EDITORIAL

This number completes the fourth year of publication of "Review" and at this point a stock-taking is appropriate.

Has the enterprise been worth while? Has "Review" established itself as a significant part—even though a small part—of the machinery by which public opinion in Australia is shaped? Are growing numbers of people looking to "Review" to give them a special kind of guidance on national problems, a kind they cannot obtain elsewhere? Is "Review" contributing in a really substantial way to the declared objectives of the I.P.A. of promoting free enterprise, improving labour relations, and of sane economic thinking in the community? In short, are concrete results being achieved?

It is, of course, not easy to give a definitive answer to these questions. Naturally we have our critics, although, paradoxically, these come in the main from those who provide us with financial sustenance. Their criticisms are not directed at the quality of "Review" or at the views and policies which it advances. These critics doubt our effectiveness because of the apparently small circulation of "Review" (now 18,000 copies per issue), which they contrast with an electorate of some 4½ millions, and because of their belief that this circulation is concentrated on those people who, like themselves, already believe in the objectives which the Institute is trying to achieve.

We have endeavoured to answer this criticism before. But just when we think we have finally disposed of it, up it pops again. We now hope, perhaps optimistically, that this is the last time we will have to reply to it.

There are two answers.
First, the influence of a journal in the community is not necessarily measured by the size of its circulation. It would, for instance, be generally agreed that in the field of economic policy and international relations the influence of the British journal, "The Economist," is supreme in the English-speaking world. Yet its total world circulation numbers only 44,000 (in 1943 it was 10,000). From where, then, does this pre-eminence derive? "The Economist" commands the close attention of top-level figures—political, business, financial and other—in the United Kingdom and in countries abroad. And, as the Editor of "The Economist" itself has pointed out: "The opinions formed in these circles are many times more influential than their numbers would warrant, and any attempt to pursue a cause which ignores 'informed opinion' is likely to be futile."

If you impress a Prime Minister you stand a chance of changing the policy of the nation, or the opinions of tens of thousands. If you impress the dustman, your influence is likely to extend no further than his associates at the bar of the local pub. This is not, to say that to influence the dustman is of no importance; only that it is of an infinitely lower order of importance than influencing a Prime Minister.

The circulation of the 18,000 copies of "Review" has been specially designed to reach those people and those places where it can exert the maximum effect on opinion. "Review" goes to leaders (and potential leaders) in every aspect of community affairs—politicians, businessmen, trade union officials, public administrators, educationalists, university lecturers and students, clergymen, newspaper editors, professional men and so on. These people not only have power to shape policy in their respective avocations, but also, because of their position, they exert a unique influence on the thought of the many people with whom their work brings them into contact. Even if the reading public of "Review" extended no further than these key people, its publication would be amply justified—provided, of course, there are substance and quality in the opinions it expresses.

But, in fact, the criticism of those who say that "Review" does not reach down to the ordinary man in the street is without foundation. Summarised versions of the articles in "Review" appear in daily papers and periodicals in capital cities and country centres throughout the Commonwealth with their circulations reaching to hundreds of thousands. Indeed, the impressive growth in the amount of space allotted in the Australian press to the material in "Review" is one of the most gratifying aspects of our work. The following figures show rapid development in this field:

1947—750 single-column inches.
1948—1100
1949—2050
1950—2300 (For 11 months).

These figures indicate a steady growth in the prestige and authority of "Review." They also suggest that "Review" is making a contribution to public affairs which is distinctive and is not provided elsewhere. For in this field the daily press, as those who have close contact with it know well, will publish nothing that cannot claim some measure of constructive originality.
Australia is conspicuously lacking in journals which aim at giving a well-weighed, expert appraisal of economic, political and social affairs. In the United States and Great Britain journals of this kind abound and comprise an essential source of information and advice for politicians, businessmen, the daily press, and the thinking public. In Australia it is not easy to think of one periodical that even remotely parallels such journals as "The Economist," "Scope," "The New Statesman," or "Fortune." If, therefore, "Review" is helping to fill only a small part of this serious gap in our national machinery of ideas, it is serving an undeniably useful purpose.

A question that no doubt often arises in the minds of many of our readers is: How far can the reasoning and conclusions in "Review" be accepted as impartial and unbiased? To this we would reply that no publication which proceeds upon a definite policy and a strongly held set of beliefs can claim complete impartiality or objectivity. We strive for the greatest degree possible, but, naturally, we cannot avoid some measure of personal inclination, some element of subjective predisposition, in our material. But there is a world of difference between a case conscientiously and scientifically reasoned and sustained; and a case argued by methods that exhibit a reckless disregard for the truth and for the accuracy of supporting data. It is the difference between the educator and the propagandist. The educator would be more than human if he were able to prevent his personal prejudices or predilections from influencing his teaching in some slight measure; he will, nevertheless, treat with a wholesome scorn those weapons which comprise the armoury of the modern propagandist. Journalism that has no cause to promote, or journalism in which the subjective factor has been ruthlessly suppressed, is almost certain to be passionless, devoid of colour, and without real life; and its influence is likely to be negligible. We hold opinions, we hold them strongly; and for this we tender no apologies. But we will not stoop to dubious tricks to put our views across. Where we make errors of fact or of logic, they are made in good faith.

"Review" has shown that it is as ready to criticise what it believes to be the short-comings or mistakes of employers as the faults and errors of trade unionists and workers. Proof of this statement could be obtained by anyone who cares to peruse the back numbers of the publication. One of the finest tributes we have ever received, and incidentally the one we value most, came from a labour leader who wrote of one of our articles: "These far-reaching declarations breathe the spirit that is needed to solve Australia's production problems. It is the spirit that is reciprocated by Labour . . . If the approach to the problem set forth in the "Review" is genuine, as I believe it is . . . there is ground for strong hope that the reign of peace and co-operation in industry is not far off."

Finally, then, how far has "Review" been successful in contributing towards its objectives of advancing free enterprise, improving relations between capital and labour, and of promoting sensible economic thought? Has it made, or is it making, any noticeable impact on the mind of the community in regard to these supremely important matters?
These are not questions we can answer without constituting ourselves as judges in our own case. All we can fairly say is that our information, obtained from correspondence and by word of mouth, suggests that the influence of "Review" is becoming increasingly important. Letters, in which we take some justifiable pride, have been received from many and varied sources.

To those who demand miraculous overnight conversions of opinion, or breath-taking results, our work no doubt is, and must always be, disappointing. But these people, if they will reflect a little, will soon see that they are demanding the virtually unattainable. Rare indeed is the big idea, the masterly conception, which, like a vivid flash of lightning, illumines and transforms the economic or political landscape. By and large the printed or spoken word only achieves its effect by a slow, laborious process like that of water dripping on a stone. Moreover, there can be no "once and for all" in the field of shaping national opinion. The fight for sanity in economic thinking and understanding, for better relations between man and man and section and section, for decency and tolerance in human affairs, the fight for individual freedom in its deepest sense, is one which must go on unceasingly. It is part of the great struggle between good and evil, a struggle to which there can be no final conclusive victory. It will persist so long as humanity persists.

There can be no great accomplishment, no great action, by a nation without high thinking and lofty vision. The limits of practical national achievement are set by the tone of the national thought. If "Review" can, from time to time, contribute something, if only a little, to the elevation of national thinking; something, if only a little, to the deepening of our economic and social understanding; something, if only a little, to the promotion of community health and vigour; something, if only a little, to policies which will help the individual Australian to a life of broader horizons, then it will more than justify its publication.

Chairman: Editorial Committee.
The wage-price spiral was already moving sharply upward, but the Court's decision has now given it added momentum.

THE BASIC WAGE JUDGEMENT

The two outstanding economic events of 1950, by a remarkable coincidence, took place on the same day — October 12. Judgement was delivered in the inordinately drawn-out basic wage case and the Commonwealth Government brought down its 1950/51 Budget. The latter is completely overshadowed by the former. Indeed the anti-inflationary programme which the Budget is intended to introduce has been rendered utterly null and void by the decision of the Commonwealth Arbitration Court to grant an increase of £1 in the basic wage for men, and to establish, for the first time, a women's basic wage of 75% of the rate applying to men. Of the seven basic wage judgements given in the history of the Court this is, by a long stretch, the largest increase — the previous greatest being 7/-.

The Court's judgement is one of the most momentous decisions on economic policy ever taken by any body of men — whether governmental, financial or other — in the history of Australia, and proves conclusively what the experts have for many years contended — namely, that while the sole function of the Arbitration Court under the terms of the Constitution is limited to the settlement of inter-state industrial disputes, in practical effect the Court is an economic policy-making body of overriding importance. Its decisions are of such a character that they can go much further than merely effect a settlement of a dispute between employers and unions; they can make, or break, the Australian economy.

Interpretation of the practical import and the real intention of the judgements has been enormously complicated by the wide disparity existing between the actual wages being paid by industry and the wage levels provided for under the Court's awards. The judgement is a majority one. The Chief Judge, Judge Kelly, opposed any increase largely on the grounds that it would seriously add to the threatening inflationary tendencies already manifest in the economy. Judge Foster and Judge Dunphy, on the other hand, took the view that the economy was in a position to sustain increases in award rates of the amounts granted. As part proof of this Judge Foster pointed to the discrepancy between actual wages and award wages, and it is on this discrepancy that his decision is mainly founded. "I have as has appeared, very largely based my decision to grant basic wage increases upon the strong impression created in my mind by the evidence, figures and experience of the existence of a standard of living of the basic wage worker in Australia higher than the basic wage would buy today." But he shows himself prepared to go somewhat further: — "I do firmly con-
clude that the economy will not be unduly hampered if the Court goes further and not merely awards the existing standards, but requires it to adjust itself to a slightly higher one." He concludes that for the Court to fix award rates substantially below actual rates would be so unrealistic as to bring it into contempt.

From this it appears that Judge Foster's opinion is that the economy today is in a position to sustain an average wage level slightly above that being paid by industry at the time of the Court's judgement. If this be so, then logically it follows that his view is that industry is not in a position to sustain a wage level greatly in excess of that being paid at the time of the Court's judgement.

This interpretation of the Judge's opinion seems to be justified also by his statement that: "I think the Court must, as in the past, go on assuming that its awards will be observed as maximums as well as minimums, and to refuse to contemplate or to take responsibility for what employers individually or as organisations may do. We can merely tell them that the Court has awarded what it regards in all the circumstances as fair, equitable, reasonable and in the public interest. If it is disregarded and there is substituted for the Court's Judgement one of their own making, the Court can do nothing whatever about it."

This appears to suggest that Judge Foster would deplore any increase in actual wages greatly above the levels prevailing before December as being contrary to the real intention of his judgement. If this is so, then it follows that his judgement is, in intention, not one for a £1 increase at all, but one for, at most, only a small increase of unspecified amount. If the parties to the dispute were to observe the real purport of Judge Foster's view, them, presumably, there would be no large increase in actual wages at all. On the other hand Judge Dunphy's intention is more obscure, but it might almost be taken from the wording of his judgement that in making his decision he was contemplating an increase in wages of something between 10/- and £1 above present actual wage rates.

The Practical Effect.

But, apart from all questions of the Court's intention, what is, in fact, likely to be the practical effect of its decision? Will it, for the most part, merely act to close the gap between award and actual wage rates with perhaps the addition of a small sum amounting to, say, a few shillings? Or will its practical consequence be to raise the wage level for men, on average, by something of the order of £1 above existing actual rates?

It has been almost universally assumed by commentators on the Court's judgement that its outcome will be to directly increase the wage level for men by approximately a £1 all round. As this would appear to be the most likely consequence, we have taken it as the basis of our analysis of the economic effects of the judgement. This assumption is founded, first, on the undoubted probability that the unions and their members will expect the Court's decision to mean a de facto increase in wages of something approaching a £1, and not merely a de jure increase; and, second, that the inter-relationships of wage scales within the in-
dividual firm or public utility are of such a nature that an actual increase of about £1 all round will prove to be unavoidable.

If this reasoning is valid, presumably the effect of the Court's decision will probably be to raise wages above the level which the Court—or at least Judge Foster—would regard as "fair, equitable, reasonable and in the public interest" under existing economic conditions. In arriving at their judgment, it is not reasonable to suggest that those members of the Court favouring an increase should have taken cognisance of the probable practical—as opposed to the theoretical—sequences of any adjustment they might contemplate to the then existing wage awards? That Judge Foster is fully aware of these possibilities is shown by the text of his opinion: "No doubt efforts would be made, as is rational enough, to add the new award increase to the existing rate, but whether this effort succeeds or not is a matter for the employers and is beyond the Court's power."

**The Court and Inflation.**

If the decision of the Court will add greatly to an inflationary situation already, by almost universal consent, assuming serious proportions, how does the Court justify its action? Judge Foster's opinion is the most illuminating and provocative in this regard. It is clearly in his mind that the Commonwealth Government should take such steps as are necessary to mitigate the dangers arising from inflation. But many would think he overestimates the powers of the Government to arrest inflation. He appears to believe that the re-institution of controls provides the answer. "Experience has shown that controls have been effective and may again when the people are sufficiently impressed with the necessity of exercising them."

In this reference Judge Foster apparently has in mind the success of controls during the war in preventing any rapid upward movement in price levels. But it should be remembered that this achievement was possible only because a main part of the cost structure was frozen through wage pegging. It is clearly impossible to avoid large increases in prices in a situation where wage levels are rising rapidly. Judge Foster may be hinting, on the other hand, at the need for the re-institution of wage-pegging at the new levels of wages which his opinion is intended to establish.

Judge Foster maintains that inflation is a matter for the Government and not for the Court, and in any case a question a little remote from the Court's immediate responsibility for providing an effective settlement of an industrial dispute. He seems to imply that that task must be fulfilled whether or not the terms of its fulfilment give rise to unfortunate effects on the national economy. In a curious passage he almost appears to wish to sever the Court from responsibility for the wider economic consequences of its decision. "In my view the Court is not only not empowered to act in the public interest at large but could not be so empowered under the Constitution to so function except insofar as the public good is incidental to the settlement of an interstate industrial dispute. Obviously the principles which the Court applies in reaching the basis of settlement will conform as far as possible with its conception of the
public good but its task must always remain the settlement of the dispute."

Does this mean, as it would appear to, that if an industrial dispute can be settled only on terms that are opposed to the general public interest then the Court has no alternative but to act against the public interest? Does it mean that, in the last analysis, the task of the Court is to settle a dispute no matter what the price that might have to be paid in terms of injury to the public welfare? Once the principle of the general public interest is rejected as the prime consideration in Arbitration Court decisions, we enter a strange and treacherous territory indeed.

* * *

In its practical implications the Court's judgement amounts to a decision for the continuation and intensification of the already threatening inflationary spiral. Thus it is a decision which runs flatly counter to the economic policy of the Commonwealth Government to arrest inflation. Estimates of the additional annual wage cost of the £1 increase have ranged from £100 million to £200 million. When all the secondary effects of the judgement are taken into account, the latter figure is likely to prove much closer to the truth than the former—indeed it may turn out to be a substantial underestimation. It is of course true, as the Court makes clear, that there are various special loadings applying in different awards which may have to be deducted from the £1 increase in establishing the new basic wage. But any adjustments on this account are likely to be more than counter-balanced by the effect of the increase on other wage costs, such as payroll tax, workers compensation, accident insurance, and overtime rates.

In the financial year 1949-50 the total wage and salary bill was £135 million greater than in the previous year, in spite of the fact that there were no blanket adjustments of the character of a basic wage decision. Possibly 50-60% of the £135 million increase is accounted for by cost of living adjustments, the remainder by increases in margins and special rates and by higher payments by employers to attract labour in competition with other bidders. It would not surprise if the ultimate effect of the basic wage decision were to raise the total of all money incomes by something of the order of £300 million a year.

No Relation to Productivity.

Normal anti-inflationary fiscal or monetary devices are quite powerless to cope with increases of this magnitude. In fact, postwar experience is making it increasingly clear that, if inflation is to be arrested or prevented, there must be some reasonable stability in money incomes—whether they are the incomes of farmers, manufacturers, or wage-earners. This stability provides the basis on which some approach by the monetary or fiscal routes has a reasonable prospect of maintaining the purchasing power of the currency unit. It is utterly idle for any section of the community to expect that they can, in the short period, add substantially to their money incomes, without having to pay higher prices for all those things on which their incomes are spent. Unless additions to money incomes are kept broadly in line with improvements in productivity, costs and prices must rise. The £1 increase represents, in effect, an addition of, at the minimum, 10% and probably, when all secondary effects are allowed for, at nearer 20% of the current actual wage level. But productivity in Australia in spite of greatly increased
mechanisation, is at present rising at the rate of possibly 1% per annum—and certainly not more than 2%*. The increase in actual wage earnings which may follow as a consequence of the Court's judgement would therefore bear no conceivable relationship to movements in productivity.

Rising Prices.

The immediate economic effect of the wage decision must be a dramatic increase in selling prices and costs, which will be continued as the first increase snowballs in the quarterly cost of living revisions and as compensatory adjustments are made to other incomes, such as salaries, pensions, rents and profits, striving to recoup the losses imposed on them by rising prices. The spiral of costs and prices, which before October was already alarmingly rapid, has by the basic wage judgement been given a mighty kick on its way. Just at the time when the Commonwealth Government had decided to apply the brake to the vehicle of monetary inflation, the Arbitration Court has put its foot hard down on the accelerator. The Government can hardly be blamed if the vehicle fails to respond to the brakes. If there were any hope that over the next twelve months or two years the internal value of the Australian £ might be stabilised around its present level, that hope must now be abandoned.

Reactions of Economist.

What is the economist to say of the consequences likely to flow from this decision? It would be safe to assume that there would be very few economists who could view them with other than feelings of profound misgiving. The economic history of modern times is largely a story of periods of rising prices, prosperity and boom, alternating with periods of falling prices, slack trade, depression and unemployment. The postwar economist, therefore, in pursuit of his ideal of full employment, has been led to place an exceptionally heavy emphasis—even, perhaps, an undue emphasis—on the need for stability in prices, costs and values.* It is for this reason that the great majority of economists have viewed with anxiety the rapid inflations which have marked the economies of so many countries in the postwar years. And it is the reason, too, why governments in many countries, particularly in those of Western Europe, have taken such far-reaching—in some cases almost savage—measures to arrest the inflationary tendencies of the after-war period. The Arbitration Court's decision, considered as an economic measure, must be, in its effects, directly contrary to all the accepted tenets of present-day economic thinking.

There appears to be a tendency abroad today to assume that if it were possible to keep an inflation going more or less indefinitely, it need not necessarily be a bad thing. It is true, so the argument runs, that the currency unit would steadily decline in purchasing power—which would certainly be a source of constant irritation—but real incomes as a whole need not decline, since their money content can be expanded to compensate for increases in prices.

Four serious Consequences.

However, even assuming that the process of inflation does or need not necessarily sow the seeds of eventual depression—a brave assumption—this argument is exceedingly weak. For long-continued inflation gives rise inevitably to at least four serious consequences.

*See calculations of Colin Clark. Also Professor Sir Douglas Copland's statement in address to the Federal Institute of Accountants.
In the first place it is just not possible for all income receivers to adjust their incomes upward in proportion to rising prices. There is, for instance, the whole range of retired people living on pensions, whether provided by the state or out of their own savings. Inflation inflicts cruel hardships on these people. There are great numbers of salary-earners whose incomes must inevitably lag behind in the chase after rising prices. Professional people, doctors, lawyers, teachers, architects, engineers and so on, are in the same straits. These sections of the community may be in a substantial minority numerically, but they are qualitatively of great importance, and any serious deterioration in their standards of life must eventually react to the detriment of the whole community. Inflation imposes a redistribution of the national income which is quite arbitrary and inequitable and in particular penalises a large part of the so-called middle classes in cruel fashion. People falling within these groups will most certainly suffer further through the decision of the Court.

**Inflation and Production.**

Second, the creation of more and more money weakens the incentive to produce. It is frequently said that the answer to inflation is greater production, but this kind of thought seems to be a perpetuation of the “cart-before-the-horse” fallacy. If greater production is to be the prime purpose of economic policy then a prior condition of its achievement may well be the correction of inflation. In a period of inflation money is plentiful and easy to come by. Business profits are not over-difficult to earn, competition and the compulsion to reduce costs is weakened, and there is a tendency on the part of many able brains to concentrate on the easy gains to be won from the inflation of capital values rather than on work of real national consequence. Moreover, worker turnover and absenteeism are abnormally high, and resources of materials and labour are drawn hither and thither in response to competitive demands. The resources of the community are spread over too many projects and this leads to a high degree of waste and inefficiency of effort.

Third, and perhaps most important of all, is the fact the inflation tends to tear the economy out of its natural and most productive shape. By placing excessive money supplies in the hands of consumers, it leads to heavy spending on consumption goods of a luxury or semi-luxury type. Industries catering for these needs become highly profitable and are able to expand and attract resources of men and materials at the expense of the basic essential industries, which become undermanned and under-supplied. It is clear that this consideration weighed very heavily with the Chief Judge in his decision to refuse any increase. “For the principal evil of the form of inflation which the evidence before the Court indicates to be rapidly gathering weight (apart from the grave injustice it perpetrates against the receivers of fixed or less responsive incomes) is already becoming very apparent in the investment by savers of their capital, and by workers of their labour, in the less essential forms of production, of goods which we could normally, and probably in the future will be able to, buy more cheaply and consistently from abroad, at the expense of production, in accordance with urgent requirements of goods which are essential to the real development of the potential resources of this country.”

The Court’s decision must, in its effects, intensify this serious unbalance in the Australian economy, and partly, if not
wholly, nullify the efforts the Commonwealth Government is taking to correct it by means of the tax imposed on luxury and semi-luxury goods in the new budget, and of the reintroduction of controls over capital issues and basic materials.

Inflation Compels Controls.

And here is to be found the fourth great evil of inflation namely, its tendency to lead to, even to compel, the introduction of more and more government controls. Because inflation produces glaring distortions and artificial scarcities, because it unfairly penalises large and important sections of the economy, and results in higher and higher living costs for all, it gives rise to strong political pressures on the government for immediate remedial action. These pressures are powerful and not easy to resist. Rising costs lead to demands from one industry for a subsidy, from another for increased tariff protection, from consumers for a wider application of price control, and so the area of governmental control spreads alarmingly. These controls are not a good thing in themselves. On the contrary, since they unavoidably slow down the normal processes of trade and enlarge the bureaucratic machine, they impose heavy burdens on production. The free price market and free enterprise simply cannot fulfil their traditional functions of maximum production and the efficient allocation of productive resources under conditions of rampant inflation, accompanied by artificial economic restrictions.

The basic wage decision must aggravate all these tendencies, which, before the decision, were already becoming more and more pronounced.

Can Inflation be Maintained Indefinitely?

But even if the community were prepared to accept all these consequences of inflation, would it be possible to keep inflation going indefinitely; or must there, at the same stage, be a reversal of the inflationary movement with rapidly falling prices, declining incomes, business depression and unemployment? All experience suggests that inflation sows the seeds of its own eventual collapse. Will this inflation prove to have a different outcome? Possibly! But should we in any case, be prepared to tempt fortune and fly in the face of all past experience?

The great majority of economists, as we have pointed out, are apparently not so prepared. And it is here that the major condemnation of inflation must lie — namely, that it is incompatible with continued stability, with the maintenance of business prosperity and full employment. The crux of the case against inflation is that, by embarking on it, or by allowing ourselves to be pushed into it, we incur the risk, the grave risk, of unemployment in the future.

How long then can inflation and over-full employment in Australia be maintained? How long can the present levels of wage and other incomes be sustained? Just so long, in all probability, as present overseas price levels last! A collapse, or even a serious reversal of overseas prices, would prove a most serious embarrassment to an over-inflated Australian economy. If our costs and incomes at that point were greatly above the level of world costs and incomes we would have no alternative but to embark on a politically difficult and economically severe process of adjusting our own incomes and costs downward to accord with the new world levels. Let there be no mistake about this! The wage and income level which the Australian economy is at present sustaining is made possible and supported only by high over-
seas prices, particularly the price for Australian wool. If that support were removed, there would inevitably follow a fall in Australian wage levels.

**Australian and Overseas Costs.**

There appears to be a popular belief that Australian prices and costs are at present generally below overseas prices and costs, and that we can therefore afford to take steps which would have the effect of closing the gap. Judge Foster's opinion reflects this belief: "Is it altogether undesirable that our prices should not be brought closer to overseas prices and can we stay the rise in our prices until the two approach nearer to equality?" It is difficult to understand the basis of this view. If we take pre-war prices as a starting point, then Australian prices have increased more than those of any other English-speaking country except the United Kingdom.

The following tables show the trends:

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**INDEX NUMBERS OF WHOLESALE PRICES—ENGLISH-SPEAKING COUNTRIES.**

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<thead>
<tr>
<th>Country</th>
<th>1945 June</th>
<th>1949</th>
<th>1950 June</th>
<th>1950 September</th>
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<td>United States</td>
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Notes: (1) July. (2) August.


**INDEX NUMBERS OF COST OF LIVING—ENGLISH-SPEAKING COUNTRIES.**

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</table>

*Quarters.


These figures, of course do not take into account the effect of the wage increase. So far as wage costs are concerned, the basic wage decision will raise hourly earnings in Australia greatly above these countries as the following table reveals:

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Page 164.
AVERAGE HOURLY EARNINGS IN MANUFACTURING INDUSTRY:
AUSTRALIA, CANADA, UNITED KINGDOM AND THE
UNITED STATES OF AMERICA.

<table>
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<tr>
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<td>Canada</td>
<td>1939</td>
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<td>United Kingdom</td>
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Notes: (1) 1945/6; (2) Quarters; (3) Month of August only; (4) July; (5) April.

There seems to be some substance, then, in the views of those who fear the effect of the wage increase on the eventual competitive position of Australian industry.

There is no question that the basic wage decision increases the element of hazard or chanciness in the economy. Even if we avoid an economic smash-up and disaster—as we may very well do—the question will remain whether the risk was worth taking. When economic depression is the nature of the risk, we would prefer to play safe.
THE following comprises the full text of a policy to cope with inflation prepared by the Editorial Committee of the I.P.A. It was issued to the Australian press on September 30, 1950, and was published by various daily newspapers in more or less abbreviated form. The policy is now reprinted here in full in order to provide a permanent record of the Editorial Committee's views on the measures necessary to arrest inflation at the time the policy was prepared. While the statement represents the majority opinion of the members of the Editorial Committee, it does not necessarily represent the views of individual members of the Institute's Council.

1. There is mounting public agitation about the rapidly declining value of the Australian pound. But it is necessary to recognise that the rise in prices within Australia is in part a natural and inevitable response to a world expansionary economic situation, and to economic policies being followed within Australia which are generally approved. These policies relate particularly to increasing our population through large-scale immigration and to raising the nation's productive capacity through long-range developmental programmes.

The continued rise in prices should therefore not be regarded as wholly unhealthy. Nevertheless, the position has been reached where some positive measures to bring this rise more within conscious control are essential. This necessity has been strengthened recently by the impact of two new inflationary factors; the increased expenditure on defence made imperative by the Korean war, and the record wool prices obtained at the new season's wool sales.

However the Australian people must face up frankly to the fact that it will be impossible to arrest the inflationary drift unless all sections are prepared to accept the necessary
disciplines and sacrifices involved. Any national programme designed to achieve this end must aim at imposing these disciplines as equitably as possible among the different sections of the community. It must be remembered that the sacrifices required will be as nothing to the toll which will be exacted should the inflationary trend get out of control.

2. An effective policy to arrest inflation must have regard to the basic causes. Inflation occurs when the pressure of demand for finished and semi-finished goods, raw materials, capital equipment and labour is too great to be met from the prevailing levels of production and supply. There are, at present, three main sources of this excess pressure.

(a) The high level of export income brought about by extraordinarily high prices for Australia's main exports, particularly wool. High export incomes give rise, by a cumulative process, to heavy spending throughout the Australian economy. Rising world prices for export commodities mean in general high prices for the proportion of these commodities consumed in Australia.

(b) The abnormally heavy investment programmes of both private industry and governmental authorities. Governments on top of their normal capital expenditures are engaged in vast developmental projects and on heavy commitments for defence, while private industry is endeavouring to expand its productive capacity at a rate unprecedented in Australian history. The fact that there is insufficient production of essential materials and equipment and inadequate resources of labour to satisfy all these investment projects is leading to competitive bidding for the short supplies with higher prices and high labour costs. The large discrepancy between award and actual wage rates is clear evidence of this inflationary pressure. The crux of the inflationary situation at present probably
lies in over-investment in relation to the current artificially restricted level of production.

(c) Rising internal costs of production brought about by rising prices for imported materials and by higher money incomes—particularly wages as a consequence of increases in margins and of cost-of-living adjustments:

These three causes, of course, are closely inter-related.

3. In order to meet this situation we propose the following measures: (These measures are supplementary, one to the other, and have been designed to distribute, so far as possible, the burden of controlling or correcting inflation equitably between the main economic groups of the community).

i. The Australian £ to be appreciated by 10%.* This would mean that £112½ (Aust.) would equal £100 (sterling), compared with the present position where £125 (Aust.) equals £100 (sterling). The broad effect of this measure could be to reduce export incomes and import prices (in Australian £s) by something of the order of 10%. The former would tend to reduce the pressure of spending throughout the economy; the latter, which would mean lower prices for imported raw materials and capital equipment, would tend to reduce Australian costs and thus selling prices. Moreover, once the external value of the Australian £ had been definitely fixed, the large flow of “hot money” entering Australia for speculative investment purposes (estimated by the Commonwealth Bank to total £300m.), would abate and some of it might possibly be withdrawn. This “hot money” is an aggravation.

* IMPORTANT—This recommendation comprised one part only of an inter-related plan, an essential feature of which was a strong effort directed toward the stabilisation of internal costs (See point X). Subsequent to the publication of the plan on the 30th September the decision of the Commonwealth Arbitration Court in the basic wage case has overturned any possibility of the immediate stabilisation of internal costs. For the time being then, and at least until the full effects of the wage increase are clear, an appreciation of the exchange should not be considered.
ting factor in the investment boom in the exchange and property markets, and appreciation of the £ would therefore help to introduce stability into these markets.

An appreciation of the £ of these proportions should not be seriously injurious to most sections of the economy and may serve to inject a desirable measure of increased competition. Insofar as some special sections might be over-severely affected, they could be assisted by subsidies, tariff adjustments, or by other means.

ii. The above measure would cut possibly 10% off all export income (in Australian £s), but this would not be sufficient with wool receipts. These should be treated as a special case. In order to “freeze” temporarily a proportion of these receipts, an adequate wool equalisation scheme should be established.

iii. To prevent the influence of abnormal world prices for wool entering into the cost of local woollens a subsidy should be paid to the local manufacturer sufficient to enable him to maintain his selling prices at around present levels. This should be financed out of consolidated revenue.

iv. There should definitely be no budget deficit in the current financial year. Indeed, in spite of its heavy commitments for defence, development, and social services the government should make every effort to achieve budgetary equilibrium. Some of the measures proposed below, particularly those directed to reducing overall investment expenditure should help toward this end.

v. The Commonwealth Government should ruthlessly cut its developmental programme and should confine expenditure in these fields to those projects which can expect to assist production in the more or less immediate future. Those projects of a long-range character which offer no early support to production should be postponed.
vi. The Commonwealth Government should make an intensive effort to prune its expenditure and effect economies wherever reasonably practicable, thus setting a much-needed example of economic administration to the community.

vii. In the current financial year the Commonwealth Government should endeavour to raise the maximum possible amount of money through intensive loan campaigns. As an aid to this objective, it should institute a system of savings certificates of small denominations (say £10). These certificates should carry the highest practicable rate of interest and the total holding of any individual should be limited. They should be launched with an intensive savings publicity campaign and the government should enlist the assistance of business concerns to encourage their employees to make small deductions from their weekly wages or salaries to be placed to their credit for the purchase of these certificates.

viii. A special “spending tax” should be placed on luxury and semi-luxury goods and services. This tax would provide increased revenue for the government, and at the same time help to curb investment in the less essential industries and thereby release resources for the expansion of essential production. The expansion of basic production is a necessary component of any plan to arrest inflation.

ix. As an emergency measure an investment authority should be constituted for the purpose of reducing the volume of private investment in non-essentials (which is a potent cause of present inflationary movement) and thus making additional resources available for the basic forms of production. As to what is and what is not “essential” this authority could be guided by the new National Resources Board which the Government proposes to establish. This
authority could, for instance, assist essential private industries to obtain their capital requirements without the embarrassment occasioned by less essential industries being able to offer more attractive terms to investors. It should include one or two people of wide practical business experience. This authority should be disbanded as soon as inflation is brought under control. It would then no longer be necessary.

x. Internal Costs. Every effort should be made to keep rises in money incomes within strict limits. As soon as the Arbitration Court has given its judgment in the basic wage case, the Government should endeavour to reach an agreement with the trade unions to avoid unnecessary increases in wages over and above the new levels set by the Court. The unions could for instance, agree to postpone all applications, actual or pending, for marginal increases. Some agreement might also be reached about the future operation of the cost-of-living index. The Government should also endeavour to reach an official understanding with employers that they will explore every possible means of effecting price reductions and of restraining any unavoidable increases in prices to the absolute minimum. This would imply, except in special cases, no increase above prevailing dividend levels.

xi. A policy of this kind for controlling or arresting inflation could best be initiated by a national conference called by the Commonwealth Government, at which representatives of all the main economic sections of the community should be asked to attend.
An Important Film...

"PRODUCTIVITY:
KEY TO PLENTY"

THE Institute of Public Affairs—Victoria has purchased a copy of a valuable educational film—"Productivity: Key to Plenty." This film, which was shown for the first time in Australia at the Annual Meeting of the Institute on 11th October, 1950, deals with a topic of great current importance to every thinking person.

The film was produced in U.S.A. by Encyclopaedia Britannica Films Inc., in collaboration with The Twentieth Century Fund. Its theme is production, and in particular the relationship between increased productivity and higher living standards for all people. The film shows that higher productivity makes possible higher wages and shorter hours for workers, good profits, as well as lower prices for consumers. It shows graphically how in U.S.A. rising output per man-hour has been largely achieved by increased use of mechanical power, and it leaves no doubt that the machine is the friend, not the enemy of the worker.

Here are a few facts about the film:—

- It is a 16 m.m. black and white sound motion picture.
- Running Time—approximately 20 minutes.
- Length—2 reels (800 feet).
- Over 300 copies of the film have been sold in U.S.A. and the Economic Co-operation Administration plans to adapt and distribute the film overseas in a number of foreign languages.
- Plans are also under way for bringing out a British version.
SUGGESTED USE

This film has already aroused considerable interest in Melbourne and Sydney and the I.P.A. has received many requests from companies and other organisations desirous of screening the film to audiences of varying sizes. It is considered that the film would be of value and considerable importance to students of secondary schools (particularly social studies and technical classes), factories, discussion groups, production executives and personnel officers.

IN VIEW OF THE GREAT NEED TO DRIVE HOME THE INCREASED PRODUCTION STORY AT EVERY OPPORTUNITY, THE I.P.A. WILL WILLINGLY LEND THIS FILM GRATIS TO ANY INTERESTED ORGANISATION OR GROUP WHICH MAY DESIRE TO MAKE ARRANGEMENTS TO SCREEN IT.

If you are interested please phone Central 1249 or write to:

The Secretary,
Institute of Public Affairs—Victoria,
289 Flinders Lane,
MELBOURNE.
FULL EMPLOYMENT,
PLANNING AND INFLATION

By F. A. HAYEK

The contributor of this article, Professor F. A. Hayek, is world-renowned as the author of "The Road to Serfdom". This book, which was published in 1944, was the first comprehensive top-level intellectual assault on the socialist position and perhaps created more stir than any politico-economic publication of the day. For this reason, Professor Hayek probably stands out more than any other figure as the champion of individualism against the pronounced collectivist tendencies of the last decade.

Professor Hayek was born in Austria; he served in the Austrian Civil Service from 1921 to 1926, and as Director of the Austrian Institute for Economic Research from 1927 to 1931. From 1931 until just recently, when he took up a position at the University of Chicago, he was Professor of Economic Science and Statistics at the London School of Economics.

In this article Professor Hayek makes an important new contribution to the present-day problems of overall government planning and inflation which have accompanied the policies of full employment in many countries. The Institute is proud to have the first opportunity of publishing this paper by so distinguished an authority.

I

In the five years that have elapsed since the war, central planning, "full employment," and inflationary pressure have been the three features which have dominated economic policy in the greater part of the world. Of these only full employment can be regarded as desirable in itself. Central planning, direction, or government controls, however we care to call it, is at best a means which must be judged by the results. Inflation, even "repressed inflation," is undoubtedly an evil, though some would say a necessary evil if other desirable aims are to be achieved. It is part of the price we pay for having committed ourselves to a policy of full employment and central planning.

The new fact which has brought about this situation is not a greater desire to avoid unemployment than existed before the war. It is the new belief that a higher level of em-
ployment can be permanently maintained by monetary pressure than would be possible without it. The pursuit of a policy based on these beliefs has somewhat unexpectedly shown that inflation and government controls are its necessary accompaniments—unexpected not by all, but by probably the majority of those who advocated those policies.

Full employment policies as now understood are thus the dominant factor of which the other characteristic features of contemporary economic policy are mainly the consequence. Before we can further examine the manner in which central planning, full employment, and inflation interact, we must become clear about what precisely the full employment policies as now practised mean.

II

Full employment has come to mean that maximum of employment that can be brought about in the short run by monetary pressure. This may not be the original meaning of the theoretical concept, but it was inevitable that it should have come to mean this in practice. Once it was admitted that the momentary state of employment should form the main guide to monetary policy, it was inevitable that any degree of unemployment which might be removed by monetary pressure should be regarded as sufficient justification for applying such pressure. That in most situations employment can be temporarily increased by monetary expansion has long been known. If this possibility has not always been used, this was because it was thought that by such measures not only other dangers were created, but that long term stability of employment itself might be endangered by them. What is new about present beliefs is that it is now widely held that so long as monetary expansion creates additional employment, it is innocuous or at least will cause more benefit than harm.

Yet while in practice full employment policies merely mean that in the short run employment is kept somewhat higher than it would otherwise be, it is at least doubtful whether over longer periods they will not in fact lower the level of employment which can be permanently maintained without progressive monetary expansion. These policies are however constantly represented as if the practical problem
were not this but as if the choice were between full emplo-
ment thus defined and the lasting mass unemployment of the
nineteen-thirties.

The habit of thinking in terms of an alternative between
"full employment" and a state of affairs in which there are
unemployed factors of all kinds available is perhaps the most
dangerous legacy which we owe to the great influence of the
late Lord Keynes. That so long as a state of general unem-
ployment prevails, in the sense that unused resources of all
kinds exist, monetary expansion can be only beneficial, few
people will deny. But such a state of general unemployment
is something rather exceptional, and it is by no means evident
that a policy which will be beneficial in such a state will also
always and necessarily be so in the kind of intermediate posi-
tion, in which an economic system finds itself most of the
time, when significant unemployment is confined to certain
industries, occupations, or localities.

Of a system in a state of general unemployment it is
roughly true that employment will fluctuate in proportion with
money income, and that if we succeed in increasing money in-
come we shall also in the same proportion increase employment.
But it is just not true that all unemployment is in this manner
due to an insufficiency of aggregate demand and can be last-
ingly cured by increasing demand. The causal connection be-
tween income and employment is not a simple one-way con-
nection so that by raising income by a certain ratio we can al-
ways raise employment by the same ratio. It is all too naive a
way of thinking to believe that, since, if all workmen were em-
ployed at current wages, total income would reach such and
such a figure, therefore, if we can bring income to that figure,
we shall also necessarily have full employment. Where unem-
ployment is not evenly spread, there is no certainty that addi-
tional expenditure will go where it will create additional em-
ployment. At least the amount of extra expenditure which
would have to be incurred before the demand for the kind of
services is raised which the unemployed offer, may have to be
of such a magnitude as to produce major inflationary effects
before it substantially increases employment.
If expenditure is distributed between industries and occupations in a proportion different from that in which labour is distributed, a mere increase in expenditure need not increase employment. Unemployment can evidently be the consequence of the fact that the distribution of labour is different from the distribution of demand. In this case the low aggregate money income would have to be considered as a consequence rather than as a cause of unemployment. Even though, during the process of increasing incomes, enough expenditure may "spill over" into the depressed sectors temporarily there, to cure unemployment, as soon as the expansion comes to an end, the discrepancy between the distribution of demand and the distribution of supply will again show itself. Where the cause of unemployment and of low aggregate incomes is such a discrepancy, only a re-allocation of labour can lastingly solve the problem in a free economy.

III

This raises one of the most crucial and most difficult problems in the whole field; is an inappropriate distribution of labour more likely to be corrected under more or less stable or under expanding monetary conditions? This involves in fact two separate problems; the first is, whether demand conditions during a process of expansion are such that, if the distribution of labour adjusted itself to the then existing distribution of demand, this would create employment which would continue after expansion has stopped; the second problem is whether the distribution of labour is more likely to adapt itself promptly to any given distribution of demand under stable or under expansionary monetary conditions, or, in other words, whether labour is more mobile under expanding or under stable monetary conditions.

The answer to the first of these questions is fairly clear. During a process of expansion the direction of demand is to some extent necessarily different from what it will be after expansion has stopped. Labour will be attracted to the particular occupations on which the extra expenditure is made in the first instance. So long as expansion lasts, demand there will always run a step ahead of the consequential rises in demand elsewhere. And in so far as this temporary stimulus
to demand in particular sectors leads to a movement of labour, it may well become the cause of unemployment as soon as the expansion comes to an end.

Some people may feel doubt about the importance of this phenomenon. To the present writer it seems the main cause of the recurrent waves of unemployment. That during every boom period a greater quantity of factors of production is drawn into the capital goods industries than can be permanently employed there, and that as a result we have normally a greater proportion of our resources specialised in the production of capital goods than corresponds to the share of income which, under full employment, will be saved and be available for investment, seems to him the cause of the collapse which has regularly followed a boom. Any attempt to create full employment by drawing labour into occupations where they will remain employed only so long as credit expansion continues, creates the dilemma that either credit expansion must be continued indefinitely (which means inflation), or that, when it stops, unemployment will be greater than it would be if the temporary increase in employment had never taken place.

If the real cause of unemployment is that the distribution of labour does not correspond with the distribution of demand, the only way to create stable conditions of high employment which is not dependent on continued inflation (or physical controls), is to bring about a distribution of labour which matches the manner in which a stable money income will be spent. This depends of course not only on whether during the process of adaptation the distribution of demand is approximately what it will remain, but also on whether conditions in general are conducive to easy and rapid movements of labour.

IV

This leads to the second and more difficult part of our question, to which, perhaps, no certain answer can be given, though the probability seems to us to point clearly in one direction. This is the question whether workers will on the whole be more willing to move to new occupations or new localities when general demand is rising, or whether mobility
is likely to be greater when total demand is approximately constant. The main difference between the two cases is that in the former the inducement to move will be the attraction of a higher wage elsewhere, while in the second case it will be the inability to earn the accustomed wages or to find any employment in the former occupation which will exercise a push. The former method is, of course, the more pleasant, and it is usually also represented as the more effective. It is this latter point which I am inclined to question.

That the same wage differentials, which in the long run would attract the necessary greater number of new recruits to one industry rather than another, will not suffice to tempt workers already established in the latter to move, is in itself not surprising. As a rule the movement from job to job involves expenditure and sacrifices which may not be justified by a mere increase in wages. So long as the worker can count on his accustomed money wage in his current job, he will be understandably reluctant to move. Even if, as would be inevitable under an expansionist policy which aimed at bringing about the adjustment entirely by raising some wages without allowing others to fall, the constant money wages meant a lower real wage, the habit of thinking in terms of money wages would deprive such a fall of real wages of most of its effectiveness. It is curious that those disciples of Lord Keynes, who in other connections make such constant use of this consideration, regularly fail to see its significance in this context.

To aim at securing to men who in the social interest, ought to move elsewhere, the continued receipt of their former wages can only delay movements which ultimately must take place. It should also not be forgotten that in order to give all the men formerly employed continued employment in a relatively declining industry, the general level of wages in that industry will have to fall more than would be necessary if some of the workers moved away from it.

What is so difficult to understand here for the layman is that to protect the individual against the loss of his job may not be a way to decrease unemployment but may over longer periods rather decrease the number which can be em-
ployed at given wages. If a policy is pursued over a long period which postpones and delays movements, which keeps people in their old jobs who ought to move elsewhere, the result must be that what ought to have been a gradual process of change becomes in the end a problem of the necessity of mass transfers within a short period. Continued monetary pressure which has helped people to earn an unchanged money wage in jobs which they ought to have left will have created accumulated arrears of necessary changes which, as soon as monetary pressure ceases, will have to be made up in a much shorter space of time and then result in a period of acute mass unemployment which might have been avoided.

All this applies not only to those maldistributions of labour which arise in the course of ordinary industrial fluctuations, but even more to the task of large scale re-allocations of labour such as arises after a great war or as a result of a major change in the channels of international trade. It seems highly doubtful whether the expansionist policies pursued since the war in most countries have helped and not rather hindered that adjustment to radically changed conditions of world trade which have become necessary. Especially in the case of Great Britain the low unemployment figures during recent years may be more a sign that necessary change has been delayed than of true economic health.

The great problem in all those instances is whether such a policy, once it has been pursued for years, can still be reversed without serious political and social disturbances. As a result of these policies, what not very long ago might merely have meant a slightly higher unemployment figure, might now, when the employment of large numbers has become dependent on the continuation of these policies, be indeed an experiment which politically is unbearable.

V

Full employment policies as at present practised attempt the quick and easy way of giving men employment where they happen to be, while the real problem is to bring about a distribution of labour which makes continuous high employment without artificial stimulus possible. What this distribu-
tion is we can never know beforehand. The only way to find out is to let the unhampered market act under conditions which will bring about a stable equilibrium between demand and supply. But the very full employment policies make it almost inevitable that we must constantly interfere with the free play of the forces of the market and that the prices which rule during such an expansionary policy and to which supply will adapt itself, will not represent a lasting condition. These difficulties, as we have seen, arise from the fact that unemployment is never evenly spread throughout the economic system, but that at the time when there may still be substantial unemployment in some sectors, there may exist acute scarcities in others. The purely fiscal and monetary measures on which current full employment policies rely are, however, by themselves indiscriminate in their effects on the different parts of the economic system. The same monetary pressure which in some parts of the system might merely reduce unemployment will in others produce definite inflationary effects. If not checked by other measures, such monetary pressure might well set up an inflationary spiral of prices and wages long before unemployment has disappeared, and—with present nation-wide wage bargaining—the rise of wages may threaten the results of the full employment policy even before it has been achieved.

As is regularly the case in such circumstances, the governments will then find themselves forced to take measures to counteract the effects of their own policy. The effects of the inflation have to be contained or "repressed" by direct controls of prices and of quantities produced and sold: the rise of prices has to be prevented by imposing maximum prices and the resulting scarcities must be met by a system of rationing, priorities and allocations.

The manner in which inflation leads a government into a system of overall controls and central planning is by now too well known to need elaboration. It is usually a particularly pernicious kind of planning, because not thought out beforehand but applied piecemeal as the unwelcome results of inflation manifest themselves. A government which uses
inflation as a means of policy but wants it to produce only the desired effects is soon driven to control ever increasing parts of the economy.

VI

The connection between inflation and controls and central planning is however not only a one-way connection. That inflation leads to controls is nowadays widely seen. But that once an economic system has become cluttered up and encumbered with all sorts of controls and restrictions, continued inflationary pressure is needed to keep it going is not yet generally understood but no less important. It is indeed a fact of crucial importance for the understanding of the self-perpetuating and self-accentuating character of the modern tendencies in economic policy.

Since the measures intended to counteract inflation are designed to damp the uplift which the inflationary stimulus would cause, it is inevitable that they should also act as a damper to the spontaneous forces of recovery as soon as the inflationary pressure is relaxed. If most of the post-war economies do not show a greater resiliency and spontaneous strength, this is largely due to the fact that they are smothered by controls and that, whenever improvement flags, instead of a removal of all those hindrances an even stronger dose of inflation is demanded which sooner or later leads to further controls.

This tendency of the existing controls to produce a further demand for inflationary pressure is especially important in view of the widely held view that, if only the inflationary tendencies could be brought under control, the restrictive measures will subsequently prove unnecessary and readily be removed. If the connection between inflation and controls is a mutual one as here suggested, this view would prove to be incorrect and to act on it necessarily lead to failure. Unless the controls are removed at the same time when expansion is discontinued, the pressure for its resumption will probably be irresistible as soon as the deadening effect of the controls makes itself felt.

An economy paralysed by controls needs the extra stimulus of inflation to keep going at anything near full rate. Where
the controls deprive the entrepreneur of all scope for initiative, freedom of choice and the assumption of responsibility, where the government in effect decides what and how much he is to produce, he must at least be assured of a certain sale if it is to be worth his while to carry on. It is because extensive government controls have almost always been accompanied by more or less inflationary conditions that they have not as completely paralysed all economic activity as seems inevitable to the outside observer, who learns of the maze of permits and licences through which any manufacturer who wants to do anything has to find his way.

To such an observer it seems at first impossible that an entrepreneur so largely deprived of the control of his costs and the nature and the quantity of his products should still be willing to run any risks. The answer is that he is in fact relieved of the main risk by the creation of conditions in which almost anything which can be produced can also be sold. The inefficiency of such a "planned economy" is concealed by the effects of inflation.

But as soon as inflationary pressure disappears the whole force of all these impediments to successful production makes itself felt. The very controls which in the first instance were imposed to keep the effects of inflation under control make it thus more difficult to stop inflation. If, while the controls remain, stable monetary conditions were restored, unemployment would at once make its appearance. The impression would be created that continued expansion is an indispensable condition for maintaining a high level of employment, while in fact what is needed is the removal of the controls which hamper trade, even if as a result some of the hitherto concealed effects of inflation should become apparent.

VII

If these considerations are correct, they cannot but make one feel very pessimistic about the prospects of a reasonable economic policy being adopted in the foreseeable future. In the present state of public opinion they are most unlikely to be listened to. The habit of inflation has often been compared to the addiction to a stimulating drug. But the position of a society which has become addicted to the drug of
inflation is even worse than that of an individual in the corresponding case. One has to conceive of a position in which the administration of, say, morphium to sufferers were to be decided under the influence of mass psychology and where every demagogue who knows just a little more about these things than the crowd would be able to offer an effective means to relieve present suffering while the more remote harm his remedy causes is understood only by few.

The rapidity with which the full employment ideology has taken hold of public imagination, the manner in which in the course of the process a subtle although probably mistaken theoretical reasoning has been turned into a crude dogma, and not last the way in which certain bigots of the new doctrine who ought to know better represent the issue as if it were a choice between long lasting mass unemployment and the wholesale application of their prescriptions, make one sometimes despair about one of the gravest issues of our time: the capacity of democratic institutions to handle the tremendous powers for good and evil which the new instruments of economic policy place into their hands.

If the outcome of economic policy is not to be altogether different from what has been desired, if we are not to be driven from one expedient to another, economic policy more even than any other must be long range policy, governed less by the pressing needs of the moment than by an understanding of the long period effects. It was certainly wise that at a time when the scope and objectives of monetary policy were much more limited, its direction was placed in the hands of bodies not directly subject to political control. It is understandable and perhaps inevitable that once the much greater use of these powers is recognised, it should become a major political issue. But it must appear more than doubtful whether in the nature of democratic institutions it is possible that democratic governments will ever learn to exercise that restraint, which is the essence of economic wisdom of not using palliatives for present evils which not only create worse problems later but also constantly restrict the freedom of further action.