Editorial

A decade has passed since the war. It is fitting that we should begin the first “Review” of this year with a broad interpretation of the post-war world economic and social scene. We have been fortunate to secure a paper written specially for us by a famous Australian, Sir Douglas Copland, which will contribute to a clearer understanding of the significant trends that are occurring. His extensive background of experience and his recent work as Chairman of the Economic Committee of the United Nations make Sir Douglas uniquely qualified for this task.

The time is also appropriate for a stock-taking of our own position in Australia. Australia has come a long way since the war. We have been passing through a period of unparalleled development. Population has increased by over 1½ million. There has been a spectacular expansion of secondary industry. Increases in yields and output bear witness to the remarkable advances in application of scientific and mechanical methods to primary industry. Vast new public projects are proceeding in every State of the Commonwealth.
These immense forward strides have not been achieved without giving rise to stresses and strains in various parts of the economy. Some of the cracks have been plastered over but they are making their presence felt increasingly. Our costs are threateningly high. The continuation of import restrictions (introduced three years ago) is clear evidence of a persistent difficulty with the overseas balance of payments. After a brief period of stability further inflation may be pending. The export market is becoming more selective and competitive. Australia is confronting serious trading problems. The rigidity of certain articles in the General Agreement on Trade and Tariffs (G.A.T.T.) is making it difficult for us to protect traditional markets.

The easy days are over. It is becoming clear that much of Australia's rapid post-war development has been nourished and sustained by wonderful post-war prices for wool and other export commodities, and the large inflow of overseas capital which these encouraged. Indeed, the dependence of the economy on a single commodity, wool, has in recent years given rise to a growing unease. It was with this in mind that we arranged in this "Review" for a symposium of views on the policies that Australia should follow in the event of a steep recession in export income. (See pages 19-28) Fortunately, this does not seem likely at the moment, but it is as well to be prepared. Far too little thought has been given to a matter which could conceivably become one of the utmost urgency.

If the development and economic progress of Australia is not to be slowed down and if the improvement in living standards is to be maintained, it is difficult to avoid the conclusion that we must now look increasingly to our own efforts. Greater national productivity has become a pressing, inescapable need. This is perhaps the great economic challenge which faces us over the next decade.

It will be successfully answered only by management which gives able and enterprising leadership, by willing and friendly co-operation between employers and employees, and by more effective work at every level.

[Signature]

Chairman of the Council.
The Structure of the Western Economy and its Contribution to Social Progress

by

Sir Douglas Copland

Australian High Commissioner to Canada.

The decade since the war ended has witnessed what might be called the consolidation of the pattern and structure of the economy of the western world. The doctrinaire socialist and the devotee of a minutely controlled economy on the one hand and the diehard exponent of private enterprise and the advocate of unbridled competition on the other, have all been placed rather in the discard. After fifty years of controversy and change in which the economy had to withstand the burdens of two wars on a scale without parallel in history, and the rigours of a depression that struck deeply at the whole foundation of our social and economic structure, most countries in the western world now seem to have reached broad agreement on the economic system that they feel will give rising standards of living and satisfy the aspirations of men everywhere for freedom and progress.

This is no mean achievement, considering the shocks that have had to be absorbed, the swift and striking changes in the balance of economic power, the triumph of communism in two great countries and its appeal to the under-developed and the disillusioned, the sudden transformation of many dependent countries to independent states with pride in their new status and impatience to make rapid advances in production and living standards. These transformations are by no means complete, and in some respects their course will be dependent upon the contest going on in so many parts of the world between the free economy of the west and the totalitarian economy of the communist world for the allegiance of countries that seek to improve the lot of their peoples. This is the challenge to the western economy in its new and improved shape. It may have found relative tranquility from the great controversies of half a cen-
tury, but it cannot afford to rest on its achievements; it must go ever forward and outward, carrying what benefits it may have for others, and enriching itself by new and more noble adventures in economic progress and social justice.

Blend of Public and Private Enterprise.

Let us look at the shape of this economy in which we pin our faith as having at one and the same time the capacity to promote continuous progress, and the facility to enlarge the horizons of freedom. The first thing to note is that the economy is a judicious blend of public and private enterprise with the latter predominating, but working in the framework provided by public investment. This is not a fixed relationship in either time or space. It will vary as circumstances alter, and it varies also as among different countries. In Australia, for example, there is a relatively high proportion of development fostered by public authority, while in the United States the proportion would be lower, but the pattern is essentially the same. The differences are in degree and emphasis, and not in the basic structure of the economy. In Australia public investment amounts to approximately 35% of total investment, but we don’t say that Australia is not predominantly a private enterprise economy. We don’t suggest that there is anything inconsistent between the operation of private enterprise and the development of the great Snowy Mountains project by a specially devised public authority. In contrast to Australia, the current controversy over the Dixon-Yates contract to supply power to the great Tennessee Valley Authority may well be the last of its kind. It is fundamentally a “throw-back” to the past and a product of the difficulties of an administration adjusting its policy to a world that had undergone great changes since it last had the responsibilities of office. But then, not so long ago, we in Australia had our controversy over the nationalisation of a great industry. Similar problems will recur in many countries of the western economy, but it may reasonably be claimed that the main issue has been settled and our pattern of development determined. This pattern is likely to bear great fruit in the new countries like India and the Middle East with ancient economies to be adapted to modern techniques, to improved transport and to new sources of power for economic advancement. There is little doubt that provision will be made for these adaptations through the public utility sponsored by government, and that within this framework private enterprise will develop.

In another sphere of economic activity this intrusion of public authority into what was regarded not long ago as the province of private enterprise has been noticeable in recent developments. I refer to the marketing of many primary commodities and some metals. Many countries through some public or semi-public authority, now organize the sale of these goods, both internally and internationally. This is done in the belief that such a procedure will protect the interests of producers both as regards the amount of their return and its stability. Not even in the United States, the home of private enterprise, is it suggested that there should be any turning back on this road to a blend of public and private enterprise. It rather reminds one of the maxim enunciated by a British
Liberal Prime Minister in the early years of the century that self-government was to be preferred to good government. Internationally, the western economy is groping for a solution of the recurrent shortages and surpluses and their attendant price fluctuations, and this perhaps is one of the major problems yet awaiting solution by the western economy. If solved, it will be on the same pattern of some over-riding control or supervision by public enterprise within which private enterprise will operate.

Increasing Application of Science.

Secondly, the western economy is marked by an increasing application of science to industry and agriculture, and, indeed, all phases of economic activity. This is not peculiar to the western economy; it is also a prominent feature of the communist economy and for this reason it is important that the western countries should allocate more and more of their resources to research and higher education. Universities and research institutions are no longer the trappings of modern civilization; they are, on the pioneer fringe of economic development in all its phases, and the means by which nature can be brought to yield unexpected fruits with less and less human labour. Fortunately for the west, the scientists and educationalists are for the most part still free to pursue their researches and to offer criticism, though there has been some back-sliding on this important ingredient of a free economy in the United States. This is not likely to happen in Australia, but Australian businessmen and governments might well ask whether the country as a whole is devoting enough of its resources to higher education and research.

Restoration of World Trade.

Thirdly, in spite of the disruption of war, the emergence of currency blocks and the assertiveness of economic nationalism, the western economy has restored the volume of world trade to levels in excess of pre-war records. The following table, taken from the 24th Annual Report of the Bank for International Settlements, shows the movement in the volume of foreign trade per head of the leading members of the western economy, on the basis of 100 in 1929, the pre-war record year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Europe (Thirteen Countries)</th>
<th>United States and Canada</th>
<th>New Zealand, South Africa, Australia</th>
</tr>
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<tbody>
<tr>
<td>1929</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1937</td>
<td>75</td>
<td>70</td>
<td>98</td>
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<tr>
<td>1948</td>
<td>73</td>
<td>104</td>
<td>153</td>
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<tr>
<td>1952</td>
<td>102</td>
<td>140</td>
<td>148</td>
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It would be natural to find that the United States and Canada, and the three British Commonwealth countries have progressed very favourably, but the thirteen countries of western Europe are now more than one-third above the immediate pre-war level.

Figures for national income give much the same picture. In the following table the statistics are for per capita national income at stable prices.

<table>
<thead>
<tr>
<th>Year</th>
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<td>1937</td>
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<td>1948</td>
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<td>138</td>
<td>138</td>
</tr>
<tr>
<td>1952</td>
<td>117</td>
<td>155</td>
<td>132</td>
</tr>
</tbody>
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There is no need to dwell upon the significance of these figures. The western economy has fully recovered from the malaise of the depression and the burden of the most costly war in history. But there are still some blemishes in the picture which should not be overlooked. For one
thing, the western economy is not yet one world in respect of currency relationships. There are "hard" and "soft" currencies, due in part to the sudden shift in the balance of economic power, and in part to the differences in economic policy. Though much progress has been made towards the freer convertibility of currencies, much has yet to be done before full convertibility of western currencies, one into another, will be achieved. Secondly, there are the problems of restrictions to trade, which still impede the international flow of goods. These restrictions are less than they were in the early years of the post-war period, but they are greater than was thought likely by governments and experts who sought, through GATT and other means, to restore in full measure an international economy in which impediments to trade would be reduced to a minimum. These blemishes have not prevented the western economy from attaining a new record in international trade or expanding output, but they have created some grounds for dissension among the members of the economy.

"Welfare of the Whole Human Race."

Fourthly, and with greater confidence, marked advances have been made in the reconciliation of the needs of productivity and economic expansion with the aspirations of people for a larger measure of social justice. Whether it be in promoting the more equitable distribution of the national income; in the regulation of working conditions; in housing, education and health provision; in safeguarding people against the hazards of sickness, family strain, unemployment and old age; in imparting greater stability to the economy, the developments of the past half century in all western countries have given to the average man and woman a standard of living, a sense of dignity in work and life and a larger element of social security than at any time in human history. It is on this field of human endeavour that the western economy has so much to offer mankind that is quite foreign to the totalitarian world. True, the latter world can and may offer rising standards of living, but they are as yet far below the standards in the west. In reconciling economic progress with the aspirations of the human spirit, the west has made a signal contribution. In this, as in other aspects of our development, it would be fatal to rest on past achievement, however meritorious it might have been. We have still to bring labour into a closer partnership with management, to find ways and means of avoiding conflict in industry, to get rid of human drudgery, to improve opportunities for social advancement for an even greater proportion of people, and to solve the age long problem of reconciling security with progress. Bertrand Russell remarked in his Reith Lectures that a secure life is not necessarily a happy life, nor is security likely to be the hand-maiden of progress. Nevertheless, the western world has rightly sought to give to its peoples a greater measure of social and economic security than any similar number has had in the history of mankind. It is no mean achievement, and is, indeed, the outstanding feature of the development of the western economy in recent times. To promote investment and to improve productivity can be a mechanical thing in a totalitarian regime, but to do this whilst retaining all the freedoms, raising living standards and expanding the horizons of human welfare, is a vastly more difficult and
delicate operation. The distinguished historian of our age, Professor Arnold Toynbee, has suggested that future generations will look back on this period as one "less of an era of political conflicts or technical inventions, than as an age in which human society dared to think of the welfare of the whole human race as a practical objective."

Massive Help to the Less Favoured Countries.

But don't let it be assumed that there are no more worlds to conquer. I have already suggested that we have still much to do internally, but let us take a look at the external field in which the great contest between the totalitarian and the free economy is likely to take place in the next several decades. I say "several decades" advisedly because the solution of the problems of the so-called under-developed countries, especially in South and South-East Asia and in the Middle East, will be achieved only on the long haul. The west should not be dismayed by the magnitude of the task ahead, or by the signal triumph of the communists in China. This certainly presents a still greater challenge, but the policies pursued by the west since the war, often through the United Nations and sometimes as special national or group measures, have the latent power to meet this challenge. Never in the history of the world has help been given on so massive a scale by countries in a more favoured position to those in a less favoured position. No doubt more could still be done, and it will be done, but in this work of international relief and reconstruction, and aid to countries seeking to transform their ancient economies to modern techniques, it is not only the amount of the aid that is impressive; in some respects the international machinery devised is even more impressive. It is in this respect that the free world has a long term advantage over the totalitarian world, though it might appear on short notice that the ruthless capacity of totalitarians to promote investment and development at the expense of freedom and social welfare has some attractions for backward peoples. The agencies through which aid is being given, whether in the United Nations or in special schemes, are peculiarly western in origin, and are based upon the preservation, and, indeed, the improvement of the status of the recipient countries, and upon respect for the political institutions of those countries.

ON this point the free economies of the west have a thoroughly good record, and the totalitarians a thoroughly bad one. We have made mistakes, and we have been too prone to associate military arrangements with economic and technical aid in some cases, but taking it by and large, the record is good. The International Bank, the Monetary Fund, the new International Finance Corporation, UNRRA in the early days of the uneasy peace, the Marshall Plan, the Colombo Plan, Point Four, the Programme of Technical Aid—all these are fruitful products of a genuine desire to promote human welfare, rebuild the economies of countries with new aspirations and preserve and strengthen their newly won independence. It would take too long to describe the structure of the agencies through which the aid has been given, but as I have said, they are a product of the political philosophy of the west, and of its capacity to supply economic help on an increasing scale. The Colombo Plan is a voluntary scheme on both
sides, and recipient and contributor alike contribute to its working structure on an equal basis. The initiative rests with the recipient countries and external aid is conditional on their own plans for development. At the last meeting of the Consultative Committee of the Plan in Ottawa in October, 1954, the external aid amounted to 18% of the total capital expenditure on development, and no doubt as the plans for development are expanded, the external aid will also expand. This is a new experiment in international co-operation. In some respects the programme of technical aid under the United Nations is even more interesting as a device for international action to promote the application of modern techniques in education, health, agriculture, industry and transport, and it has the merit that the programme cuts across the boundaries of the free and the totalitarian world. The plan embraces some sixty contributing countries, some eighty on the receiving end, the association of several international agencies, such as FAO, WHO and UNESCO. The expenditure, though growing, is not large, being less than $30m. per annum, but the assistance offered in technical advice and in training and the fruitful international co-operation is something that has never been attempted on anything like the same scale before.

Despite her absorption in a major and ambitious programme of economic expansion, and the pressure on her resources, Australia has been a contributor in men, money and materials to the Colombo Plan and to technical aid. She shares this with Canada as the two youngest members of the western economy, and both countries have contributed much also in helping to devise the appropriate machinery for implementing the plans. We shall have to accept the responsibility for sustaining our contribution, and indeed, enlarging it. Recipient countries in some cases have to develop the administrative machinery within their own territories, to secure the trained technical personnel, to mobilize their resources and devise the means by which external aid can best be absorbed into their own plans whilst preserving and developing their new political institutions. This is an adventure challenging enough for the free economy of the west, but it is the only way in which the frontiers of freedom will be extended and more and more people brought within the saving grace of Toynbee's dictum of "the welfare of the whole human race as a practical objective." This is what lies behind the work of the international bodies to which I have referred, of the Economic and Social Council of the United Nations, and of the Economic and Social Committees of the Assembly. It has been my good fortune recently to have taken an active part in much of this work, and I am convinced that it is the responsibility of countries that have established a vigorous free economy, not only to improve their own efficiency and the welfare of their peoples, but also to participate actively in all international activity designed to assist those who are less fortunate. The western economy has at one and the same time the political insight and the economic strength to do this, and if it is patient and persevering it will demonstrate its inherent virtue over the less compromising and more ruthless methods of totalitarianism. Let us go forward with the maxim inscribed on our banners:

If thou bear the Cross cheerfully, it will bear thee.
An Appreciation

SIR LESLIE McCONNAN, a member of the Institute's Council, died on the 22nd December, 1954.

Sir Leslie took an outstanding part in I.P.A. affairs. He was Treasurer of the Institute from its commencement in 1943.

Although others were responsible for the basic conception behind the formation of the I.P.A., Sir Leslie made an important contribution to its initial establishment. The launching in Australia of new organisations concerned with broad economic and social purposes is not unattended by considerable difficulties, and to a small number of prominent businessmen, of whom Sir Leslie was one, is due much credit for their work in overcoming all obstacles.

During the years his close interest in I.P.A. affairs never flagged. He was always ready and eager to be of what service he could despite the heavy demands of other activities.

As the executive head for 20 years of one of the great financial institutions of Australia and for the leading role he
played in the bank nationalisation drama—one of the most
decisive political conflicts in the history of the Commonwealth
—he is entitled to a high place among Australian businessmen.

Of Scotch descent, he possessed in a striking degree the
Scotch virtues. He was sagacious, astute, and patient. He
never burnt his boats. It was against his essential nature to be
hurried into a decision. He was always trying to see what was
around the next corner. He was cautious, but his caution
usually proved, in the event, to be justified.

To the I.P.A. he was invariably the wise counsellor. If
one asked for his advice it was with the confidence that when
given it would be well weighed and considered. He was not
one for "kerbside" opinions.

He appreciated scholarship and his keen interest in econo-
mics was well known.

In the post-war struggle of free enterprise against the
increasing threat of socialist doctrines it was always his con-
tention that salvation, in the final summing up, rested with
the businessman himself. In this, and what followed from it,
lay perhaps his most significant contribution to the thought
and activities of the I.P.A.

★★★★
ECONOMICS FOR THE PEOPLE

BEFORE the war few people placed any importance on the need for educating the ordinary run of Australians in the simple economics of the way in which the nation earned its livelihood. Economics was a highly esoteric branch of knowledge whose meaning was rarely precisely understood by anyone other than those trained in it. Even many businessmen had only the vaguest ideas of the nature of its subject matter. The writer, who pursued a university course in economics, well remembers the occasion when, soon after joining the staff of a large industrial enterprise, he was conducted around one of the plants by a leading official of the company. He had come to the company as an "economist" and, to his acute embarrassment, he was asked to keep his eye open for places in the plant where economies might be made. This had a doubly humorous aspect; for at that time economists, under the influence of Keynesian doctrine, were more disposed to spend money than to save it.

The situation has changed vastly. Many people, and certainly most businessmen, now think it important that the great mass of citizens should have at least a nodding acquaintance with the simpler facts and principles that underlie the system by which the community earns its living.

Two main reasons for this change can be distinguished:

First was the strides made by socialism during the war and early post-war years. This progress was so remarkable that to many people, and certainly to most intellectuals, the phrase "post-war reconstruction" became synonymous with socialist planning. To those who viewed socialism with abhorrence, and even with fear, here was a development that called for the strongest counter measures. Since part of the appeal of socialism arose from false ideas about private business, there was clearly a need to correct the misconceptions by giving the public facts and information which no one had previously thought necessary.

The size of business profits; how they were distributed; how the national production was divided up; who paid the taxes and who received the most benefit from them; what the banks did and what determined their lending policies;
these and a host of other contentious questions had to be answered. The private enterprise system had to be vindicated. What was it? What progress had been achieved under it? How had the ordinary person benefited? Why was it more efficient than any alternative system of production? How could living standards be raised? Could full employment be achieved under private enterprise? What was the role of government? When were government controls necessary and when were they a curse? And so on and so on; the list of questions crying out for answers comprehensible to the mass of voters had suddenly become almost endless.

The second reason for the new importance given to "economic education for the masses" can be traced to the democratic currents that began to flow vigorously throughout the world, during (and no doubt as a consequence of) the war. In the social scheme, "the common man" suddenly became elevated to a position of uncommon significance. Henceforth his welfare was to be the first concern of economic and political policies. He had to be assured of a job; he and his family had to be provided with "cradle-to-the-grave" financial security; he had to have ample time for leisure, better educational opportunities, adequate health services, a fairer deal, a higher living standard, a better life all-round.

But how was all this to be achieved? After the first flushes of enthusiasm died down in the years after the war, the hard facts of economics began to assert themselves. The only thing that was lacking now was not money, which in the last analysis was worthless, but goods and services. Goods and services, even in the most productive societies, were scarce. Therefore, the only remedy was to produce more. But how could the great mass of the people, which had previously never felt any close connection between what they produced and what they were paid, and of whom many had been raised on the sour milk of output restriction, be persuaded of this?

Exhortation by governments and by business, and in some countries by trade union leaders, was first tried, but the public mind proved stubborn and unresponsive. The man in the street, naturally enough, demanded reasons, and even more he demanded to know how he personally would benefit from greater production. And so were set in motion the vast educational campaigns in the basic economics of productivity in
such countries as the United States and Britain; in the former, sponsored mainly by business leaders and, in the latter, where the need was more urgent and the people initially less receptive, by governments and top union officials as well as by businessmen. Under the influence of the benign economic climate of Australia we have yet hardly passed beyond the stage of exhortation.

*     *     *

For these reasons the need for some degree of popular economic education is now widely accepted. There is, however, another facet of the matter which has so far been given little thought.

The success of the free economy depends largely on the sense of responsibility displayed by the individuals of which it is comprised. Where people are free to act on their own initiative then, if the economy is to operate effectively, their decisions must be responsible and intelligent. The essence of free enterprise is free individual choice—free choice of career, of occupation, of investment of savings, in the spending of one’s income and so on. Whether to co-operate or not in the various activities of the community which require co-operation, such as the efficient conduct of the industrial plant, is a matter largely of voluntary choice. But if these choices are to be intelligent choices and if co-operation on a high plane is to be achieved, people must know what they are doing and where they are heading. They must be able to appreciate the results of their actions on the welfare of the whole community and in turn the impact of the welfare of the whole community on their own personal welfare. The businessman, for instance, in control of a large enterprise must be able to visualise the effect of his decisions on the community as well as on his employees and shareholders.

Therefore, some understanding of the basic economics of the system is essential. In an economy based wholly, or, in the main, on centralised control and direction this kind of understanding is not essential. The individual is not free to make his own choices; co-operation is not voluntary. All the mass of the people have to do is to carry out the plans and orders of those at the top. Only those at the top require a knowledge of economic processes. The rest do what they are told.
A free people who lack a knowledge of elementary economics can be persuaded to vote for wildcat economic schemes which have a superficial appeal but which must eventually be detrimental to their own welfare. A people with some acquaintance with simple economic principles are less likely to be persuaded to support courses of action of this kind. It is an oft-repeated maxim of political science that the quality of government in a democracy can be no better than the quality of the governed. It is probably equally true, in the long run, that the operation of a free economy can be no more effective than the understanding and quality of its individual members permit.

Now the education of an entire community in a specified subject is anything but easy, especially when the members of the community themselves feel no pressing desire to achieve a knowledge of that subject. There are two main problems. First, to impart the basic principles and the essential facts of the subject in a way in which they can be understood and appreciated. The information must be given in popular form and expressed in the ordinary language of everyday speech. This is far from as easy as it may appear. Economics, like all branches of knowledge, has developed its own technical jargon. But this jargon is incomprehensible to the ordinary person and must be rigorously eschewed by the would-be educator, who, however, has become so accustomed to its use that he finds it difficult to dispense with it.

Take even a phrase like “national income,” the very starting point of modern economic analysis. From Tom Brown and John Smith in the street it evokes only a puzzled frown. Even many businessmen might be hard pushed to define its meaning.

Then again, consider the apparently simple, and to most people vital, problem of how the nation’s production is divided up between the various sections of the community—labour, management, shareholders, farmers, professional men, investors, and so on. That looks easy enough until you confront it. But the statistical problems are so complex that more than one well-known economist has been led into grave error. And when the statistical division has been made, is it not misleading? For in these days many employees are also
shareholders; the businessman's profit when looked at closely is often largely wages; and the shareholder's dividends are frequently so decimated by taxation that it is often not he but other people who draw the main benefit from them.

The problems of reducing economics to simple, understandable terms are not insurmountable, but they are far from easy. These obstacles, however, don't worry the propagandist. He doesn't go over them; he goes round them and that is why, among those who compete for the attention of the ordinary citizen, the propagandist, with his contemptuous disregard for the truth, has such an advantage over those who approach their task earnestly and conscientiously.

The second problem lies in the sheer physical difficulty of informing not a few hundred but literally millions of people about the working of the economic system from which they draw their livelihood. How does one get the message into millions of minds? They can't be brought together in the local town hall. The main medium of mass communication available today is the daily newspaper. That finds its way into most homes. But why should the press devote ample space to something that from its point of view may not appear particularly important? And even if it can be persuaded to do so—and that means, if full coverage is to be achieved, persuading not one daily paper but all—is there any certainty that a big proportion of people will read the message? And if they read it, will they accept it? There is, of course, the radio and the motion picture—both valuable means of communication—but most people listen to the radio and go to the films to be entertained. And economics, whatever its merits, cannot pretend to take a high place in the list of entertaining subjects.

This is not to say that the press, the radio and the films are of no importance. But it is to emphasise their limitations for this particular purpose, limitations which are often overlooked.

Let us look at the problem a little closer. Granted the desirability of giving the rank-and-file citizen some acquaintance with the economic system, which section of the community is most concerned to see that the need is fulfilled? There is, of course, only one answer—the employers and
businessmen. It is they who lose most by popular ignorance because ignorance is a highly fertile soil for the activities of unscrupulous propagandists with the sole aim of undermining the existing economic order. Moreover, it is the employer section which contains a large proportion of the leaders of the community and the responsibilities of leadership demand that they endeavour to guide the community along the paths of sanity and progress.

Businessmen, in the main, recognise these responsibilities, but their recognition is not always paralleled by their understanding of the nature and the difficulties of the task.

Hardly a day goes by that some businessman draws attention to the dangers to free enterprise arising from public misunderstanding and to the consequent need to give the people the facts in simple, understandable form. But too many imagine that once they have contributed money to finance some central organisation to do the job their responsibility ceases.

*   *   *

One question is always to the fore in the minds of the business community. Is the message getting over to the man in the street or are you only "preaching to the converted"? What many fail to realise is that the task of reaching the unconverted is really one that can be done adequately only by the businessman himself. Pamphlets can be written, films can be acquired or produced, but the physical problem of getting the pamphlets into the hands of sufficient people or to arrange for a sufficiently wide audience to view educational films is one that can be solved only with the co-operation of the employer himself. There is no other way. The channel of access to the public is through the employer to his own employees. The individual employer himself must work out when and how this channel can best be used. It is idle for employers to criticise educational bodies for "preaching to the converted" when they themselves are the only ones who can ensure that the work of these bodies reaches the unconverted.

In the United States this truth has now been generally recognised by business leaders. An article published recently in the "Harvard Business Review" states: "Practically every prominent leader of business in the United States today is talking
about teaching economics to employees. Many of the largest corporations (such as General Motors and General Electric) have launched economic education programmes. Hundreds of courses, pamphlets, articles and advertisements have been written and printed. There has been a flood of movies, sound-slide films, chart presentations, lecture series and discussion programmes. The numbers are on the increase.” Later the writer says: “The size of the job is staggering. In the thousands of companies and corporations there are many millions of employees. The hope is that each company—whether it has a dozen employees or many thousands—will reach its own people. In this way the millions can be reached.”

The methods being used in the United States are, of course, not necessarily wholly applicable to Australia. For instance, the educational classes of some of the larger American companies might be extremely difficult to organise here. The best prospects in Australia are probably for the necessary research and the presentation of information to be carried out by special bodies. But the distribution, and the manner of the distribution, of the material produced must still rest largely with the individual employer. Either he must co-operate or it will not be done at all, or at best done inadequately.

The thing lacking in Australia at the moment is not the recognition of the need for educating the public in the basic principles and facts of the economy. It is the enthusiasm and drive necessary to translate good intentions into action. There is still a widespread apathy about the whole matter. (This no doubt would be rapidly dispelled should political and economic conditions, which are at present favourable, become adverse.)

ECONOMIC education holds out great possibilities for good provided it is recognised that progress must be slow. Misconceptions and prejudices cannot be corrected in a day. A new attitude of mind is something that can be developed only over years. Even so, too much must not be expected. Words are no substitute for action. And the goal of a strong, enthusiastic, enduring public support for the free enterprise economy will be impossible of achievement unless the business community and its leaders continue to act responsibly, intelligently and justly.
RAISING THE STANDARD

An Important British Productivity Film

16 m.m. Sound—Black and White.
Running Time: 30 Minutes.

“RAISING the Standard” is the latest addition to the I.P.A. Library of educational films. It was the first of a series of the British Productivity Council’s films to be screened on the B.B.C. television service. It is a popular introduction to the economics of higher productivity and a broad survey of the principal methods of achieving it. The film is followed by a discussion panel consisting of the then Chairman of the British Productivity Council (Mr. Tom Williamson, who is a Trade Union Leader), the Deputy Chairman, Sir Ewart Smith (a Director of I.C.I. Ltd.), and newspaper representatives. The national importance of the subject is emphasized by the appearance in the film of the present Chancellor of the Exchequer, Mr. R. A. Butler, and his Labour predecessor, Mr. H. T. N. Gaitskell.

The film clearly shows that by producing more goods there is more to distribute. We can have a better life by using better methods and more machines to make more goods at lower prices. It illustrates that almost any job can be done more quickly and gives several practical examples of machines which save time, manpower and money.

Instances of wrong thinking which are obstructing production are given. A noteworthy effort is made to answer a widely held belief that higher productivity means men will work themselves out of a job, and the film points to the need for positive action on the part of management in this connection.

PROGRESS can come only from the right attitude of mind—the attitude that isn’t afraid to accept new ideas, that asks questions and tries to find the answer and won’t accept the second best way of doing things. Is the job being done in the best possible way? If not, how could it be done better? Is there a machine that could do the job, and if a machine already does the job, would another machine do it better? These are the sort of questions we should be asking at every level, from the shop floor to the board room.

The film is eminently suitable for screening to factory and office employees, executives, schools and other organizations.

In view of the importance of productivity to Australia, the I.P.A. will make the film available on request, free of charge.

LATER in the year the Institute expects to have available three additional B.P.C. T.V. films:

“Views on Trial”
“Men at Work”
“Room for Discussion.”
NOTE: (This is not a forecast. At the moment, fortunately, there is no reason to anticipate a grave decline in export proceeds. But in economics it is wise to be prepared for any contingency, however remote. Nobody expects a modern passenger liner to sink; but it still carries life-belts, life-boats and has life-saving drill for the passengers.)

In May, 1945, the famous White Paper on "Full Employment" issued by the Commonwealth Government declared that never again would deflation and unemployment be used to correct an adverse balance of payments. In the event of a prolonged and severe fall in export income, quantitative restrictions on imports were to be imposed and, if the decline proved to be permanent, the exchange rate would be depreciated. But in no circumstances were imports to be reduced by curtailing the level of internal spending. Internal spending was to be maintained by increased Government expenditure, particularly on public works, and by banking policy and other measures to encourage private expenditure.

The I.P.A. does not believe that this set of academic principles provides a satisfactory solution to an acute balance of payments problem which could conceivably face Australia should export incomes fall steeply, and we have thought for some time that adequate expert discussion of this problem is a matter of some urgency. Accordingly, we invited three prominent economists to answer the following question:—

"What would be the correct policy for Australia to pursue in the event of a substantial and sustained falling-off in export proceeds—say, of the order of 20% to 30%—due either to a serious weakening in wool values and other export markets abroad or to adverse seasonal conditions at home (or both)?"

Three contributions appear in the pages which follow:—

Professor R. I. Downing, Ritchie Professor of Economics at Melbourne University, proposes a series of measures which are broadly in line with the White Paper policy of 1945. He suggests that the level of internal spending must be maintained and he looks in the main to a substantial increase in public works expenditure to compensate for a serious decline in export earnings. Professor Downing would also pursue a policy of tight import control but would presumably (and probably rightly) keep exchange depreciation as a weapon of last resort. Since he also advocates tax reductions to stimulate consumer spending and since the loan market would almost certainly be tighter under the conditions we have postulated, this increase in Government spending would no doubt have to be financed by the issue of Treasury Bills.
PROFESSOR P. H. Karmel, Professor of Economics at the University of Adelaide, takes two positions. If the fall in export proceeds is believed to be temporary, he would follow broadly the same policy as Professor Downing. He does, however, recognise some of the difficulties with which this course is beset—particularly the danger that it may be impossible to finance essential imports at a level sufficient to maintain full production and employment; also the time lag involved in expanding public works to take up the slack in private investment. But this policy, he says, would not be adequate (in fact, it would have to be put into reverse) should the decline in export receipts be long continued. Such a situation, he suggests, would have to be met by fundamental economic adjustments such as exchange depreciation, an increase in tariffs and a reduction of money incomes, or a combination of the three.

MR R. F. Holder, Economist of the Bank of New South Wales, does not share the faith of his fellow contributors in the merits of credit expansion for in his opinion it would do little to promote business confidence or to assist private business to meet world competition. He sees a reduction of export income as a loss of real resources whose effect on the nation's standard of living cannot be escaped. "In practical affairs," he writes, "it is most unlikely that the slick formulas of the mathematicians for maintaining full employment and the volume of production will work at all accurately." This is broadly the view of the I.P.A.

Those who regard internal credit expansion (to increase Government outlays on subsidies and public works) and reduced taxes (to encourage consumer spending and private investment) as the fundamental remedy for a fall in export receipts—and this view is very widely held today—seem to side-step the manifest difficulties to which such a policy would give rise. The level of internal costs would be maintained, and possibly even increased, at a time when the restoration of the export market, the reduction of imports and the adverse balance of payments would all seemingly call for an adjustment of costs at a lower level.

The fundamental problem in our view would centre on the level of private investment. The physical difficulties involved in the large-scale expansion of public works, such as the limited mobility and suitability of labour, tend in our view to be greatly under-estimated. The financial problems to which internal credit expansion would give rise would also be considerable. As Mr. Holder points out, it would aggravate a balance of payments problem, already acute, and boost internal costs at a time when the economy was crying out for a reduction of costs. One important point seems to be overlooked by the credit expansionist school—that is, the effect of their policies on overseas opinion. If Australia ran into serious economic difficulties it would more than ever need a sympathetic and lenient response from its friends abroad. It is hardly likely that the United Kingdom or the United States or international borrowing agencies would look favourably upon a policy of credit expansion combined with savage import restrictions.

What, then, is the real answer? One should avoid dogmatism on a
matter so complex but a few observations may not be out of place.

Under the conditions we have postulated, the all-important problem would be to prevent any general collapse of business confidence. This would be disastrous. A complex series of measures would certainly be necessary. Exchange depreciation would possibly be one.* By one means or another costs would have to be drastically reduced, for instance, by a greater all-round effort, a more exacting economy. Some cut-back in real incomes would be unavoidable. The burden should be equitably spread. A judicious measure of credit and budgetary expansion could, in these circumstances, be undertaken.

But the problem would be anything but easy. In these things prevention is better than cure and prevention implies the maintenance at all times of a strong, healthy, disease-resistant economy. Is the existing state of the Australian economy as healthy as we might wish; or are there present disturbing symptoms of weakness?

Professor R. I. Downing.

A HEAVY fall in export receipts is purely hypothetical. No firm set of remedies can be prescribed. It would depend completely on the circumstances in which a fall occurred. The fall which occurred in 1931, for instance, brought economic disaster. The fall which occurred in 1951, on the other hand, had some beneficial effects.

The problem needs to be considered from several different aspects.

1. Export Incomes.

The first impact of a cut in export receipts will be on incomes of exporters. A heavy fall now would be less easily borne than in 1951-52. Many wool-growers could still afford the loss but some wool-growers and most producers of other types of export products would not be able to. Before advising any early depreciation of the exchange rate I should prefer to explore first the possibilities of securing shifts of marginal export producers into other more economic industries and of protecting those who remain in export production by direct and indirect subsidies. It would be time enough to consider the need for exchange depreciation when it had become clearer how long the cut in export receipts was likely to continue.

2. Liquidity.

The other inevitable consequence of a fall in export receipts is that the drain on our overseas reserves

*Exchange devaluation is no remedy for the present balance of payments difficulties. It would add fuel to the flames of our domestic inflation (which may rage again in the coming months without the stimulus of depreciation). It is never a measure to be undertaken lightly. A depreciated currency means a loss of prestige abroad. It is taken by the others to be indicative of a weak economy. Overseas interests looking for outlets for the investment of capital tend to be frightened off. Moreover, depreciation is a step never to be taken in isolation. To be effective, it must be accompanied by other measures to offset its inflationary impact on internal prices and costs.
is reflected here in a fall of both cash and deposits in the banking system, so that liquidity—the ratio of cash to deposits—is reduced.

If such a situation arose now, when liquidity is already rather low and falling, it would certainly be necessary for the Commonwealth Bank to ensure that purchases of Government securities and its releases from Special Accounts were adequate to supply the liquid resources necessary to finance production at full employment levels.

3. Imports.

Unless overseas reserves are well above the level regarded as safe, a heavy fall in export receipts must be balanced by a cut in imports.

The weapon of import licensing is clearly too precious ever to be discarded. It enables international solvency to be maintained without causing internal depression and enables cuts in imports to be made where they will do least harm. It also enables us to ration the supplies of scarce currencies without having to ration other currencies which may be less scarce. Its very attractiveness makes it the more important that we should seek to confine its use to meeting short-term fluctuations in our balance of payments and to dealing with particular scarce currencies. Long-term equilibrium should be maintained so far as possible through such instruments as the exchange rate and the tariff, which interfere less directly with the freedom of individuals to spend their money as they like and to buy in the cheapest market.

4. Spending by Other Sectors.

(a) Investors.

The fall in export receipts may administer a shock to the confidence of investors and so lead to a reduction in their spending. The situation with private investment now might be more difficult than in 1952 when export receipts were still high, wool having but fallen from an abnormal peak; many long-term development projects promising profit were available; overseas competition was held off by import licensing.

Private investment has been running at high levels for so long that there must be ample room for heavy reductions. On the other hand, current complaints about overseas competition suggest that some encouragement might be drawn from more severe import licensing. A continued substantial flow of immigration would be stimulating. There appears also to be a considerable backlog of commercial and industrial construction awaiting execution. The situation envisaged would clearly present the most favourable opportunity for introducing special depreciation allowances, whose short-run "announcement" effects would probably be greater than their long-run effects. In all, however, I should be inclined to allow for the possibility of a significant fall in private investment as a consequence of any substantial cut in export receipts.

(b) Governments.

The important question is not so much whether Governments would now be prepared to spend their way out of depression, but rather in what directions they should either expand their own expenditure or encourage an expansion of the expenditure of others.

I am not optimistic as to the possibility, usefulness or desirability of Government action directly to stimulate private investment, apart from
the possibility, mentioned above, of special depreciation allowances. It seems to me better for the Government to increase its own expenditure and that of consumers, leaving private investment to come in as investors and regain confidence in continued expansion and prosperity.

There is no shortage of useful objects of Government expenditure at present. The developmental works programmes of the State Governments could easily be expanded. In particular, plans for slum-clearance and town planning should be revived.

The possible need for a big increase in public works expenditure makes us the more acutely aware of the disappointing record of the National Works Council. This body was established in 1943 primarily to ensure that we had always a reserve shelf of projects, planned ready for immediate execution whenever the opportunity presented itself in the form of a slump in other sectors of the economy. This sort of planning is essential to ensure that the right types of projects can be put into execution in the right places, according to the type of resources that become available.

(c) Consumers.

Consumers are commonly supposed to spend more or less according to their incomes. In the 30's, their incomes fell as spending by exporters, investors and Government fell. Their own spending was then reduced and led to further reductions of income and spending in a downward spiral of deflation.

If the original effects of a fall in export receipts can be minimised and more or less completely offset by increased expenditure in other sectors, these secondary effects will not occur and depression will never develop. It is much more difficult to pull an economy out of a deep depression than it is to prevent it ever getting into one.

Some of any slackening that may develop in the economy can be taken up by necessary and desirable increases in public expenditure. For the rest, there should be deliberate public action to increase private spending power. Part of this should take the form of direct and indirect subsidies to housing, to match any public programme for providing better housing. For the rest, it is a matter of cutting taxes and expanding disbursements to private persons.

I should prefer such action to take the form of cuts in indirect taxes, increases in exemption limits and reductions in the lower ranges of income tax. This would have several advantages—it would bring a desirable increase in the progressiveness of our tax system, it would concentrate the tax cuts where they were most likely to lead to higher consumption, it would provide stronger incentives to increased effort which would be of first importance in a situation where our real income had been substantially reduced by a fall in export receipts. Moreover, tax cuts of this type could, if necessary, be reversed later without placing apparently heavy burdens on particular sections such as recipients of social service benefits.

From the foregoing discussion, we can draw several conclusions. In the first place, better understanding of economic problems by economists and by the public, better economic staffs at the Treasury and the Commonwealth Bank, the availability of vital policy instruments such as import licensing, and the existence of
a solidly-established system of social services, make us infinitely better equipped to face our economic future than we were in the early 'thirties.

Secondly, the more effectively we can offset the primary effects of any fall in export receipts, the less serious and widespread will be the secondary effects which are much more difficult to cope with. We need effective economic forecasting to warn us to get ready. Thirdly, economic remedies cannot be applied automatically. Each situation has to be analysed carefully to discover whether it is the 1931 or the 1951 or some other type, so that the appropriate remedy can be chosen.

Finally, in a situation which requires to be treated by expanding expenditure, while any type of expenditure will be better than none, economic welfare will be the more benefited, the more successful we are in selecting those types of expenditure most urgently needed at the time concerned. Political pressures and administrative convenience and ease are tempting but poor guides to policy.
system, which will result from any fall in London Funds, from bringing about a restrictive bank advance policy. Either of these two consequences would, if allowed to materialise, adversely affect private investment plans and make the maintenance of full employment more difficult. However, in an economy expanding as rapidly as Australia is at present, business confidence should be buoyant and the Commonwealth Bank can by its special account procedures assist in the maintenance of trading bank liquidity in the face of a fall in London Funds, and possibly can encourage private spending in certain fields, such as housing.

Appropriate budgetary and monetary policy should be able to maintain reasonably high levels of employment in the face of a substantial decline in export income. This is, however, subject to one important qualification. The technological conditions of production require a certain minimum level of essential imports without which the economy cannot function at full employment. If the balance of payments position is such that this minimum level cannot be financed, full employment cannot be maintained. However, this minimum level is almost certainly smaller relatively to the size of the economy now than it was in the 1980's, and the collapse in export proceeds would have to be very great for this limiting factor to come into operation.

It must be recognised that, however successful is economic policy in maintaining full employment in the face of a decline in export proceeds, such a decline implies an unavoidable loss of real income. Full employment may be maintained but it will be at a lower level of real income. This loss of real income will in the first instance fall on export producers and the extent to which it should and can be spread over the whole community is a question of considerable complexity and importance. It must also be recognised that a substantial fall in export proceeds will inevitably cause some dislocation in the economy. Lags in the operation of government policy are unavoidable and in any case the changes in the composition of aggregate spending, which will be necessary, will require adjustments in the structure of the output of the economy.

Parallel with action to maintain full employment, measures must be taken to control the adverse balance of payments. Indeed it is essential that spending should not be stimulated beyond the full employment level for this would produce a state of inflation with demand spilling over on to imported goods. Even with the maintenance of economic activity at full employment without inflation the demand for imported goods will remain approximately steady whereas export proceeds will have fallen. This will result in a continuing deficit in the balance of payments on current account. Such a deficit can be financed out of London Funds or from borrowing overseas. The latter is, however, at all times a doubtful quantity and particularly at a time when exports have fallen. If London Funds are high they can be run down for at least a period. But if they are not adequate or if the decline in export proceeds is at all prolonged some action to cut imports will be necessary. This can, of course, be done simply and directly by straight-out import restrictions. In the situation envisaged here this may well be necessary. However, import restric-
tions of the kind we have experienced over the past few years have unfortunate long-run consequences. They tend to freeze trade in existing channels and they give an undeserved bonus to the importer who happens to have a quota in the base year. In addition, since import quotas always tend to favour essential as against non-essential imports there is a tendency for domestic industry to be directed towards the production of non-essentials in short supply. Furthermore, they introduce an element of speculation into the demand for imports, leading to an excessive demand for imports whenever restrictions are relaxed for fear that they will be re-imposed later. Consequently, import restrictions should be used only as a short-term weapon. That is, in the circumstances discussed here, a case for them can be made out only if the fall in export proceeds is expected to be temporary. However, if it is expected to be permanent, as would be the case if the world demand for wool was falling due to the development of synthetic substitutes, a more fundamental adjustment in the economy would be necessary. Such an adjustment would require a raising of the Australian prices of imported goods relative to internal costs (or a lowering of internal costs relative to the Australian prices of imported goods) so that the demand for imports at the full employment level of economic activity would be reduced. This could be achieved, for example, by a depreciation of the rate of exchange, an increase in the tariff or a lowering of money wages or by a combination of these actions.

Any action to reduce imports will exert an expansionary influence on the level of activity in so far as domestic production to replace imports will be encouraged; consequently any measures which had been taken to maintain full employment, at the time when export proceeds fell, will, to that extent, have to be reversed.

Australian economic policy must be viewed against a background of fluctuating export proceeds. Export proceeds will be sometimes high and sometimes low. It should be the object of economic policy so to determine the relation between internal costs and external prices that the demand for imports at the full employment level of activity will be matched by export proceeds over a period taking good years with bad. Such a policy would imply that imports should be kept relatively stable from year to year, while London Funds should be accumulated when export proceeds are high and run down when export proceeds are low. This would avoid dislocation in the economy due to marked changes in the level of imports. Restraint in importing during years of high export proceeds is of the first importance. But whichever policy is advocated for smoothing out the effects of short-run fluctuations in export proceeds, we will always have to face up to the difficulty of deciding whether any particular change in the level of export proceeds is merely a short-run fluctuation or a long-term change in the demand for our exports requiring a fundamental adjustment in the economy.
Mr. R. F. Holder.

The consequences of the fall of 18% in export income since last year have been a policy of credit restraint, and stiffer import licensing to curtail the drain on overseas balances caused by strong import demand. Yet employment has continued to grow to peak figures and consumer demand has expanded, supported in both cases by heavy capital expenditure by business, particularly in building and construction, and by rapid extension of hire purchase facilities. How would these conditions be changed if the fall in export income continued to about 30% below the previous year? How strict would credit policy become; would capital programmes be able to stimulate demand and sustain employment; how should the balance of payments be dealt with; if employment wavers what action should the Government take?

It is important to recognise that a fall of 30% in export income is not merely a financial adjustment but a reduction in real income which must be sustained by some groups or diffused throughout the community. To some extent the fall in export earnings would set in motion its own adjustments. Lower rural incomes would mean a lower demand for imports and would also tend to reduce the sales and incomes of other sectors of the economy dependent upon rural demand. If the fall in export earnings were believed to be only temporary, as, for instance, during a drought, the cut-backs would probably not be severe and the bulk of the effects of lower export income could be met by drawings on individual savings and increased bank support and by allowing a temporary run-down in overseas reserves. In these circumstances economic activity and employment should not be unduly prejudiced, but there would undoubtedly be considerable pressure on the banking system's liquidity. To some extent realization of private holdings of securities would lessen this difficulty, but the central bank would be obliged to support the bond market, make substantial releases from special account, and perhaps take other steps to support bank liquidity.

If the fall in export earnings appeared to be less temporary, arising, say, from a decisive fall in prices or loss of markets, more positive measures would have to be applied. The probable immediate political solution would be to strengthen import licensing so that the balance of payments would not run into serious deficit, and step up government works to absorb any unemployment resulting from falling rural and related demand. Yet any or all of these measures will only create additional problems, leading to more stringent import restrictions and economic controls to deal with the inevitable pressure towards inflation and drain on overseas reserves which they would promote. To the very extent that they were successful in preventing an import surplus and in maintaining employment and incomes, these measures would encourage inflation, unless by some strange miracle in the resulting transfers of labour they could ensure an increase in local output of goods and services to match the necessary fall in imports. In practical affairs it is most unlikely that the slick formulas of the mathematicians for maintaining full employment and the volume of production will work at all accurately.
In the past year private investment has probably been the chief influence in sustaining prosperity despite the reduction in export earnings that has in fact taken place. But on the given assumption, it is unlikely that it could be expanded even with special encouragement by tax concessions or other means. In the event of a reduced volume of private investment a compensating increase in government works would be planned with all its problems and delays in transferring men and resources to new sites and to different uses. The probable concomitant, credit expansion, would do little to promote a renewal of business confidence or to assist private business in facing up to world competition.

To avoid the progressive deterioration in economic activity which would inevitably follow this approach, adjustments are called for which recognize the real effects of a fall in export earnings and lay the way for a measure of recovery and expansion. It would be realistic, if politically disturbing, to consider depreciation of the currency to the extent indicated by the fall in export earnings. This course would help to maintain the incomes in local currency of export producers and hence of the level of employment supported by their demand and it would also check the drain on overseas reserves by raising the price of imports. An important feature would be the advantage and stimulus given to Australian exports which formerly could not compete on world markets.

A decisive devaluation would be far preferable in the conduct of international trade to the indefinite prolongation of import licensing with all its uncertainty. In the circumstances devaluation would probably command the blessing of the International Monetary Fund as an adjustment to a “fundamental disequilibrium”.

Yet the benefits of devaluation would be only temporary if internal policies encourage or permit a continued rise in the cost structure. Ultimately the question boils down to whether we are trying to live beyond our means. If so, no amount of protectionism or subsidization of the standard of living can prevent a fall in our real welfare if export income drops seriously.

A decrease in export income inevitably involves many stresses in the economy, and it is impossible to escape the consequences, though they may be cushioned or more equitably spread. A full recovery for a country as dependent on exports as Australia can only lie in the efficiency of industry to take advantage of an improvement in world conditions and in the flexibility of the economic system to switch resources to meet other demands.

The industrial advances of the post-war years have broadened the Australian economy, but they have not appreciably lessened its dependence on a large volume of exports. Policies designed to overcome a fall in export earnings will eventually be assisted by growing industrial maturity, but they must safeguard the cost level so that living standards are not permanently burdened by high costs consequent on economic controls and restrictions.
A YEAR ago "Review" drew attention to the crisis facing socialism. We pointed out that the world had greatly changed since the traditional socialist blueprints were designed and that many of the early socialist goals such as the planned economy, continued high employment and comprehensive social services had been achieved. The nationalisation of key industries had been carried out in Britain with results that were disappointing. The need for a new approach and for a re-definition of socialism in light of modern conditions was clear and was being recognised in socialist circles. Our article referred to an important book produced in Britain, "New Fabian Essays", which discussed the question: "Where Do We Go from Here?". But in the socialist political camps there is still neither a clear nor unanimous answer to this question.

In Britain, the division within the Labour Party about the future of socialism has, if anything, deepened over the last twelve months. The Bevanites, along with intellectuals such as Professor G. D. H. Cole, leading socialist economist and Chairman of the Fabian Society, want to go full steam ahead. But the school of thought led by Labour politician, Herbert Morrison, has had enough of cut-and-dried schemes for nationalisation. This school is supported by leading figures in the trade union movement. It recognises that the experiments in nationalisation to date have fallen a long way short of the high hopes held for them. This, the predominant group in the party, is unwilling to commit Labour to any further socialist adventures until "a new spirit has been created in industry of working for the national good".

Writing in the "Socialist Commentary", May, 1954, Herbert Morrison roundly condemns Bevan's policy. He also calls for a halt to nationalisation in order to digest goals already won.

Professor Cole has retaliated with a pamphlet "Is This Socialism?" — "this" being the results of Labour rule from 1945-51. He emphatically rejects these results as "not socialism". To Cole, socialism is the completely classless state. "I am not the least interested", he says, "in helping the Labour Party to win a majority in Parliament unless it means to use its majority for advancing as fast as is practicable towards such a society". Cole wants the "extension of public ownership and control of industry not only by further measures nationalising entire industries and concerns, but by the progressive taking over of shares and direction through inheritance taxation and creation of public shareholdings out of profits". However, there is some room for comfort in the admission by Cole that he does not expect a majority of electors to agree with his proposals yet, or even a majority of the leaders of the Labour Party.

"The New Statesman and Nation", leading organ of socialist opinion in Britain, recently rebuked the disputants and warned them that the
Labour Party would disintegrate like the Liberal Party if it did not compose its internal differences. "The New Statesman" went on to declare that "Labour's great problem is not a question of leadership, but of ideas. Where it has failed is in the task of re-interpreting the principles of socialism in terms of the Keynesian capitalism which has gradually developed since 1945."

The dilemma facing British Labour has its counterpart in Australia. "The New Statesman's" Australian correspondent, Professor McMahon Ball, says of the A.L.P. here that: "Labour is searching for a leader when it could be searching for a policy. For some time now it has had no effective or reasonable, consistent alternative to the programme of its opponents. It seems that Labour's great need today is to re-think and re-state its distinctive objectives".

However, the position in Australia is somewhat different from that in England. In Australia continued support for socialism seems to be coming largely from among trade unions, whereas in Britain this policy is in disfavour amongst most union leaders. In Australia it is rather the intellectuals and others whose real roots lie outside the trade unions who want to scrap the old class-war slogans born out of the strife of the 1890's.

The views of an intellectual section of the Australian Labour Party calling themselves Fabian Socialists have recently been published in a volume of essays, entitled "Policies for Progress".* Not that the writers, who for the most part are University people, purport to represent any large element of the Labour Party. Rather do the editors sadly complain that the Party spurns its intellectual friends, "so intense is its class suspicion".

Claiming that "despite all the temporising vote-catching necessary to attract a majority of the electorate, gradualist socialism is still one of the several important strands of Labour thought", the editors express the hope that the essays will lead to a better understanding of Labour's socialist principles. Among contributors to "Policies for Progress" are Kingsley Laffer, Senior Lecturer in Economics at the University of Sydney, Geoffrey Sawer, Professor of Law at the Australian National University, and H. W. Arndt, Professor of Economics at Canberra University College.

Perhaps the most important essay in the book is Professor Arndt's on "Economic Policy — Stability and Productivity". Professor Arndt is realistic enough to concede that "for the foreseeable future, democratic socialists must envisage a mixed economy in which substantial sectors at least will remain in the hands of private enterprise". He then proceeds to jettison most of Labour's sacred shibboleths — the plea for equality of incomes, the bogey that business wants unemployment and the claim that capitalism is inefficient.

Professor Arndt points out that the fundamental difficulty raised by the socialist belief in equality of incomes is the compelling need for higher productivity. He questions whether inequality (of earned incomes) can be further diminished, "whether by taxation and social ser-
vices within a predominantly capitalist system or by any methods whatever in a planned socialist economy without impairing efficiency and thus reducing the total national income available for distribution”. In any case, as Professor Arndt goes on to demonstrate, property incomes are only a minor part of all incomes—in 1951/52, about one-sixth. Redistribution of property incomes could only increase the average wage and salary earner’s income by some 15-20%. The Professor points out that such an addition would be less than the increase in per capita real income that has actually occurred in Australia since 1939 through the effect of normal economic progress in raising total productive capacity. Professor Arndt says: “Some of us may be prepared to pay a certain price in terms of lower average incomes for the social gain of a fairer society, but few of us would be willing to carry this bargain very far”.

Labour’s old claim that businessmen want unemployment gets short shrift in Arndt’s hands. He states: “It is foolish to believe, as is commonly suggested in Labour propaganda, that businessmen and their political allies prefer mass unemployment to full employment and that depressions are deliberately engineered by big business and finance. Full employment means high profits, depression means not only unemployment but also low profits and bankruptcies”. Coming from one holding socialist beliefs this is a vitally significant admission and is indicative of the intellectual integrity of the writer.

Professor Arndt attributes the desire for bank nationalisation to this misguided folk lore and makes the admission that while bank nationalisation is desirable for other reasons it is not essential to an effective policy of full employment. Arndt eventually comes round to the argument which non-labour advocates have been preaching for years—that is, that prosperity cannot be conjured up by credit manipulation whether by banks or governments. Because of our dependence on export income he concludes that socialism is largely irrelevant to the problem of economic stability.

Where, then, lies its advantage? Professor Arndt’s essay poses the question but it would be hard for even the most discerning reader to find his answer. In Arndt’s opinion it clearly does not lie in higher efficiency. He does not accept traditional socialist claims on the inefficiency of capitalism. Rather, in his view, any deficiencies of present-day capitalism as a producer of wealth are attributable to state intervention in the economic process through high taxation, controls, tariff protection and other restrictions on unfettered competition. Arndt argues that the very great superiority in productivity of Canada and the United States over the United Kingdom and Australia is due in part to the fact that Britain and Australia have moved further from undiluted capitalism.

Professor Arndt’s view that productivity in the last analysis depends on the skill and effort of the country’s workers contrasts sharply with the negative and indifferent approach of Australian trade union leaders to this question. He makes no bones about stating: “Many competent and unprejudiced observers have, in recent years, gained the impression that the average Australian worker not only enjoys more leisure
but also works less intensively and keenly than the average worker in capitalist America, communist Russia or the British ‘welfare state’. Arndt stresses that in any process of reform active cooperation by labour in increasing the efficiency of those sectors of the economy which remain in the hands of private enterprise (as well as those taken over by public enterprise) has a major role to play.

Professor Arndt is careful to add a postscript to his essay that to him “socialism” is not public ownership of all the means of production, total planning, or for that matter “putting the class interests of industrial wage earners above those of all other sections of the community”. But he makes concessions to traditional socialist dogma when he advocates the gradual transfer of all major industries operating on a substantial scale to some form of public ownership and in his readiness to go a long way in using the power of public control over economic activity where this is necessary for the common good.

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The present crisis of socialism arises primarily from the fact that many of its political exponents have lost faith in the old creeds either because of their irrelevancy to modern conditions or because of their disappointing results in practice. And perhaps the socialists are finding that private business is not so black as they have painted it, that it often does good works, that it is inspired by motives by no means wholly ignoble, and that by and large it gives the people what they want.

Today, socialism needs nothing so much as a ruthless purgation of prejudices and dogmas long and tenaciously held. It must cease living in the past. Only when there has been a clearing out of antiquated furniture will the socialist mind be able to confront the facts of contemporary economic society frankly and lucidly.

As the essay by Kingsley Laffer so well reveals, prejudice especially is the enemy of all rational and sensible thought (Laffer proposes a wage policy which, if followed, would wreck the Australian economy and make us a laughing stock among the nations). In exposing the falsity and futility of some of the perversely held socialist views and prejudices, Professor Arndt has performed a service of notable value.