stimulating productivity still further.

The Importance of Co-operation for Productivity

The British Productivity Council, representing management and wage-earners jointly, has made a lengthy study of productivity and many visits have been made to the United States to study the methods

¹⁸ By Alan Peacock of the University of London in *District Bank Review*, June 1955.

¹⁹ "Notes on Public Finance" in *Lloyds Bank Review*, October 1955.

of production there in use. The council has published the following interesting tabulation of the means of increasing productivity. This is apparently set down with primary application to manufacturing industry, but the concepts clearly have wider application.

MEANS OF INCREASING PRODUCTIVE EFFICIENCY

1 Improve basic processes by research and development	} PROCESS STUDY	Long term requiring capital	} NO LIMITS TO RESULTS
2 Improve and provide new plant and equipment			
3 Simplify and improve the product and reduce the variety		Intermediate may require capital	
4 Improve existing methods of plant operation	} WORK STUDY	} Short term requiring little capital	} RESULTS SUBJECT TO LIMITS
5 Improve the planning of work and the use of manpower			
6 Increase the effectiveness of ALL employees			

Examination of these methods of bringing about higher productivity shows that they are clearly the primary responsibility of management which management cannot dodge. But to obtain results management requires the support of owners of capital for most of these methods and of employees for some of the methods.

The withholding of the support and co-operation of employees, or their active opposition, can reduce or nullify the attempts of management to increase the effectiveness of employees at work. While, as the Australian Labour Advisory Council puts it, "the initiative in increasing productivity must rest with management", there is an onus, too, on employees to co-operate. "The trade union movement", says the council, "must have a special responsibility for educating its members."

Such concepts and responsibilities are by no means rejected by many employees, according to C.S.R. experience, but there is little room for doubt that the genuine acceptance of them on a comprehensive basis could bring about large immediate increases in productivity. We can all think of industries where this is obviously true.

While the above tabulation rightly sets no limit to results in the long term from some of the means to greater productivity and does set limits from other means, it is certain that if there is failure by employees to accept the view expressed by the Labour Advisory Council the benefits that can accrue, even from large investment in better tools of production, will be seriously reduced. It seems likely that one of the important advantages enjoyed by the United States and Canada is that the people as a whole are highly competitive but have at the

same time a more co-operative spirit. They also seem to be less jealous of seeing high rewards for constructive effort going to men and to owners of corporations. There is an undoubtedly deep-seated belief among the American people that work and effort are essentially right and proper, socially valuable and basic to the individual's self-respect. And they accept and understand that distribution and consumption have to be preceded by production. The British productivity teams agreed that there was a very important disparity of capital equipment in favour of the United States. They agreed, too, that the better progress in the United States "was not explained satisfactorily by any question of greater [natural] resources". They did record, however, that "of a series of 78 reasons for the greater productivity of the United States, it was noteworthy that between 50 and 60 were directly attributable to the attitude of mind that existed in the United States towards the question of productivity" among all concerned.

The Importance of Capital Investment

Although the means for the achievement of higher productivity are varied, two are dominant for major long-term improvement. These are, on the one hand, research and technological development and, on the other hand, capital—capital for more and better tools of production (in the very broadest sense) and for greater stocks of materials. As one expert on economics and international affairs puts it: "output per man-hour primarily depends today upon the machine-power that can be put behind each pair of hands. Wealth advances most rapidly in communities prepared to devote a sizable percentage of their national incomes to the introduction of machines . . . the chief reason why the United States is the wealthiest community in the world is that the machine-power behind each American worker's effort is two or three times that of Britain and five or six times that of Europe."²⁰

The first requirement, technical knowledge, is growing fast, although there is developing a shortage of trained men to apply the new sciences to industrial production. The second factor, capital, is generally a prerequisite of major gains from technology. In England there is discussion of the proposition that 20 per cent of each year's national income would have to be saved and devoted to investment if there is to be a steady increase of 3 per cent per annum in the standard of living (i.e., doubling the standard of living in twenty-five years).²¹

²⁰ Barbara Ward, *Policy for the West*, Chapter XI.

²¹ See, for instance, Professor Ely Devons in "The Case for Investment and Productivity" in *Lloyds Bank Review*, October 1955. Devons is not concerned therein to argue that the rates of 3 per cent and 20 per cent are precise or optimum rates.

The *Economist* recently observed²² “. . . there is one simple but vital point which is tending to be overlooked. Perhaps this is because to the professional pundits it seems too obvious to be worth saying, though the result is a risk of confusion to the public. This vital point relates to the role that is being played, and should be played, in the national economy by investment—that is, by expenditure designed to increase real capital, whether in fixed equipment or in stocks of useful goods. It is obvious that if the standard of living is to be doubled in a generation investment, more than anything else, will have to be relied upon to do the trick. If our children are going to produce twice as much as we do, they are not going to do it by working harder than we do (for which they have not been trained) or by being cleverer than we (perish the thought), but by having twice as many inanimate slaves to assist them.”

On the possible danger of stimulating inflation further by creating greater demand for capital expenditure, the same article has this to say of the dilemma facing public policy: “. . . if it [the rise in capital expenditure] was responsible in any degree for continued inflation and exchange difficulties, it was because expenditure on other things—on consumption and government activities—did not make room for it.”

The right climate and the incentives for a high degree of saving cannot occur if we are too preoccupied with aggrandizement of the central authority, redistributive goals and internal disharmonies (and except for unemployment nothing creates more disharmony and disillusionment than inflation). Obviously these are difficult questions but, if consumption and governmental expenditures (including increased social services and redistribution, various free amenities and some of the more controversial schemes for “national development”) are to have first priority, then investment for greater productivity—and with it good progress in raising national income—must take a back seat.

The need to create a genuinely favourable climate for higher productivity is talked about freely enough in Australia and New Zealand, even in the highest places. There are examples of assistance from governments in particular fields of production (although often occurring as steps to treat the symptoms and particular manifestations rather than the basic causes of the maladies of inflation and low general productivity); and there are, of course, some important governmental activities in education, research and development. In practice, however, there is in the sphere of government hardly much more than a low level of attention to basic factors in productivity, to incentives

²² Article entitled “Focus on Investment” in issue of 4 February 1956.

for it, to discouragement for restriction of it; and the creation of the right climate for productivity is not yet, in the day-to-day affairs of government, treated as a vital matter or even as one of the larger expedencies. It is kept in the background by attention to the smaller expedencies of the hour. These cut across and block the attainment of the greater goal.

It seems timely, for instance, to reconsider some public policies which were evolved in the past to act at a lower measure of intensity as means of redistributing incomes in the community but which now, applied at high intensity, often act in practice to diminish productive capacity and to discourage entrepreneurial drive, and therefore act to retard increases in the level of total national income. Other policies and practices, evolved in a period of comparatively stable money values, fail in the new circumstances to take account of the incidence of inflation, and in so doing deprive industry of much of its ability to replace productive assets, to give adequate rewards, to introduce new techniques and to expand and innovate.

Several of the tendencies just described are exemplified by the anti-inflationary measures of the Australian Government announced in March 1956. Higher taxes, including higher company taxes, were imposed and aroused loud protests, with much argument that the approach was negative and that what was wanted was a positive policy to raise production. Barbara Ward had dealt with these ideas in *Policy for the West*: "There is one point in common to all the anti-inflationary measures discussed so far. They are all negative. They are all designed to prevent something. They all start from the premise that if one thing has to be achieved, another must be sacrificed. In the short run, such an approach is inevitable . . . But as the only policies for combating inflation, as the chief weapons . . . they are all frankly unsatisfactory and insufficient. The very last mood to overtake the free world should be that of defensiveness, careful accountancy and general national cheeseparings. In inflation as in everything else the best defence is attack. The primary aim of the West in anything more than the shortest run must be not to cut purchasing power . . . but to expand wealth and supply and capacity."

In the debate associated with the Australian Government's taxation increases, a university economist²³ who was one of the advisers to the government pointed out that the argument that higher taxation would reduce productivity had little force in the case of indirect taxation (i.e., import and excise duties, sales tax, and similar imposts). Another

²³ Professor P. H. Karmel, in an article in *Australian Financial Review*, 16 February 1956.

economist²⁴ wrote: "It is because we are so conscious of the need for higher productivity that we place more emphasis on tax measures, which can be made to fall in part on consumption, than on credit measures, which fall almost entirely on investment." The increases were not, however, confined to indirect taxes, although it is not known whether the economists so recommended in their final discussions with the government; the taxation of public companies was increased and this must have an adverse effect on productivity, for reasons examined in some detail in the *Notes*. Known tax and other measures, even if no more initially than "investment allowances" or initial depreciation allowances, would be useful forces in stimulating investment leading towards higher productivity, but no such measures were introduced.

While it is highly desirable when considering counter-inflationary measures to give attention to the reduction of demand, it has to be kept in the very forefront of the considerations that measures which damp down production and supply as well as demand (higher company tax and the removal of production-raising concessions are examples) tend to cancel out in the inflation account; there is a debit as well as a credit and the debit may be greater. Furthermore, when a demand-reducing step holds down production it has the effect, in addition to its limited and doubtful net anti-inflationary consequences, of holding down national strength and material progress.

Preoccupation with the crises of the moment and the adoption of measures to relieve immediate pressures are understandable political tendencies. But when such tendencies imperil the future it is difficult to condone them. A more forward-looking view of political responsibility would prompt more optimistic, growth-minded policies clearly designed to stimulate productivity, "to expand wealth and supply and capacity".

There is a further special reason why production-raising policies, and particularly capital investment, require high priority in Australia at present. The flow of immigrants is increasing our population and our national status. But these immigrants, combined with a rapid increase of the native-born, by their mere additional numbers create additional demand for consumption goods, and also, at the same time, reduce average production per head by diluting the capital tools of production available per head. Merely to cope with the population increase, investment must proceed at a high rate if productive assets per head are to be maintained. (And it must be net available productive assets after allowing at current replacement values for the cost

²⁴ Professor H. W. Arndt, letter to Editor, *Sydney Morning Herald*, 4 February 1956.

of assets wearing out.) But even that leaves us in a state of stagnation, and progress depends upon a still greater increase in investment. If we assume that, in conditions of relatively stable population, saving for investment at the rate of 20 per cent of the national income is required to raise the standard of living by 3 per cent per annum and so double it in twenty-five years, then a much higher rate of saving and investment is needed to make such progress while a country is rapidly increasing its population—as indeed Australia surely must do.

Inflation, Taxation and Price Controls

The argument has been put forward that the effectiveness of corporate capitalism in advancing the levels of material welfare has been impaired by recent economic conditions, political actions and inadequate methods of accountancy. These retarding factors include inflation and the methods of accounting for inflation—for national and for business purposes and in respect of depreciation and replacement of productive assets. For instance, the methods employed lead Australians to deduce from official statistics that they are saving more of the national income than they really are. High levels of company taxation, the double taxation of the profits of public companies, and price fixing have also had retarding effects.

Discussion of these matters would lead this chapter far afield but, since they raise important and specific problems for corporate capitalism in a mixed economy, they are developed in the *Notes*.

Incentives, Encouragement and Approval for Productive Enterprise

As most of the work of production and the responsibility for economic development is borne by the capitalist part of the mixed economy, one problem of statesmanship is to ensure that capitalist enterprise is not prevented from discharging its tasks nor deprived of its vitality. This requires that attention be given to ensuring adequate rewards, incentives, recognition and approval, while at the same time smoothing out the trade cycle and restraining the development of the other more anti-social consequences of modern capitalism's *laissez faire* progenitor.

It would seem that the problem of ensuring rewards for productive activity is not beyond a solution which pays reasonable regard to the ideal of a qualified economic egalitarianism. At the present time the ownership of property is more widespread and incomes are more even than ever before. There is ample evidence that this trend is being directly promoted by corporate capitalist enterprise, which is both providing the means for and stimulating the development of a property-

owning democracy. The increasing spread and diversity of the ownership of C.S.R. is in itself evidence of the trend. Such corporations are also providing the means for increasing equality of opportunity for individuals to find outlets and rewards for their abilities. The process has been vividly described as a "withering away of the proletariat". Its fuller realization now depends on higher productivity, not on further redistribution.²⁵

There is no question of the need to provide adequately for defence and to assure reasonable standards of welfare for the aged, invalid, incapacitated, widowed and orphaned. But it seems that the further large increases in productivity required to continue those services and to raise living standards as well will be achieved only if the productive elements in society are rewarded and given incentives—in non-material as well as in material ways—and if discouragement and disapproval are shown towards those who restrict productivity and withhold their support.

Encouragement and approval from society for capitalist enterprise are of course warranted only where deserved. But if, when deserved, encouragement and approval are withheld the results must be bad both for the enterprise and for the community. High and sustained endeavour is not often forthcoming in the face of derision or discouragement, nor can people give their wills and their hearts to their work in an atmosphere of disapproval. The task of goods- and services-production requires enthusiasm and zest as well as steady application and ability.

To provide the drive while handling the intricacies and the questions of balance that are the concern of the contemporary corporation, such corporations require to recruit to their service many of the best and ablest young men. As P. F. Drucker puts it so well, to attract and to hold this type of man a career, a good living and some economic success are required, but are not enough. Corporate capitalism has to be able to give these men a sense of mission; to satisfy their desire to make a meaningful contribution to society; and to see that that contribution is acknowledged and approved, when fairly earned and merited. The activity and spirit of those who direct, administer and operate productive enterprise—and doubtless of many of those who abstain from consumption in order to provide the investment and own such enterprise—could be raised to a higher level if they were aware of the approval of society for their efforts.

There are hopeful signs that economic and political thought is

²⁵ Company dividends received by Australian residents, for instance, comprise about 3 per cent of the Australian national income.

developing to a stage which will produce before long a large flow of attention to practical steps to raise investment and production faster. In the field of labour relations, for instance, responsible people are discussing incentives not only in terms of money but also with regard to personal recognition. But it appears often to be overlooked that the psychological drives and urges of individual entrepreneurs, of the members of the boards and managements of industry and of the private citizens who invest their savings in industrial shares, are much the same as those of wage-earners. For they, too, are people with normal human aspirations and reactions; and, apart from hopes of material reward, they, too, can be encouraged to work more effectively and even with enthusiasm by the knowledge that they enjoy community approval.

Reconciling Social Ideals and Methods of Production

Much of the economic development which we enjoy today is due to the vitality and creativeness of that often-criticized group to which Edward and E. W. Knox belonged—the capitalist innovators and builders. One of the central problems of our time is how to maintain the vitality and productiveness of the corporate institutions they have passed on to us—and to do so in an environment where the rewards of enterprise and the fruits of productivity must be more widely shared.

The mixed nature of the economies in which C.S.R. now carries out its functions, and the social objectives to which those economies must be geared and to which C.S.R. must pay regard, pose problems which the two Knoxes and the legislators of their time did not have to tackle. There are now much more difficult problems of balance, of equity and of efficiency, and they are plagued by slogans, politics and special interest. But it would appear that many leaders of insight and experience in political and social matters are coming to believe that, while a considerable measure of public control over the climate and direction of the economy is desirable and will remain, the basic productive function of private capitalism must be encouraged by allowing energetic and able entrepreneurs, whether individuals or corporations, opportunity to gain both material rewards and the approval of society; and that the large measure of personal freedom which is allowed by the capitalist method must also be preserved on broad social grounds.

Thoughts seem to be turning towards this problem of reconciling social ideals like egalitarianism with the coarser yet vital necessities of work and production. On the one hand, the capitalist method of

production in its present and future stages is viewed as reasonably efficient and reasonably just; and, on the other hand, despite some of the possible advantages of centralized and authoritative economic direction, the increased authority of the State is seen as a threat to many of man's convictions and aspirations.

The suggestion is that public policy could, with social advantage, aim to allow the profit motive to energize the productive process by capitalist means and, at the same time, use the forms of social organization required by capitalistic production and the material fruits thereof for the achievement of broad social ends. One of the basic and one of the most socially valuable attributes of individual man is seen in his profit motive—his inherent urge to increase his material standards and status, and to increase also his ability to take time off from production of goods and services for the pursuit of non-material ends, for his family as well as for himself.

It is no longer so fashionable to question the worth or the rightness of those attributes of the bourgeoisie—entrepreneurial drive, the desire to accumulate property, the urge to save and to invest. They are being looked upon once more with favour, even by some moderately left-wing thinkers, for their own sake and as providing a necessary and desirable dynamic to be encouraged by deliberate public policy.

Moreover, the alternative of state socialism is widely rejected—not socialism in much of its basic idealism but socialism as a means of production and method of political organization, with its necessary aggrandizement of the central authority as the source of power and the seat of judgment. State socialism is rejected as contrary to the main stream of Western civilization: contrary to the Hebrew and Christian doctrine of man's personal accountability and to the Greek tradition of liberty as "the soil wherein alone man's imagination and intellect can flourish and bear fruit"; contrary to the strong sense of the worth of individual liberty passed on to us by the descendants of those Northern peoples who took over north-western Europe, including England; contrary also to the whole reinvigorating spirit of the Renaissance and of the Reformation which followed and which, nowhere more strongly than in England, gave great emphasis to the value of private judgment and responsibility.

But man cannot attain his goals solely by his individual efforts, however inspired they may be, for attainment requires social organization. From the example and precept of Rome stems another powerful tributary to the stream of Western civilization, giving us concepts of order and social discipline, respect for law and constitutional authority, and many of the techniques of government

and social organization. Rome rose to become a great power (and other authoritarian societies have shown signs of similar development in contemporary times), but perished from excess of centralized power and multifarious laws and controls, which dried up the springs of growth and progress that lie nowhere but in the individual. The independent Greek city-states collapsed from excessive freedom which became social and political licence and unresolved faction. Thus, on the one hand, undisciplined freedom and, on the other, excess of centralized authority and over-organization alike proved fatal.

There have since been many similar examples to warn us against either extreme and to guide us towards a social and political organization which reconciles freedom, personal responsibility and vitality with law, discipline and authority.²⁶ These requirements would seem to be met by evolution towards what might be termed a co-operative society. And co-operation is a concurring more by free decision than as a consequence of authoritatively enforced compliance; it is hindered by the stimulation in the community of jealous faction; and it requires the development and acceptance of common goals.

Such a society could give expression to the ideals of those who believe in the social objectives of modern capitalism and in its practical methods while retaining the liberal tradition and many of the ideals of modern socialist thought; and thus could continue, within the traditions of Western civilization, to advance the material, cultural and moral standards of its members.

Some degree of reconciliation of socialist and capitalist ideals and of the practical methods of capitalism has already been effected in the mixed economies of Australia and New Zealand; and, in further developments, the Anglo-Saxon flair for effecting change within continuity of tradition can be relied upon to help ensure that there is no break with the essentials of the Western spirit. Capitalism itself, government, and the general community can each play a part in this evolution. Important roles for government are to ease tensions so that the community is not trying continuously to walk an economic tightrope, to ascertain the economic facts accurately, to engender approval for productivity-raising and for ethical attitudes; and, at the same time, steadfastly to resist resorting to authoritarian methods and solutions. For, as a leading economist, Italy's former President Einaudi, has remarked, "The goal is not the abolition of regulations

²⁶ The problem of reconciling authority, discipline and centralizing tendencies with vitality and individual freedom and responsibility is also constantly present in the sub-community of the corporation. Corporate aims and policies and a necessary degree of discipline must be maintained without discouraging individualism or initiative and without impairing personal rights, ideals and aspirations.

but the establishment of regulations within which the citizen can act freely."

The Danger of Authoritarianism via the Back Door

There is an undoubtedly complex problem which requires to be solved for the continuation of our economy as a mixed economy and this is the problem of maintaining a balance between the extremes of, on the one hand, excessive freedom or licence and, on the other, over-organization and authoritarianism leading to statism. This problem is unlikely to be solved without insight, determination and a combination of timely action with patience—all based upon awareness of the basic ingredients of free yet organized society and acting through policies which maintain a clear-minded respect for the sometimes opposed requirements of freedom and organization.

It seems that the threat of imbalance will be of greater or less degree depending upon the solutions adopted for our economic problems. It has been agreed that there are economic ills in our community, and that governmental actions and policies of a broad and general nature are desirable in order to influence the economy in particular directions. At present, for instance, it would be desirable to discourage consumption and to encourage saving and investment; and desirable to improve our overseas balances. But deep and fundamental changes in our economies and societies can be wrought, covertly as it were, by a series of official measures aimed mainly to relieve the symptoms of our economic ills. Each measure may perhaps be of minor significance in itself but a series of them are likely to have large cumulative significance. And changes can also be brought upon us as a consequence of government inaction—or government action that is too narrow and too late—against basic causes of economic illness; thus allowing a situation to develop which ultimately requires drastic and urgent measures to prevent collapse on some important front. In such circumstances the remedies are all too likely to follow an authoritarian pattern. In this current era the attainment and continuation of a successful mixed economy require a holding of the balance against the growth of statism—for this is now the danger rather than a return to any *laissez faire* system.

Statism is no longer desired by large parts of our society. It is contrary to our traditions, contrary to the beliefs and wishes of the best minds of our times and contrary also to the beliefs and wishes of the average voter. For the general stream of both intellectual thought and popular political opinion of the present day is opposed to the aggrandizement

of government. Wartime controls, postwar "planning" and the experiences of nationalized industry, in the United Kingdom as well as in Australia, have combined to disillusion many intellectuals who previously believed in the promise held out by socialism; and recently the balance in the philosophical debate on the One and the Many seems to have been restored. The examples of "national socialism" and of the "people's democracies", which at early stages showed features which many people found attractive, make us distrustful of authoritarianism. George Orwell's *Nineteen Eighty-four* was a fantasy but it typified in popular form uneasy feelings about "Big Brother" tendencies in our societies. In Australia voters have several times clearly indicated in national elections and referenda that most of them want neither more socialism nor more centralized government. That this is the pragmatic judgment of the ordinary man is confirmed by the answers to questions asked in the 1955 opinion survey quoted at the end of Chapter 9. This survey revealed that the large majority of Australians was opposed to government ownership of a range of industries and companies. Only very small minorities are in favour of extending government ownership.

But such convictions and any number of examples do not necessarily remove the danger of the surreptitious development of statism. It is most likely to creep upon us, or to be imposed suddenly in a crisis, through economic causes. Its true nature would most likely be unrecognized. Its gradual and insidious imposition would be marked merely by a restriction here, a control there, a number of regulations or new taxes each designed in its immediate purpose to soothe or to remove from sight some manifestation of economic malady that had come to the surface. And before long, perhaps in a few decades, we might find ourselves with an economy and a society whose fundamental nature had changed, and changed in a manner few of us would have chosen had we been able to see the consequences in time and exercise our choice.

The recent introduction of new methods in the administration of import controls is an example of an authoritarian trend opposed to the basic wishes of the majority of the electorate and initiated by a government elected to observe those wishes—so strong are the attractions of authoritarian solutions to governments and officials. "New men and new principles have invaded the field of import control. Fresh zeal and new purpose are evident in the administration. *But those who care for consumer choice and who desire a free economic system as the keystone of our free society, must see the zeal as misdirected and the autocratic principles as alien.*"²⁷ "The import cuts must do what non-discriminatory financial

and exchange-rate policy should have done—change the scope and nature of Australian production. But under the new regime the changes will be instigated, not by the normal working of the price system, but by direct official control.”²⁸

And statism is being cultivated in ways even less obvious than in the case of import licensing. Increased taxation on private undertakings (imposed by a government pledged to encourage private and to restrict governmental enterprise) and no taxes at all on governmental undertakings weigh the scales heavily in favour of the governmental sector and, if sustained, must result in the growth of statism and the shrinkage of individual and corporate initiative and enterprise. In a similar way political pressure for the more dubious among localized “national development” projects and governmental activities in business undertakings which operate at an economic loss, and therefore are subsidized at the expense of the community, result in the progressive enlargement of the governmental sector and in increasingly heavy taxation of the private sector to pay for it. A few of such community actions are hard to escape. The danger lies in complacently accepting them as the rule rather than as exceptions which need overwhelming reasons—and no alternatives—to justify them.

Another field in which danger lies is that of wages. The unwise exercise of sectional monopoly power to attain sectional rewards unmatched by productive contribution may not be disastrous (even if indefensible) when confined to relatively small sections of the community. But it can become disastrous when applied to a sector covering half or more of the national income. In a period of full employment (with all its great benefits) the bargaining power of the trade unions is enormously strengthened. The question then indeed becomes “What of responsibility?” If this responsibility is not wisely exercised the community will be forced, for economic survival, to impose controls. And then another major step towards statism will have been taken—essentially unwanted by the community.

As time goes by and problems multiply, we can slide, or be precipitated, into price controls, capital controls and controls over wages and men almost as easily as we slid into the new forms of import control—all imposed under persuasive argument based on the symptoms of the moment and with the smooth explanation that such controls serve the interests of the economy and will not harm the maintenance of a free society.

²⁷ *Sydney Morning Herald*, 24 July 1956, “End of a Free Era in Australian Import Licensing.”

²⁸ *Sydney Morning Herald*, 25 July 1956, “Crucial Changes in Administering Import Controls.”

The underlying causes of those situations which turn thinking towards controls as a solution can be identified in economic crises which should have been forestalled earlier; in jealous faction fed by inaccurate economic data; in the widespread and too often unthinking demand that centralized government should correct every difficulty, fill every deficiency, right every wrong; in the propensity to seek more and more social services by taking from one section to give to another—stemming from an insufficiently-balanced regard for unqualified egalitarianism; in the disregard of the right of the producer to say—and to maintain—that his produce, whether in the form of goods or profits or wages or fees or salaries, is *prima facie* and fundamentally his own, a right which requires to be highly respected and modified less rather than more. When it seems necessary, in the public interest, to impose a tax, to acquire property or otherwise to interfere with the economic freedoms of the citizen, every legislator and every official should say to himself “What is the *least* degree to which I can modify these property-owning rights and other freedoms? If it is necessary that I interfere with them at all I ought to err on the side of interfering less rather than more.” And it is important too, that it be done by general rule of law and not by arbitrary direct controls and individual decisions.

We shall take major steps forward as a community if, in the numerous and various places where leadership abides, there is a conscientious, even if difficult, thinking out (for translation into policy) of these propositions: that productive elements in the community require encouragement and stimulation in preference to the consumptive elements; that our basic ideals as a society require for their realization individual and personal and group responsibility; and that such ideals are not compatible with the expectation that government (whether federal, state or local) should solve all our lesser problems and their local manifestations, and also not compatible with continuous attacks on government, instantly and on all fronts, for not solving all problems at once. We could find ourselves in much the same position as Aesop’s frogs in the pond who, dissatisfied with their sluggish king, asked Zeus for an active ruler and were given a stork who gobbled them up.

Perhaps the most important defences against the dangers of authoritarianism-by-stealthy-degrees are education about the basic roles of freedom and organization in society, economic education, more accurate economic information, and the acceptance of individual and group responsibility. The tendency to look to government is not compatible with freedom or, in the longer run, with continuous growth and

prosperity, because these stem from the activity and enthusiasm of persons. "Not what is done by a democratic government, but what is done under a democratic government by private agency is really great."²⁹

III

CONCLUSION

This account of rewards and contributions will be brought to a close by turning from ideas and broad considerations to concrete facts and evidence, although mainly in the form of some reminders rather than a detailed summary.

Standing out unquestioned amidst all the considerations are the responsibilities of the corporation to operate at a profit and to grow. (Growth in this sense is economic growth, virtually identical with higher productivity. It includes, for instance, obtaining the same level of output with lower inputs of labour and other resources.) To profit and to grow are responsibilities not only to the owners and employees but also to the community, and can be discharged only by successful performance in marketing, in innovation, and in productivity.

In the field of sugar, the cultivation and development of markets and the growth of production to supply them, in recent years as in the more distant past, have been described. Technological improvements in agriculture and in factory production and innovations in various directions have been dealt with. Innovation in the context of the South Pacific, as well as economic growth, is recognizable, too, in the newer activities of the company in building materials and in the chemical industry. In large degree these latest developments have been new to Australia and their establishment has proved as difficult as or even more difficult than the establishment of the sugar industry a hundred years ago. The new products are mostly now firmly established and their output and profitability are likely to improve steadily.

²⁹ de Tocqueville, quoted by J. S. Mill.

THE REWARDS OF ENTERPRISE

It is a function of corporate capitalism to enterprise, which involves the taking of considered risks. The tempo of C.S.R. affairs has not always been even and there have been some reverses. In the period since the first world war, Homebush and Childers sugar mills in Queensland have been dismantled: Homebush in 1922 after 39 years of operation and Childers in 1933 after 38 years of operation. In both cases the main reason was an insufficient supply of cane for profitable operations. And in both cases the cane transport system was sold cheaply to the adjoining mills to which the Homebush and Childers farmers thereafter sold their cane. These closures were the reverse of instances where C.S.R. had absorbed other sugar businesses (and the closures supported E. W. Knox's concept of valuing such assets in the books "at their value for removal").

Business hazards continue to be real. Two of our small sugar mills even now have very uncertain futures. After twenty years of effort to make a success of the pineapple industry in Fiji, the plantation and cannery had to be closed down in 1955. Some of the important ventures in building materials and chemicals might have failed if a more than ordinary amount of expertise and perseverance had not been put into them.

C.S.R.'s main activities have extended from the production of food in increasing quantities to the production of shelter and other materials for the health, comfort and enjoyment of man. And for better or for worse these activities have been concerned near the source or in the intermediate stages of the production chain, rather than in the consumer-distribution trades or in consumer-finance.

The trend of economic contribution over a hundred years of operations is illustrated, even if in a somewhat crude way, by the following table which shows the physical quantity of goods manufactured by the company at quarter-century intervals in Australia, New Zealand and Fiji. (The figures in each column are for the one year, not for the 25 years.)

Tons of Goods Manufactured by C.S.R. 1855-1955

<i>Year ended 31 March</i>	<i>1855</i>	<i>1880</i>	<i>1905</i>	<i>1930</i>	<i>1955</i>
<i>Refined sugar</i>	<i>5,284</i>	<i>13,550</i>	<i>180,230</i>	<i>383,803</i>	<i>562,973</i>
<i>Raw sugar</i>	<i>..</i>	<i>5,352</i>	<i>119,343</i>	<i>230,402</i>	<i>397,620</i>
<i>Distillery products</i>	<i>585</i>	<i>250</i>	<i>1,415</i>	<i>6,600</i>	<i>34,176</i>
<i>Building materials</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>191,000</i>
<i>Chemicals</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>6,000</i>

*(60 per cent of output of C.S.R.
Chemicals Pty Ltd.)*

SOUTH PACIFIC ENTERPRISE

Without leaving the directly economic field there are services and other economic contributions to be added to the tonnage of products manufactured and sold and the question may be asked: who receives the revenues to which the company's enterprise gives rise? The following table shows the proportions in which, for the company's 1955 financial year, various groups, including governments, shared in the total revenue of the enterprise.

	<i>Proportion of Total Sales Revenue</i>
<i>Suppliers of materials</i>	76.5 per cent
<i>Suppliers of services, including transport</i>	7.2 " "
<i>Employees</i>	10.2 " "
<i>To provide for wearing out of assets</i>	1.5 " "
<i>Government—various taxes (including excise duty on sugar in New Zealand)</i>	3.0 " "
<i>Proprietors of company</i>	1.6 " "
	100.0 " "

In this chapter functions of the corporation, economic and otherwise, have been referred to. Taking all the considerations together a further question can be asked: has C.S.R. rewarded the societies in which it operates as well as rewarding its owners and employees?

The total physical output (not the value) of all C.S.R.'s manufactured products over one hundred years has been tabulated. Services which cannot be included in such a calculation, such as financing and managing the distribution of sugar crops, have also increased greatly. Some other contributions do not lend themselves to quantitative measurement; these include the successful policies pursued in relation to suppliers of cane and in employer-employee relations; the achievements for the community in Fiji; the company's major role in the sugar industry of New South Wales; its considerable part in the development of the sugar industry in Queensland and, therefore, in the development and economic health of north-eastern Australia; and its developing of a new industry in an empty and desolate part of Western Australia.

Although a few pointers have been given in this brief concluding section, a reminder is also given that the full answer to the question about C.S.R.'s contributions is to be sought in the generality of the evidence and information given in this book.