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ECONOMICS — AND FAITH

The ultimate solutions for the human problem are not to be found in economics. If this is a truism, it is one worth underlining. For as the economic and social analysts delve ever deeper in their investigations, and as the post-war crisis continues obstinately to defy the treatment prescribed, it becomes increasingly clear that the root causes of our troubles are not economic at all, and that some vital force, some essential constituent, is missing from the remedies proposed. Three years after the war “the broad sunlit uplands” appear almost as distant as ever, the “golden age” has a distinctly brassy tinge, and “the new order,” which was to be the prize of victory, seems, in not a few respects, to be inferior to the old.

Many people seem to have a sublime faith in what economics can accomplish. The truth of the matter is that the contributions of economics, concerned as they are with one branch only of human activity—and that, not the most important—have only a limited validity. This does not mean that economics is of little moment. But it does mean that it can at best provide only one part of the prescription for the cure of human ills, and that, in the absence of the other necessary elements, the economic remedies must fail to accomplish their purpose.
A SPIRITUAL CRISIS

The core of our discontents today does not lie in economics or in our inability to find economic solutions; it lies in the higher realm of the spirit and morals. The post-war crisis is in truth not fundamentally an economic and industrial crisis at all; it is something far more profound and infinitely more serious. It is a spiritual crisis. It does not arise primarily from a lack of knowledge or of resources to sustain human life at an adequate standard of material comfort and well-being; it arises primarily from an apparent incapacity to live life properly and nobly. It does not concern so much provision for man's bodily needs as provision of sustenance for his soul. It is not a matter so much of livelihood as of life itself.

CYNICISM—THE PREVAILING CURSE

The prevailing curse of the aftermath of this war, as of the last, is cynicism. From the cynicism which was born of the 1914-1918 conflict we have never wholly recovered. It accounted in no small part for the long succession of failures in the 'twenties and 'thirties and for the final drift and collapse into the second World War. This in turn has given cynicism a second lease of life and it will now assuredly lead us into a third disastrous conflict unless we eradicate it from our national outlook.

Cynicism is the mark of a people who have lost their faith and confidence and self-reliance. And such a people will readily sell its soul to the State or rush into the arms of a dictator because it no longer cares to carry its own load of responsibility. "In Walter Lippman's tremendous metaphor: 'It welcomes manacles to prevent its hands shaking'."* It is no coincidence that the growth in our times of an almost pathetic dependence on the capacity of the State has been accompanied by a decline of faith in the competence and worth of the individual person. At the centre of this development lies the idea that the State is able to do for the individual what the individual can no longer be trusted to do for himself.

* Quoted from John Buchan's "Memory-Hold-The-Door."
CRISIS OF FAITH

At first blush it seems easy to excuse cynicism. It is the child of disillusionment, and that there is ample cause for disillusionment at the present time no one will deny. But it is an ugly, negative, destructive, corroding force; it not only achieves nothing of itself, it renders achievement impossible; it undermines will-power, energy, replaces the positive “do” with the negative “don’t”; it builds distrust and suspicion between man and man and between nation and nation; it undermines standards of morality and conduct, destroys the everyday decencies and courtesies and good manners. This is a bad-mannered and discourteous age because it is a cynical age, and it is a cynical age because there is no deep-rooted faith and belief in the purpose of life itself. The post-war crisis is a crisis not of economics, but of faith.

THE DESIRE TO WORK

The post-war years have witnessed the achievement of full employment, and there are fairly good reasons for believing that economic science has shown us the way that high employment can be maintained. But having gained the goal of work for all, we seem no longer to possess any firm belief in the dignity of work itself. In winning at long last the battle for the right to work, have we lost, in the process, the desire to work? We have made great social strides in the direction of better provision of the aged, the sick, the incapacitated, the weaker members of the social organism. But in our personal relationships do we any longer respect the aged or the weak? Men rush into trams and buses ahead of women, youths and girls retain their seats in crowded trains and leave old people standing; the least cared-for member of society is the housewife and mother. These are things which our fathers and grandfathers, for all their supposed lack of a social conscience, would not have countenanced.
"THE LITTLE THINGS"

The ordinary every-day courtesies, the minor chivalries, are in danger of vanishing. It is the little things that count, and the decay of manners, the disregard for the common decencies, are the symptoms of deep-seated and dangerous disease, the disease of a society which is in peril of losing its belief in things and people, its faith in its own destiny. For if human life has no real purpose, if it is after all an aimless, meaningless, accidental experience, if, in other words, the big things, or what we thought were the big things, have turned out to be of no account, why worry about the little things? A society that cherishes the smaller matters, that respects good manners, courtesy, the little kindnesses, is a society in which there is still faith and belief and for which there is still hope. Such a society is spiritually healthy, youthful, enthusiastic, purposeful, constructive. But a society which has lost regard for the little things, which has become disillusioned and cynical and old, which has no firm philosophy of living, is a society from which death is not far away.

TO MAKE THE ECONOMIC SOLUTIONS WORK

We need a recovery of faith to make the economic solutions work. The industrial mechanism will not operate, or will not operate efficiently, without a spiritual driving force. The industrial expert has given us his proposals for the improvement of relationships between employers and workers—profit-sharing, co-partnership, streamlined arbitration, improved factory and welfare amenities—but the results disappoint. It is not that the solutions proposed are wrong. Within their own restricted sphere they are right. But they do not go to the root of the trouble. The root of the trouble is the suspicion between man and man, not merely between worker and employer, but between worker and worker and employer and employer, indeed, not merely between man and man, but
between man and himself. The industrial expert has in truth no solution for the problem of industrial peace in a society corroded and distorted by cynicism. Such a society needs a spiritual not an industrial doctor. When spiritual health has been restored that will be the time to call in the industrial doctors, and their remedies may then have a chance of achieving their purpose.

THE DIGNITY OF WORK

The economist may have shown us the way to full employment. At anyrate, we have full employment now, but our experience of it suggests that it is one thing to provide work for all and quite another thing to ensure that all work. For work is more than attendance at a job for a specified number of hours a day. Work is something which should call for the best that it is in man to give, his best in energy, in resource, in responsibility and service. But how many, whether salaried worker or wage-earner, whether employer or employee, are putting forth their best today—now that any employer who produces some useful commodity or provides some useful service is assured of a market, and now that any employee can have a job for the asking. Is there today any real pride in work for work’s sake, or has it just become a burdensome nuisance to be reluctantly endured in order to obtain the necessaries of life? It is primarily a wrong view of life, a false sense of values, a moral failing, that is causing full employment to break down at the vital points.

"TO SUCCEED IN LIFE YOU MUST BELIEVE IN LIFE"

A great contemporary Scotch philosopher, Macneile Dixon, said that "To succeed in life you must believe in life." Here is the essence of the thing. Today many of us are uncertain whether we believe in life or not. The thought whether life was worthwhile, whether it was worth living, and living well,
probably never entered the heads of most of the great men who stand out on the peaks of history. The monumental figure of Gladstone is an example. Gladstone never questioned life. He never lost faith in the high purpose and destiny of man. Cynicism had no part in his mental and moral make-up. He went boldly, courageously forward, and he dominated the English, and indeed the world scene, in the latter half of the 19th century, not only and not mainly because he was a great politician, but rather because he was a transcendent spiritual force. The world of many modern intellectuals is at the other end of the universe from the world of Gladstone. The philosophy of Gladstone may be too straight-forward, too ruggedly simple and ingenuous for the needs of the complex sophisticated atomic age. But at least it is certain that the problems of this age will never be solved without something of the outlook and moral courage and rectitude which this great statesman brought to bear on the problems of living.

When we recapture our faith in living, when we replace cynicism and pessimism and destructive suspicion about man and his place in the scheme of things with faith and optimism and constructive trust, then, and only then, will we really emerge from the economic chaos and ruin wrought by the two world wars. Until that time comes the purely economic remedies will continue to have a very limited effect. With faith we can move mountains; without it we are doomed to move from post-war crisis to crisis, from disappointment to disappointment, from despair to deepening despair.

SOUND AT THE CORE

But when all this is said, there is as yet no reason to doubt that at the heart and core the British race remains fundamentally sound. There is no cause yet for pessimism or hopelessness. What has been said in this article has been said more in the nature of warning than of condemnation.* The people

*And it is said in no self-righteous or sanctimonious spirit, for in this matter we are all tarred with the one brush.
who won the Battle for Britain in 1940, and the people of their blood and heritage, have not changed their fundamental character in the small space of eight years. The task of leadership is not to instil greatness into the people, for greatness already resides there; the task of leadership is to bring that greatness forth. This leadership, in Australia at any rate, we at present seem to lack.

The prophets of the new atomic age have not yet made their appearance. But that they will appear, all our history gives strong reason to hope. And the great task of the new leadership will be to elevate the moral tone of the nation, to place the economic and industrial problems in the setting of a spiritual background, to raise the whole level of the nation's thought and life on to a higher plane. Its appeal will be to the finer instincts of the people—not to the baser instincts, as is the custom of present-day politics. It will set a standard and create an atmosphere in which the solutions proposed by the scientist and the expert will have some chance of working effectively.

"YOU KNOW IT IS NOT!"

In a striking speech to the Royal Agricultural Society, Mr. R. S. Maynard put this matter into true perspective:

"A Parliament composed entirely of wise and careful men would content itself in the main with providing spiritual leadership and a free and safe world for men to work and prosper in. Those of my own age will recall how strong and fresh was the leadership of our early Federation days. There was a fine rapture in being an Australian in those days. There was a spiritual force in our national life. I fear that we have temporarily lost that vision of greatness.

"What is the guiding principle of our national life today? Is it that we shall be a first-rate people? Is it that we shall achieve excellence in everything we do?

"You know it is not!"
THE post-war economies of practically all countries are riddled with the disease of inflation. The disease is of course present in a much more acute form in the belligerent nations than in the non-belligerent, but the epidemic is worldwide. It is to be seen at its worst in the European nations where war damage was most extensive and the capacity to produce most seriously weakened. In fact, the whole task of European reconstruction, on which the stability of the world so largely hinges, has been disastrously complicated and prolonged by the disorganisation of the normal means of exchange. (Before the new currency provisions were introduced, it was estimated that in the Western zones of Germany over 50 per cent. of business was conducted through barter arrangements.)

Inflation replaces confidence in the future with fear and uncertainty; it breeds disrespect for the law; it distorts production and diverts it away from purposes essential to reconstruction; by destroying competition between men for jobs and businesses for markets it weakens incentive; and finally it makes it imperative to continue into the post-war period an irksome structure of controls in order to preserve some semblance of economic stability and order. Inflation is a destroyer of men and morale as well as values; it has been well remarked that one of the most typical figures of our times is the black marketeer.

Inflation, inflation on the grand scale was of course an inevitable consequence of total war. It could not have been avoided by any practical means known to economic and political science. Inflation is simply the disruption of the more or less normal balance between the supply of goods and the supply of money. War, unavoidably drastically reduces the former and greatly enlarges the latter. The colossal sum spent on production for war purposes are paid away ultimately in the form of wages, salaries, profits, interest and rents, and represent income to individuals or business organisations. But these incomes are balanced by no expansion, indeed, are accompanied in most cases by a severe contraction, of the supply of peace-time goods and services. During war people continue to receive money income, but much of this income is not matched by any corresponding production of goods on which it can be spent. When war cease people and businesses are left with vast accumulations of purchasing power, but the supplies of goods coming on to the market are quite inadequate to meet the demand at any reasonable level of prices. It is this situation, the inflationary pressure of a great quantity of money on an insufficient quantity of goods, which
renders certain controls essential in the post-war period.

Inflation Compels Controls
It is necessary to stress this close interconnection between inflation and controls. Inflationary pressure compels controls and controls can only be safely eased as the inflationary pressure is reduced and when goods and money again bear some reasonable relationship to one another. The success of a government in dealing with the problems of the post-war transition must largely be judged by the effects of its policy in reducing this pressure. One of the greatest mistakes in the post-war policies of Britain and Australia has been to suppose that all the evils arising from inflation can be prevented by a system of controls, of which price control is the first. This has led to a concentration of the control aspect of the problem and a comparative disregard for the inflationary condition itself. The tendency has been to think that an excessive amount of money need not be a serious drawback provided the controls are present to keep down costs of living, to stop a runaway increase in prices and, in effect, to prevent consumers and businesses from spending their surplus money. But suppressed inflation leads to evils little less injurious to the health of the economy than those which would ensue if the inflation were allowed to take its natural course.

The Disadvantages of Price Control
Price control of itself does nothing to correct inflation. It operates on the symptoms of the disease, not the disease itself. It keeps the temperature of the patient from rising, but does nothing to cure the illness from which he is suffering. Moreover, as with all the other controls, it tends to conceal the existence of inflation and thus to delay the application of the basic remedies. The patient may feel reasonably comfortable, but all the time his illness may be growing worse.

Furthermore, price control is in several ways inconsistent with the actual cure of inflation. The mere fact of holding prices down perpetuates and intensifies the inflationary pressure by maintaining the purchasing power of the money held by the public. Because it reduces the real value of incomes there is nothing like a price increase to mop up surplus purchasing power—so long as money incomes do not rise proportionately. This is, of course, no argument for a runaway increase in prices—that would be a case of the cure being worse than the disease. But it is an argument against over-rigid and over-conscientious control of the price level. An easing of price control—not the complete and sudden removal—is one of the indispensable remedies for the cure of inflation.

In addition, one of the chief means for correcting inflation is to raise the efficiency of production. But controls, and price control in particular, tend to work against this desirable objective. They weaken the incentive of the efficient producer and enable the inefficient to remain in production.

Finally, price control has in practice tended to concentrate mainly on essentials such as food, clothing and housing and on such basic materials as coal and metals. While this policy had justification during
the war, in the circumstances of today, where control of labour and materials has been relaxed, it has had two unhappy results. First, it has encouraged the production of the inessentials such as luxury goods and services where price supervision is not so strict. This brings about an undesirable diversion of labour away from the most pressing needs of the economy into fields which are relatively unimportant. This fact need not be elaborated here. It must be said, however, that the most vital and intractable problem confronting the Australian economy at the moment is that of getting labour and resources into the fields where they are most necessary. It is an ironic commentary on post-war economic planning that the number of people now engaged in housing, primary production and coal and steel are little or no greater than in 1938-9, where by contrast there has been a considerable increase in the numbers employed in the provision of entertainments, cosmetics and jewellery. Second, the fact that prices of essential commodities are rigidly controlled in an endeavour to keep down the cost of living means that people have much more money to spend in other directions—more, for instance, for amusements, tobacco, liquor, the minor luxuries. This, of course, both tends to aggravate the general inflationary pressure and to further divert production into the least essential channels.

Measurement of Inflation

Under price control the movement in the price level ceases to be an accurate gauge of the extent of inflation and needs to be supplemented by other measures. One of the best is probably the extent of the labour shortage, that is, the number of jobs offering for which workers cannot be found. Another measure is the relationship between the amount of potential spending power in the hands of the public and the volume of output of goods and services. Potential spending power is made up of current and fixed deposits in the trading banks, savings bank deposits and cash in the form of notes and coin held by the public.

These three measures—prices, the volume of money and the labour shortage—taken together give a fairly good picture of the magnitude of the inflation in Australia brought about by the war. At the end of the war retail prices as measured by the "C Series" cost of living index were roughly 25 per cent. above the 1938-level.* Wholesale prices, according to the Statistician's index, were about 40 per cent. above the pre-war level. The volume of money was more than double—£612m. in 1938-9, £1356m. in 1944-5. Production of peace-time goods and services was at a low point at the end of the war greatly below pre-war production—probably by about 20 per cent. On the basis of trade union returns 9.3 per cent. of all wage and salary earners were unemployed when the war broke out. At the end of the war there was virtually no unemployment except of a seasonal or temporary nature.

*There is a great deal of misunderstanding about the "C Series" index of retail prices. This does not measure, nor does it purport to measure, the average of retail prices in general. It measures only the changes that take place in the prices of a select group of commodities and services which enter largely into the consumption of the basic wage earner. There is no index published by the Commonwealth Statistician attempting to measure the average of retail prices in general. If an average could be taken of the increase in all retail prices since the beginning of the war it would certainly show a far greater rise than that shown by the "C Series" index number.
Inflation Since the War

The two years following the war saw an improvement in the inflationary situation. Retail prices rose by another 1 per cent., wholesale prices by only 2 per cent. The volume of money in the hands of the public increased from £1356m. to £1387m., an increase of about 14 per cent. On the other hand, as peace-time production again got into its swing the output of many kinds of goods and services again reached normal proportions and probably increased in a much greater ratio than the increase in spending power. Up to the end of 1946-7 it could be said that the inflationary position had not only been held, but that some improvement had been accomplished.

Deterioration

Since then a disturbing deterioration has occurred. From June, 1947, to the first quarter of the current year, retail prices increased by 9 per cent. and wholesale prices by 21 per cent. These increases compare with 5 per cent. and 2 per cent. respectively for the two preceding financial years. The volume of money, which, in June, 1947, was £1537m., had risen to £1600m. by March, 1948. The present shortage has also certainly become much more pronounced over the last nine months.* Thus, while by the end of 1946-7 there may have been some grounds for hope that we were getting a grip of inflationary tendency in the Australian economy, nine months later the situation had deteriorated quite considerably. This deterioration was brought about by two main causes—one external, one largely internal.

During 1946-7 a spectacular increase occurred in overseas prices for our main exports abroad. Because of its effects on the incomes of primary producers this resulted in the infusion into the Australian economy of a great quantity of additional purchasing power. The value of exports rose from £196m. in 1945-6 to an all-time record of £309m. in 1946-7. This unprecedented increase in export income came at a time when Australia was being seriously embarrassed by rising internal costs and has greatly complicated the difficulties of restoring stability. Unit costs of production have taken a sudden upward turn in recent months, because of a rising wage level, the 40-hour week and higher prices for imported materials.

There is little doubt that it was the unprecedented boom in export income and the anticipated increase in costs of the 40-hour week that caused the Commonwealth Government early this year to reverse the policy of reducing price subsidies which it had apparently accepted toward the end of 1947. At that time subsidies were budgeted at £20m. for the financial year 1947-8 and the Government had announced that they would be rapidly reduced during the ensuing months until entirely eliminated. A month or so later, early in 1948, this policy was completely reversed and the budget estimate for subsidies was doubled to allow for an expenditure of £40m.*

As an outcome of the prices referendum the Commonwealth Government reverted to the policy of reducing subsidies. This action was quite inconsistent with the decision earlier in the year to greatly increase subsidy payments and with its warnings during the campaign preceding the referendum on the evils which would follow from the removal of price control.

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The Banking Position

The effects of the colossal additions to export incomes and of rising internal costs are vividly reflected in the banking figures. Over the fifteen months from June, 1946, to September, 1947, bank deposits rose only by £12m. — from £698m. to £710m. In the same period the total volume of spending power, comprising cash and all banking deposits, increased by £22m. — from £1516m. to £1538m. But in six months from September, 1947, to March, 1948, bank deposits soared from £710m. to £785m. — an increase of £75m. Spending power went from £1538m. to £1600m. — an increase of £62m.

These movements, together with bank advances and bank lending to Governments, and the addition to or subtraction from internal spending power, as a direct result of overseas trading, are set out in the table below.

In the earlier period the effect on spending power of the increase in bank advances of £104m. was for the most part offset by the reduction in Government securities held by the banking system, brought about mainly by the redemption of Treasury Bills. But in the later period both bank advances and bank holdings of Government securities increased. At the same time there was a net addition to overseas funds of £31m.

It needs to be strongly emphasised that the present inflationary condition is one of the classical text-book type brought about by the over-expansion of bank credit and marked by an unhealthy ratio of cash and liquid assets to advances and a generally unsound structure. On the contrary, the present liquid position of the banking system is sufficient to support a further vast expansion of bank lending.* The percentage ratio of advances to deposits for the quarter of the current year was 47 per cent. Under pre-war conditions a rate of 80 per cent. was generally regarded as sound and healthy.

Bank Advances and Inflation

The large increase in bank advances which took place over the two years 1944-5 to 1946-7 was necessary to assist the reconversion and expansion of industry to peace-time purposes. Moreo ever, part of this increase is to be attributed to the rising levels of values and costs which mean that producers and traders require additional money for working capital to finance raw materials, stocks, debts and replacement costs. When compared with the total of bank advances

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*Not that this would be desirable.
Before the war (1938-9—£288m.) the present volume of advances cannot be regarded as excessive. Latest figures suggest that the rate of increase of advances is slowing down. The recent aggravation of the inflationary situation has little to do with the expansion of bank credit. It arises primarily from the higher unit costs of production resulting from wage increases and the 40-hour week, and from abnormally high prices being obtained on our major exports.

Present Shortages Not Direct Result of the War

Inflation is at the present time the central problem and the greatest danger to the stability of the Australian economy. It is the key to most of the other economic problems. The economy is suffering today not so much from the after-effects of the war as from the continued inflationary pressure. Today's shortages are in the main not the direct result of the war, but of the excess of spending power which has been allowed to continue since the end of the war. No political party could have afforded to suddenly all controls whilst the imbalance between goods and money continued. The main point of criticism of the post-war economic policy pursued by the Labour administration is not that up till recently it has retained a tight structure of controls, but that it has failed to take adequate measures to deal with the inflationary pressure which rendered these controls necessary.

Automatic Mechanisms

It is not easy to decide what should be done, for all possible alternative courses have their weaknesses and carry certain risks. Moreover, the whole problem is enormously complicated by the fact that it is a part of the main automatic mechanisms for correcting an inflationary position—for instance, interest rates and the rate of exchange—is virtually ruled out of account. An appreciation of the exchange rate would assist materially in the short term. It would reduce the purchasing power of the present immense accretions to the incomes of primary producers and it would lower the costs of imports in Australian money. But from the long-term viewpoint it has disadvantages. For one thing, the present extraordinary export prices are not likely to last—indeed, a severe slump in these prices is not beyond the bounds of possibility within the next few years. In addition, an appreciation of the exchange rate would weaken the long-term competitive position of many Australian industries. Powerful political pressure would certainly be brought to bear against any suggestion for appreciating the exchange rate and, for this reason alone, it does not appear a course likely to be adopted. If, however, the present Himalayan peaks for export prices were to continue for any length of time, it might be necessary to consider an appreciation of the rate of exchange.

A rise in interest rates would discourage borrowing and encourage saving, but it would probably have to be quite a large one to have any substantial effect on the present situation. Because of the immense public debt and its effect on the budget, the balance of argument would appear to be against any really worthwhile change in interest rates.

Remedies

Since we are apparently debarred, largely for political reasons (but less on economic grounds) from falling back on two of the main automatic mechanisms—the exchange rate and interest rates—for easing the inflationary pressure, we must look elsewhere. There is, however, one
economic factor of the automatic kind which we should endeavour to restore to its natural role as soon as possible—that is, the commodity price level. The re-establishment of a free price market—paradoxical as it may at first blush seem—is fundamental to any correction of the inflationary tendencies and of all the evils to which they give rise. The mere fact of freeing prices would itself be a most powerful incentive to greater industrial efficiency by restoring in many fields a measure of price and quality competition.

The decision last June by the Commonwealth Government to abolish subsidies over a wide range of commodities, while unnecessarily sudden in its impact, is therefore, on the whole, a step in the right direction. The policy of reducing subsidies and relaxing price control will no doubt in the first instance lead to steep rises in the prices of some commodities, but other prices, in the absence of further cost increases, would probably fall.* In any case, we have nothing to fear from sectional price increases so long as the average level of prices does not get out of hand. A general easing of price control must not be regarded as an isolated measure, but as one instalment only of the anti-inflationary policy which the present situation demands. Taken by itself it could be positively dangerous. The elimination of subsidies and price control is a sound step, provided and only provided, it is accompanied by an anti-inflationary programme to reduce spending power and step up production. The time has come when it is no longer possible to countenance any large additions to money incomes. There is no case at the moment for any substantial increase in the average levels of wages, salaries or profits. The pegging of rents should of course continue. These things, as the British Government has been forced to recognise, are basic to the success of any policy to relieve the inflationary pressure.

Moreover, the reduction and early elimination of price subsidies, at present running at the rate of £40m. a year, would mean a substantial cut in Government expenditure. This, combined with the abnormally buoyant condition of Government revenues, would in turn make possible a really strong reduction in rates of taxation, thus strengthening incentives and encouraging production. Through these reductions an increase in money incomes can be achieved without imposing a burden on the cost and price structure.

The central objective of public finance should be to lighten the taxation burden and at the same time attempt to realize a substantial budget surplus. The latter is supremely important under present conditions, because it is by spending less than it receives in revenue in the form of taxation and loans that the Government is able to suck spending power out of the economy. These two objectives—that is, a reduction in taxation and a budget surplus—may seem at first sight to contradict each other. But under present conditions this is not so. For one thing, lower rates of taxation, as we have seen over the last two or three years, do not necessarily mean a loss of Government revenue. By stimulating economic activity to a higher pitch, rates of taxation tend up to a point to increase the total tax yield.

Under the present conditions of severe labour shortage, and now that the reco
version of industry to peace purposes has for the most part been accomplished, there should be no need for a further large increase in the aggregate of bank lending. In pursuit of this aim the Commonwealth Bank, in conjunction with the trading banks, should endeavour to hold advances at a point not greatly above the present figure.

Finally, this is a time when the business community should be expected to exercise the greatest restraint and self-discipline so far as its own price policies are concerned. Wherever possible prices should be cut to the minimum consistent with a reasonable profit. Increases should not be made unless absolutely imperative. Without the understanding and co-operation of the business community no policy for correcting the inflationary pressure can hope to succeed. The defeat of inflation demands a concerted effort by all sections of the community—all have a responsibility and all must play their part.

The essential elements in a financial policy to cope with the inflationary position in Australia should therefore comprise—

(a) The progressive reduction and early removal of price subsidies.

(b) An easing of price control over the whole economy with the complete removal of control on the large range of commodities of which the supply is now reasonably well adjusted to the demand.

(c) A strong reduction in rates of income tax on companies and personal incomes.

(d) The drastic pruning of Government expenditure.

(e) A substantial budget surplus.

(f) For the present, no further increases in average money rates of wages, salaries and profits.

(g) An endeavour to hold the total level of bank advances at a point not greatly above the present figure.

(h) Self-discipline on the part of the business community in fixing prices.

Disinflation Not Deflation

Lest there be any misconception, it needs to be emphatically stated that a policy to relieve the inflationary pressure is not a policy of deflation. As Lionel Robbins, the eminent English economist, states: "To remove inflationary tendencies is not to resort to deflation, that is, to a contraction of money incomes." When there is too much air in the tyres, the common sense thing to do is to let some of it out. But that does not mean that the tyre is to be flattened or left with too little air. Practically all the main weaknesses in the Australian economy at the moment are caused by an over-inflated tyre—under-production, the under-manning of the most vital industries, industrial inefficiency and poor quality of goods and services resulting from the absence of a worthwhile measure of competition, the constant pressure to bursting point on the tyre itself, the irritations and inefficiencies of controls, all these result from an imbalance between money and goods.

With the strong political pressure being exerted against the continuation of controls, the only practical alternative to disinflation at the moment is the old-time policy of "boom and bust." We can take our choice.
## INFLATIONARY TRENDS

### THE AUSTRALIAN ECONOMY — 1938-9 — 1947-8

### PUBLIC FINANCE (£ MILLIONS)

<table>
<thead>
<tr>
<th></th>
<th>1938-9</th>
<th>1944-5</th>
<th>1945-6</th>
<th>1946-7</th>
<th>1947-8</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income</td>
<td>803</td>
<td>1228</td>
<td>1236</td>
<td>1265</td>
<td>1571*</td>
</tr>
<tr>
<td>National Debt—Internal</td>
<td>704</td>
<td>2066</td>
<td>2266</td>
<td>2324</td>
<td>2338</td>
</tr>
<tr>
<td>National Debt—External</td>
<td>739</td>
<td>704</td>
<td>660</td>
<td>555</td>
<td>555</td>
</tr>
<tr>
<td>National Debt—Total</td>
<td>1443</td>
<td>2770</td>
<td>2926</td>
<td>2879</td>
<td>2893</td>
</tr>
<tr>
<td>Total Commonwealth and State Expenditure</td>
<td>230</td>
<td>771</td>
<td>667</td>
<td>628</td>
<td></td>
</tr>
<tr>
<td>Subsidies—Price and Other</td>
<td>2</td>
<td>23</td>
<td>38</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Taxation Revenue—Income Tax</td>
<td>49</td>
<td>226</td>
<td>226</td>
<td>220</td>
<td></td>
</tr>
<tr>
<td>Taxation Revenue—Indirect and Other</td>
<td>92</td>
<td>154</td>
<td>170</td>
<td>212</td>
<td></td>
</tr>
<tr>
<td>Taxation Revenue—Total</td>
<td>141</td>
<td>380</td>
<td>396</td>
<td>432</td>
<td></td>
</tr>
</tbody>
</table>

* Full financial year.

### BANKING (£ MILLIONS)

<table>
<thead>
<tr>
<th></th>
<th>1938-9</th>
<th>1944-5</th>
<th>1945-6</th>
<th>1946-7</th>
<th>1947-8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes in Hands of Public</td>
<td>33</td>
<td>170</td>
<td>182</td>
<td>182</td>
<td>173</td>
</tr>
<tr>
<td>Deposits of Public with Commonwealth Bank and all Trading Banks</td>
<td>334</td>
<td>620</td>
<td>671</td>
<td>695</td>
<td>760*</td>
</tr>
<tr>
<td>All Savings Bank Deposits</td>
<td>246</td>
<td>567</td>
<td>663</td>
<td>660</td>
<td>667</td>
</tr>
<tr>
<td>Volume of Money</td>
<td>613</td>
<td>1357</td>
<td>1516</td>
<td>1537</td>
<td>1600</td>
</tr>
<tr>
<td>Special Deposits of Trading Banks with Commonwealth Bank</td>
<td>—</td>
<td>208</td>
<td>238</td>
<td>265</td>
<td>269</td>
</tr>
<tr>
<td>Trading Bank Holdings of Government Securities</td>
<td>42</td>
<td>166</td>
<td>175</td>
<td>121</td>
<td>81</td>
</tr>
<tr>
<td>Trading Bank Advances</td>
<td>288</td>
<td>209</td>
<td>212</td>
<td>261</td>
<td>336</td>
</tr>
<tr>
<td>Trading Bank Deposits</td>
<td>318</td>
<td>568</td>
<td>696</td>
<td>637</td>
<td>688</td>
</tr>
<tr>
<td>% Advances to Deposits</td>
<td>90.7</td>
<td>36.8</td>
<td>35.0</td>
<td>41.0</td>
<td>48.7</td>
</tr>
</tbody>
</table>

### PRICE INDEXES

<table>
<thead>
<tr>
<th></th>
<th>1938-9</th>
<th>1944-5</th>
<th>1945-6</th>
<th>1946-7</th>
<th>1947-8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Production</td>
<td>100</td>
<td>150</td>
<td>150</td>
<td>170</td>
<td>229</td>
</tr>
<tr>
<td>Wholesale—All Items</td>
<td>100</td>
<td>139</td>
<td>140</td>
<td>141</td>
<td>162</td>
</tr>
<tr>
<td>Wholesale—Goods Home Produced</td>
<td>100</td>
<td>121</td>
<td>123</td>
<td>126</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>100</td>
<td>123</td>
<td>124</td>
<td>127</td>
<td>137</td>
</tr>
<tr>
<td>Exports</td>
<td>100</td>
<td>156</td>
<td>175</td>
<td>248</td>
<td>384</td>
</tr>
<tr>
<td>Imports</td>
<td>100</td>
<td>197</td>
<td>201</td>
<td>229</td>
<td>271</td>
</tr>
<tr>
<td>Wages</td>
<td>100</td>
<td>128</td>
<td>129</td>
<td>136</td>
<td>146*</td>
</tr>
<tr>
<td>Shares—(Stock Exchange)</td>
<td>100</td>
<td>109</td>
<td>120</td>
<td>137</td>
<td>152</td>
</tr>
</tbody>
</table>

* Estimate.

* 2nd Qtr.
### THE AUSTRALIAN ECONOMY — 1938-9—1947-8

#### PRODUCTION

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Black Coal weekly av. 000 tons</td>
<td>235</td>
<td>265</td>
<td>243</td>
<td>270</td>
<td></td>
</tr>
<tr>
<td>Pig Iron monthly av. 000 tons</td>
<td>92.0</td>
<td>93.1</td>
<td>75.5</td>
<td>95.3</td>
<td>102.6</td>
</tr>
<tr>
<td>Ingot Steel monthly av. 000 tons</td>
<td>97.5</td>
<td>112.1</td>
<td>87.9</td>
<td>109.1</td>
<td>99.0</td>
</tr>
<tr>
<td>Zinc monthly av. 000 tons</td>
<td>5.8</td>
<td>6.6</td>
<td>6.7</td>
<td>5.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Flour weekly av. 000 tons</td>
<td>26.4</td>
<td>27.2</td>
<td>23.4</td>
<td>28.4</td>
<td>29.7</td>
</tr>
<tr>
<td>Butter monthly av. 000 tons</td>
<td>16.2</td>
<td>11.4</td>
<td>12.1</td>
<td>11.5</td>
<td>15.5</td>
</tr>
<tr>
<td>Meat monthly av. 000 tons</td>
<td>80.5</td>
<td>82.0</td>
<td>67.1</td>
<td>74.3</td>
<td>63.8</td>
</tr>
<tr>
<td>Bricks monthly av. millions</td>
<td>60.0</td>
<td>12.6</td>
<td>25.4</td>
<td>39.9</td>
<td>38.0</td>
</tr>
<tr>
<td>Tiles monthly av. millions</td>
<td>3.3</td>
<td>0.8</td>
<td>2.0</td>
<td>3.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Cement Sheets monthly av. million sq. yds.</td>
<td>0.8</td>
<td>1.2</td>
<td>1.4</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Timber monthly av. million sup. ft.</td>
<td>59.8</td>
<td>70.2</td>
<td>74.6</td>
<td>87.4</td>
<td></td>
</tr>
<tr>
<td>Cement monthly av. 000 tons</td>
<td>72.3</td>
<td>57.8</td>
<td>59.4</td>
<td>75.0</td>
<td>69.3</td>
</tr>
<tr>
<td>Cooking Stoves monthly av. 000</td>
<td>9.2</td>
<td>5.3</td>
<td>6.3</td>
<td>6.6</td>
<td>8.8</td>
</tr>
</tbody>
</table>

#### EXTERNAL TRADE

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports £m.</td>
<td>122</td>
<td>155</td>
<td>196</td>
<td>309</td>
<td>362*</td>
</tr>
<tr>
<td>Imports £m.</td>
<td>124</td>
<td>233</td>
<td>195</td>
<td>230</td>
<td>310*</td>
</tr>
</tbody>
</table>

#### INTERNAL TRADE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales—% increase on previous year</td>
<td>1.9</td>
<td>5.4</td>
<td>31.6</td>
<td>23.7</td>
<td></td>
</tr>
<tr>
<td>Wholesale £m.—monthly av.</td>
<td>40</td>
<td>52</td>
<td>56</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Stocks £m. (at 30th June) — manufacturers, wholesalers, retailers</td>
<td>335</td>
<td>440</td>
<td>505*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rough estimate for 30th June, 1948.

#### EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All wage and salary earners 000's (excluding rural and domestic)</td>
<td>1730</td>
<td>1910</td>
<td>1981</td>
<td>2202</td>
<td>2327</td>
</tr>
<tr>
<td>Factories—Wage and salary earners 000's</td>
<td>542</td>
<td>727</td>
<td>718</td>
<td>775</td>
<td>807*</td>
</tr>
<tr>
<td>Nos. engaged in rural industry 000's</td>
<td>522</td>
<td>458</td>
<td>515</td>
<td>516</td>
<td></td>
</tr>
</tbody>
</table>

Note: Wages are nominal weekly rates for adult males.
FINANCIAL TRENDS SINCE END OF WORLD WAR II

Note: Volume of money includes total deposits of all cheque-paying banks and savings banks, plus notes in the hands of the public.
The charts on pages 106-7-8 depict the development of inflationary trends in the Australian economy since the end of the war. The most important feature is the rapid deterioration of the inflationary position since the middle of last year. This is brought out strikingly by the heavy section of the graphs.

The causes of this development are twofold.
1. Rising internal costs as a consequence of wage increases, the 40-hour week, and higher prices for imported materials.
2. The steep rise in prices of the major Australian exports.

From July, 1945, to about the middle of 1947 (a period of two years), money wages increased only by approximately 5 per cent. But in the space of a few months from the middle of 1947 they had risen by another 8 per cent.

The upward trend in wool and wheat prices since the end of the war also greatly accelerated about the middle of 1947 and rapidly rose to record levels. At the end of 1947 wheat prices were over three times and wool prices nearly three times 1945 prices. Latest figures suggest that peak levels have been reached—indeed, some decline seems to be indicated. These record prices have resulted in an immense addition to exporters' incomes, the full effect of which has yet to be transmitted to the Australian economy.

This large expansion in the incomes of exporters and wage-earners is reflected in the graphs showing the movements in prices, bank deposits and the volume of money. From the end of the war in 1945 to June, 1947, bank deposits rose by about £80m., but over the ten months from June, 1947, to April, 1948, increased by nearly another £70m. The total of spending power (volume of money) moved similarly. Wholesale prices increased by only 5 per cent. over the two years from the end of the war to June, 1947, but in the ensuing nine months to March, 1948, rose 15 per cent.

The position has now become one of considerable concern. Any further spiralling of incomes would have serious portents for the stability of the Australian economy.
THE Labour Publications Department of Transport House, the headquarters of the British Labour Party, has issued a pamphlet entitled "Public Ownership—The Next Step." This pamphlet is important in that it sets out concisely the arguments, which, in the view of its authors, justify a further large extension of the principle of nationalisation to the British economy.* The arguments are moderately and undogmatically expressed, but it is none the less necessary to ask how far they stand up to the test of practical experience and of scientific teaching in the realm of economics.

The pamphlet does not advocate wholesale or indiscriminate nationalisation. It suggests that the substitution of public for private ownership can be justified only insofar as it assists toward the achievement of five main objectives, which it lists in the form of tests to be applied to any industry or section of industry under consideration for nationalisation. These tests are:

1. Will it increase the people's power over their own economic destinies?
2. Will it lead to a higher standard of life?
3. Will it lead to a more equal standard of life?
4. Will it lead to a more stable standard of life, i.e., promote full employment?
5. Does it open the way to extended industrial democracy?

The pamphlet, however, leaves no doubt that, in the view of its authors, the transference of industry from private to public ownership satisfies these tests in a very large number of cases.

*The pamphlet is issued by the Labour Party, for purposes of discussion within the party, but it is not an official representation of the views of the party.
ECONOMIC POWER

Under the first heading the pamphlet raises the familiar argument about the concentration of great economic and political power in large-scale industries under the control of private enterprise. "While these great concentrations of economic power remain, the people cannot be unchallenged masters in their own house. The power should therefore be transferred to a body which is responsible to the elected representatives of the people in Parliament."

This argument assumes, rather naively, that the mere substitution of public for private ownership automatically ensures that the people will have a greater say in the way that an industry is run and automatically guarantees that it will be directed in the public interest. But is this really so? Do, for instance, the people of Australia really feel that they have any more control over the quality and manner of services provided by the state-owned railways than they have over the operations of the Broken Hill Proprietary? And have the railways in fact better served the interests of the people of Australia than the Broken Hill Proprietary? Is the public board appointed for life or for a term of years likely to be any more solicitous of the welfare of the mass of the people than the private directorate? Does experience go to show that government departments are more conscientious and painstaking in the attention they pay to the convenience of their clients than the private business?

The pamphlet suggests there are powerful influences operating on public boards to check inefficiency which are not present in private concerns. "The fierce glare of publicity is one; control by Ministers and Parliament is another." But against this it can be argued with some justification that it is much harder for the public to ascertain what goes on in public utilities than in large public companies, which are compelled to provide certain information and to observe certain standards in the publication of their accounts. Public bodies, on the
other hand, are notorious for their ability to cover up their mistakes and to conceal the true state of their affairs.

Nor does the fact that the public has the right to change its government, say every three years, give it any effective control over the manner in which a government-owned service is conducted. Indeed, the accepted modern form of organisation of the public utility, the statutory corporation,* is expressly designed to free its management from day-to-day interference from political quarters, and the degree of success of these bodies has invariably been in direct ratio to their degree of independence from political control.

Apart from financial requirements for developmental purposes, the only contact of Parliament with these bodies is through their annual reports. In only the rarest instances in Australia have these reports been made the subject of a full-scale debate, and it can safely be said that they go practically unnoticed by the great bulk of the public. As safeguards of the efficiency of public corporations, both "the fierce glare of publicity" and control by Parliament are largely mythical.

It is true, of course, that in the final analysis Parliament can exert its authority over the nationalised industry; but that is true also of privately-owned industries. Parliament would be fully justified in intervening in the affairs of a private business which was blatantly misbehaving itself in such a way as to jeopardise the public interest.

The ready socialist assumption that a great public service or utility under Government ownership will automatically be conducted in the public interest is, when closely examined, seen to be dangerous nonsense.

Under modern conditions it is impossible in the case of some industries to avoid some degree of concentration of economic power. The question is whether this problem would not become a thousand times more formidable if large sections of

* For example, the State Electricity Commission.
industry are nationalised than if they remain under private control. Monopoly is monopoly, whether public or private, but experience suggests that the public is provided with much greater safeguards in the case of the latter than in that of the former.

WHERE DOES ECONOMIC POWER TODAY REALLY LIE?

Moreover, the whole complexion of the problem of economic power has greatly altered in recent years with the growth in economic and political authority of the great industrial unions. Who, in plain fact, controls the economic destinies of the people of Australia today? Who determines the rate at which coal is mined or at which ships are loaded and unloaded—the coal-miners or the coal-owners, the dock-labourers or the ship-owners? Can the private builders or the private brick or cement works do much today to speed up the rate of home-building and to see that the people are better housed? Or does not the control in the last analysis—always illegitimate, and against the public interest as it frequently proves to be—reside with the building unions, the coal-miners and the wharf-labourers? The truth is that in the modern world economic power and wealth are no longer synonymous—power goes with the control of people rather than with the control of capital resources.

If, as many argue, the state should protect the public from the abuse of monopolistic power by private businesses, what steps should it take to control the activities of big industrial unions, where they are flagrantly against the public interest?

EFFICIENCY

Efficiency is, of course, a fundamental test to be applied to any proposal for nationalisation. Will a nationalised industry be more efficient, will it produce more and higher quality goods or provide better services at a cheaper real cost than the private concern?

The pamphlet suggests that nationalisation for the purpose of achieving greater efficiency is the appropriate treatment
where the management of a private concern is not up to its job. It maintains that there is far less likelihood of favouritism or influence in appointments in public than in private bodies.

It would, of course, be idle to deny that these factors play some part in appointments and promotion to senior posts in private businesses. But that surely is human nature. It may be true that nepotism and influence do not occupy such a big place in appointments in government services—but even that is doubtful. But is this the real issue? Is not the real question whether, in general, a higher standard of ability is obtained at the top levels in government bodies than in private businesses? The answer suggested by experience is surely “No”—and for two main reasons. In the first place, many public appointments at the top levels are subject to political influence—a fact not present in the private concern. Not infrequently in Australia men are appointed to high government posts not primarily because of their technical competence for the particular job, but because of their political leanings or because they belong to a particular pressure group. Whatever British experience shows, the claim in the pamphlet that “members of public bodies are appointed for their competence alone” is not borne out by much Australian experience. There is an irresistible temptation for the government in office to appoint to high positions those of its own political colour rather than those most technically equipped for the job, whereas in the private business the sheer compulsion of making a profit tends in the long run and on the average to ensure the appointment of the most able.

Moreover, the deadening influence, so far as efficiency is concerned, of the seniority principle plays a much bigger part in public bodies than in private businesses.

There are very few reasons for believing that it is more likely that “the best men will get to the top” in the nationalised industry and many powerful reasons, based on experience, for believing the opposite.
The final argument used by the authors of the pamphlet is that public ownership promotes industrial democracy—that the workers in a publicly-owned industry have a greater opportunity to participate in the organisation of their working lives and that they are more likely to co-operate enthusiastically in increasing production than in private concerns operating for private profit. This argument is not borne out by actual experience, in Australia at any rate. The truth is that the larger an organisation becomes, the more difficult is it to establish those personal links, that mutual trust and confidence between management and workers on which good industrial relations depend. And most publicly-owned industries are by their nature organised on a large scale. Their very size renders it difficult for the worker to feel that he is other than a very small minnow in a very large lake. The necessarily impersonal and cold atmosphere of the great public utility makes it hard to build teamwork, loyalty, the sense of allegiance and "belongingness" on the part of the members of the working force. It is no coincidence that many great public utilities in Australia have a very poor record in industrial relations and that many of the most intractable and calamitous strikes, particularly in recent years, have occurred in these organisations. On the whole, the conditions of work and employment in public bodies are no better, and probably not as good, as those in many large private organisations. Does not the personnel officer of the government utility fight union claims just as strenuously and persistently as the management of a private business?

Men do not necessarily speed up their efforts and give of their best just because their boss is changed from the private employer to the impalpable state. In 1938 the output of the British coal industry under private ownership averaged 2.9 tons per manshift; in 1948, under public ownership, 2.85 tons per manshift, despite a considerable increase in the
mechanisation of the industry. In 1947, more tonnage was lost through disputes than in 1938. Last April, Sir Charles Reid, production director of the National Coal Board (who has since resigned) said: "We are putting into the pits day by day great masses of machinery, and it does not seem to matter what we do—the output per man is not rising. There is something wrong somewhere. We think that there is a slackening off all over and we are not getting the advantage of this machinery." Is it true, then, that the employees in nationalised industries work harder than those in private industries? Is it true that nationalised industries have been more successful in making the worker feel he is really part of the show and that his welfare is the constant concern of his employers? Have the workers in nationalised industries any more say than those in private industries over the conditions under which they work? Experience in Australia would on the whole tend to suggest otherwise.

THE CONSUMER—THE ECONOMIC SOVEREIGN

The strongest argument against nationalisation does not, however, rest on grounds of efficiency or of worker co-operation. It lies in the creation of monopoly over a far wider area than that necessarily called for by the requirements of modern industrial technique. For, in the last resort, the only effective and practicable means of the mass of the people exercising control over their economic destinies lies in their freedom of choice to transfer their custom elsewhere if dissatisfied with the service they receive. In the final analysis all industry exists to serve the consumer. But there is no quicker-and surer way of unseating the consumer from his rightful throne in the economic kingdom than by proceeding recklessly and unthinkingly along the path of nationalisation.

★ ★ ★
The Editor,  
I.P.A. Review.

Dear Sir,

A copy of February I.P.A. Review is before me. I have studied previous issues hoping to find a clue to a better system and am now constrained to reply.

As a common worker I address the following to your Council and Editorial Committee.

Gentlemen,

You and your class have the privilege to say to me and my class "Come" or "GO." It is that accursed word "GO" which is the root of our troubles today.

Let me speak in my own language.

For God's sake do not waste any more good ink and paper writing about Incentives, Profit-sharing, Amenities, Co-operation, Price Control, Inflation and Deflation. These subjects are only baits and scares for ignorant workers. Jargon such as this does not offer us one iota of economic security except at the expense of some other of our class.

In 1929 our wholesale and retail warehouses were full to overflowing, coal yards were stacked mountains high, but, there was not enough purchasing power to dispose of the goods so we who produced those goods were told to "GO." Result: For years we walked the streets, our toes peeping, our stomachs empty, body and soul kept together only by a damnable dole—Never again.

We find the only way we can avoid a repetition of that misery is to keep goods in short supply so you cannot afford to say "GO." Thus we get a measure of economic security. But such a raw deal hurts us more than it hurts you, because you can buy what we produce and we go short; your price control is twin evil with the black market.

Do you wonder why we strike? Why we are tempted by socialism? 98 per cent. of us dread Stalinist dictatorship, but under communism that little devil "GO" would not be always just lurking round the corner.

We who, for wages, devise, make, produce and transport the necessities of life are the nation's providers; when we stop everything stops, yet we are always the first to get it in the neck in case of a depression.

Give us economic security and again we will fill the barns to overflowing, but we refuse to go hungry because we have produced too much bread. We will build houses to spare, but only on condition we do not lose our homes, as we did before when we built too many houses.

Your baits have no attraction, your scares do not alarm us, but probably you do not know what else to offer; let me tell you.

While we are filling the larders, etc., our employers can pay us our wages. When the larders overflow the State must pay full wages to those providers for whom a job cannot be found. When there is not sufficient money in circulation, without hurtful taxation, then money can be created to equate with the volume of goods, and so we shall be paid our full wages whilst in the shadows of overflowing larders.
Probably the simplicity of the solution bewilders the mighty.

There is no suggestion of something for nothing, but we demand our full share when the storehouses are overflowing.

We are told to go on producing because it will take years to overtake the demand. Let us remind you it will take decades under the present system, but only months if our plain demands are met. Are we asking more than Justice?

The solution is something worthwhile getting your teeth into; make the providers' lot attractive and a legal right, and the world will change over-night.

Perhaps you may consider your wisdom greater and will try to alter the colour or odour of the bait, or brighten up your bogey scares. Gentlemen, it will not avail.

Surely you must understand why we rebel. The many trivial strikes are only the constant hammer blows against the stupidity of a system which starves men when they produce too much.

Please pardon me for not adding my name and address, as I am an employee (a “go slower”) in the service of one of your Committee who has the power to say to me “GO,” which he probably would because of my audacity to address you.

P.S.—I wonder if you are game to print this in the I.P.A. Review.

REPLY —

It is not the practice of the I.P.A. to deal with anonymous letters. In this instance we have made an exception. The point of view expressed by the writer is so commonly held and lies so close to the heart of the industrial problem that anything the I.P.A. might do to dispel or to lessen the fears from which it springs should be more than worthwhile.

The yearning for security of employment is such a wholly reasonable ambition that no fair-minded individual will deny the essential justice of the claim made by the anonymous author. This generation still recalls the human misery imposed by the world depression of the early “thirties.” No decent employer in those difficult days said “GO” to his work-people lightheartedly, or until there was no other alternative, because he knew full well that his decision spelt not only hardship for his employees, but loss, and sometimes ruin, for himself.

The Fallacy in the Argument

The argument of the writer can be summarised in three simple propositions:

1. That depressions and unemployment arise from a collapse of purchasing power.

2. That this leads to over-production in the sense that goods produced cannot be sold.

3. That (in the absence of a satisfactory alternative policy) unemployment can be prevented by the worker restricting production.

With the first two propositions we entirely agree. But, having conceded that the cause of unemployment lies in a decline of purchasing power, it is strange logic indeed to argue that unemployment can be prevented by limiting production.
It seems to us that the writer, after having accurately nailed the cause of the disease then proceeds to suggest a method of prevention which, because it raises costs and prices, actually undermines purchasing power and thus aggravates the very factor which the writer concedes to be at the root of the trouble.

For example, if two bricklayers employed on a house lay 400 bricks a day, where one could without strain lay 800, the effect of the restriction is that a job is provided for an extra man. But the extra cost of the house as a consequence leaves the home-builder with just that much less money to spend on something else; in other words, on something that would provide employment for other people. Because his house cost much more than it should have cost, he decides not to carpet the dining room, or not to buy extra chairs for the sitting room, or an ice-chest for the kitchen. The extra job provided for the bricklayer thus means there are less jobs for those engaged in making carpets, or furniture or ice-chests. The policy of limiting output and “spreading the work” thus does nothing to increase the total purchasing power of the community. And under conditions of labour shortage such as the present (since all bricklayers would in any case be employed) it actually reduces purchasing power.

All “spread the work” schemes, no matter what form they take, have in the end a similar result. They provide jobs for some people only at the expense of jobs for others. They do nothing to provide additional jobs, or to prevent the loss of jobs as a consequence of a failure to avoid a depression.

If, as the writer argues, unemployment follows from an insufficiency of spending power, the logical thing to do would seem to be to endeavour to ensure that spending power is maintained. This is in fact the central principle behind modern theories relating to the maintenance of employment and behind the policies of full employment, which have been adopted by the British and Australian Governments. There are no grounds at all for the view that depression and unemployment can be prevented by restricting production nor that increased production will, or can, of itself, lead to a depression.

If, before 1930, a policy of rigid limitation of production had been followed by the trade union movement, then when the collapse in overseas prices came we would have been in an even worse condition to meet the depression than was actually the case. The contagion which spread to Australia from abroad would have found us in a state of very low resistance. The depression would have hit us sooner, it would have lasted longer because we would have been in a less satisfactory position to climb out of it, and it would have been more severe while it lasted.

**Our Standard of Living Depends on the Level of Production**

In primitive times we would have clothed ourselves with animal skins, hunted our own game, grown our own food and built our own huts. Our standard of comfort would have depended entirely upon our own efforts. If we adopted the policy of “go slow” then, our comfort would obviously be less than our neighbour who worked harder. It is not much
different today. If people continue to restrict production because they think that it is the way to obtain security of employment, we may arrive at the stage—and we are not far off it now—where if a young man wants to get married he cannot buy or rent a house, because there are no spare houses, or because the cost is too high.

The greater our production, the higher will be the Australian standard of living. In the long run there can be no improvement in average standards of living without greater production. It is the most elementary of economic truths that wealth in the form of goods and services must be produced before it can be distributed. We must plan for high production at low cost and for increased consumption. It is out of production, and only out of production, that wages are paid. Work makes more work and increased output does not deprive either employers or employees of future economic security. Rather it achieves the contrary by creating greater prosperity, higher real incomes, and the wealth out of which improved amenities and social services can be provided. High production at low cost enables industry to maintain employment, pay high money wages, make good profits and still reduce selling prices. Wage-earners cannot expect to obtain increased real wages when industry is restricted to low production at high costs.

Shallow Criticism

The writer, in dismissing incentives, profit-sharing, amenities, price control, inflation and deflation as mere “baits and scares,” ignores the positive benefits which enlightened policy on these questions can bring to the whole community.

Surely it is obvious that employees have much to gain from soundly based incentive and profit-sharing schemes; by co-operation with management in achieving high, efficient production, improved working conditions and amenities; by playing a responsible part in assisting the nation to steer a middle course between the evils of inflation and deflation.

Those misguided people who cherish the illusion that by keeping goods in short supply they can feather their own nests, are in fact aggravating the inflationary spiral which must inevitably bring disastrous consequences to the whole community. If it is unchecked, inflation, caused by too much money chasing too few goods, will in the end destroy savings and by forcing up the cost of living undermine the purchasing power of wages.

Full Employment Policy

It is true, as the writer of the letter states, that unemployment, the “little devil GO,” does not now exist in Russia. But, in the Soviet Union, security of employment has been purchased at a very high price—at the price of freedom. Soviet Russia has abolished unemployment by enslaving the workers. Russia offers far less real security for the average man and woman than the democracies. Under the “Stalinist dictatorship” there are secret police, concentration camps and forced labour groups, and over all the iron hand of the Communist bureaucrats to decide where you work, what your wages are, and what goods you can buy.
LETTER and REPLY (continued)

The writer of the letter says that “the state should pay full wages” to those persons for whom a job cannot be found. However, the purpose of any self-respecting full employment policy is not to pay wages to unemployed persons without work being done, but to provide suitable constructive work at a decent living wage for all those who are fit and able and prepared to work. From the outset the I.P.A. has recognised that full employment should be one of the major goals of economic policy, and the suggestion made by the writer that the simplicity of the solution may bewilder us, is completely out of focus with the facts presented in our publications.

Social Responsibilities of Industry

This Institute has always insisted that private enterprise has social responsibilities to its employees and the consuming public. We have always spoken in favour of a fair reward for labour and we have endeavoured to make a useful contribution to the improvement of industrial relations. Since its inception the I.P.A. has been in favour of industrial companies doing everything in their power to provide stable employment for their employees. We would like to see industrialists, and the community as well, give some thought to the practicability of adopting two constructive suggestions, which, although they cannot in themselves be regarded as remedies for unemployment, would help to act as a buffer in times of threatened depression. In the first place, some industrial companies might be in a strong enough position to set aside reserves in prosperous times, for use as employment stabilisation funds in the event of a trade recession. As an encouragement, the Government should consider the desirability of exempting such reserves from taxation. Secondly, in U.S.A. much publicity has been given to the development by some companies of plans for guaranteeing employment and wages for a definite period. While much research will be required before Australian companies can be expected to assume the burden of guaranteed employment, there is much to be said for any scheme which will help to increase the present tenure of employment to a longer basis than weekly hiring. There can be no doubt that the adoption of either of the above suggestions, when super-imposed on full employment policies, would have a reassuring effect on the outlook of labour.

It is our belief that the wage-earner wants primarily three things—economic security, recognition of his aspirations as a human being, and a high standard of living, which means a real wage which will buy better food, better housing, greater comfort and contentment. “Go slow” tactics will never achieve these high objectives, but labour’s active industrial co-operation with management will. “Go slow” can only result in increasing the shortage of goods, thereby forcing up prices, raising the cost of living and having no other result than undermining the purchasing power of the weekly pay envelope and the housewife’s purse.

It remains for us to reiterate our faith in an economy based on a private enterprise which accepts its social responsibilities, because we believe it offers spiritual freedom, personal independence and a high standard of living. Socialism or Communism offer none of these.