

State's Serious Financial Difficulties

GOVERNMENT'S PLANS FOR CURTAILING EXPENDITURE

Reduced Grants and Review of Salaries and Wages

"The prosperity and welfare of our people have been gravely threatened, and the situation is one which calls for clear thinking and resolution and courage from Parliament, and some degree of self-sacrifice by all sections of the community," said the Premier (Hon. L. L. Hill) in the Assembly yesterday, in reviewing the financial position of the State.

"The plain fact is that we have been living beyond our income. This has been obscured for some time by the inflow of borrowed money which has now ceased, and we find that the national income is insufficient to maintain our standards of expenditure."

What Is Wrong With Australia, And How The Cure Will Work

"15 P.C. MUST COME OFF PROFITS, SALARIES, AND WAGES"

"The fall in our national income has made inevitable a fall in wages and salaries of some 15 p.c.," said Professor L. G. Melville, lecturing at the University last night on The Foundation Of Prosperity.

"Following this, there will be a reduction in prices of some 10 p.c., making the reduction in real wages about 5 p.c.; but, owing to the fact that welfare is to some extent relative, the reduction in well-being will be something less than 5 p.c.—it is impossible to say how much less, for this depends largely upon the temperament of the individual."

IN introducing his subject, the lecturer had explained what is meant by "relative welfare." There was some truth, he admitted, in the contention that a simultaneous reduction in the basic wage and all other incomes would involve no real diminution in welfare. Welfare, however, was not entirely relative. If it were, the size of the national income would be unimportant, and nothing would matter except the mode of its distribution. Along this line of argument, one would have to conclude that man had not improved his welfare since medieval days.

Oriental philosophers, said the Professor, were distrustful of the progress of the West, which supplied motor cars, telephones, and finally bombs; but there was some absolute satisfaction obtained from the possession of larger houses, motor cars, picture shows, and even radio sets.



Professor Melville explained what national income is—the stream of services, or goods and services, annually available for the consumption of the community—and went on to show what causes have contributed to the recent serious shrinkage. Our present difficulties, he said, were not due to war expenditure, but in a considerable degree to the wholesale borrowing of money for so-called developmental works. Borrowings were not brought to Australia in the form of money, but in goods—clothes, motor cars, radio sets, tea and foods; and the consequence of heavy borrowing, therefore, was a higher standard of living, which was justified only if the country's productive capacity increased rapidly enough to pay the mounting interest bill on overseas indebtedness. This had not happened in recent years in Australia.

A Parallel

The lecturer went on to indicate the points of similarity between the present crisis and that of the 'nineties. There was, he said, some satisfaction to be derived from the fact that the burden was relatively less today than it was then. But both crises had been similarly produced, by the failure of productivity to keep pace with the increasing interest charge which was the consequence of over-borrowing, and the fall in the prices of our exports.

Dealing with the effect upon the national income of the decline in the prices of our principal exports, the lecturer said we were now feeling the effect of two adverse factors which generally combine in circumstances like the present. "Other countries cease to lend to us when the prices of our exports fall," said Professor Melville, "because they then suspect our ability to pay interest and capital. Remembering our lack of respect for economic laws and prudent finance, they regard us as rather a comic opera country, to which they will lend only when the weather is fair."

Twice now, said the lecturer, we had been caught in the same sort of storm. We should learn from these experiences. "We have openly repudiated the teachings of economists, and we even boasted that the war forced the economists to burn their textbooks. It did not. It merely permitted politicians to create the illusion that they were producing rabbits out of silk hats. Comedy has turned to tragedy, and now a growing army of unemployed looks pitifully

into an empty hat. The magician's rabbits were only borrowed, and he cannot borrow any more."

"Frantic Attempt" Fails

After the war, Professor Melville went on, our export prices kept above import prices for a time, but they had now collapsed. This was a catastrophe, because wages had resisted a fall equivalent to the shrinkage of the national income. Australia endeavoured to avoid the consequences of world-wide deflation by imposing increased tariff duties. These did not save us, but for a time the high prices of our exports did. Meanwhile, many of our industries began to give up the unequal struggle; and, in relation to the production of sugar, butter, wine, and dried fruits, a levy had to be imposed on the consumer.

"Our frantic attempt to resist deflation by tariffs, by bounties, and by borrowing abroad, has failed," the lecturer declared. "A serious readjustment lies in front of us. It is one of the most serious economic crises this country has ever had to face. All sections of society will have to make sacrifices for the common good."

Showing that the effect of the nation's diminished income is already being severely felt by the unemployed, by pastoralists and farmers, by many businesses of all types, and by a great body of employes on short time, Professor Melville urged that there were others who had not yet felt the burden. It was our task to distribute the loss as equitably and as rapidly as possible. Prompt action was necessary to avoid worse consequences.

Increased efficiency in industry would not of itself suffice. Wages must fall, along with salaries, profits of all kinds, rents, and other incomes from land—in fact all incomes, however derived. On present indications, the reduction of wages and salaries would have to be about 15 per cent. Ultimately, the reduction required might prove to be less. Indeed, the reduction itself would stimulate industry and reduce the final loss.

Prompt and Drastic

"I do not suggest that recovery will be rapid," said the lecturer, "but only that prompt and drastic action is necessary in order that a still more serious position may be averted."

He added that he did not advance only his own opinion in relation to the inevitableness of a general fall in individual incomes. Professor Brigiden hoped that something less than a 15 per cent. reduction might suffice, but admitted that he was optimistic. Other economists supported the estimate of 15 per cent.

It was important to remember, the lecturer pointed out, that this reduction in nominal wages would involve a much smaller reduction in real wages, as prices fell. Already, a fall in land values and profits had diminished the cost of living; and a further fall in living costs would follow the reduction of wages and salaries. In the final adjustment, the fall in real wages might not be more than 5 per cent.

In conclusion, Professor Melville declared that our difficulties could be surmounted if we faced the situation in the right spirit. He urged his hearers, before they criticised those in authority in the present crisis, to make sure they were sufficiently well-informed to criticise, and that their criticisms did not spring merely from self-interest.

"Remember," he said, "that none of us knows but that it may be his voice raised in irresponsible querulousness which may cause our leaders to falter at a critical moment and bring us to still greater calamity."

Inter-Asia

Education

"The total amount spent upon education reached the enormous sum of £1,000,864 last year. We cannot continue at this rate, and a modification of our programme is imperative. The

FIFTEEN PER CENT. DROP IN WAGES FORECAST

Professor L. G. Melville, of the Adelaide University, who is a member of the State Advisory Committee on Finance, forecasts a drop of 15 per cent. in nominal wages as necessary for economic adjustment in Australia. A report of the lecture in which he made this statement last night appears on Page 16.

building and opening of new schools and grants and subsidies to a number of institutions must be reviewed. The following will probably be affected:—Grants to University, grants to School of Mines, grants to Public Library, grants to Institute Association, miscellaneous grants—mostly small amounts.

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ENERGETIC SUN

Makes Power Worth £6 A Day On House Roof

"THE sunshine falling on the roof of a house is sufficient to supply all the power requirements of the average present-day household," the Professor of Physics at the Adelaide University (Professor Kerr Grant) said yesterday.

"The energy created on the roof of an ordinary house would equal 240 units of electricity a day, and as the cost of electricity is at present 7d. a unit, this would be worth £6 a day.

"The signs are that we are on the right track at any rate," said the Professor, "although it will probably be a century or two before we effect that economy."

Professor Kerr Grant, commenting on the statement by a London scientist, Dr. Herbert Levinstein, that ultimately man will draw his raw material and power from air, water, soil, and sun, said that we were already doing so to a certain extent. It was possible to draw electrical energy from solar radiation, but at present it was not economical to do so on a large scale. Perhaps it would be economical within the next 100 years.

Solar radiation, said the professor, was equal to 7,000 h.p. an acre. Letting his fancy wander, he dwelt on the power present in one good stadium-sufficient to supply the needs of Australia for a century, with plenty to spare. The ability to control and convert it, however, was another matter, he