Editorial

The Government's economic policy outlined in the Prime Minister's speech on the 14th March has evoked considerable criticism. Some of the criticism has been over-harsh and most has been unconstructive. It has not been sufficiently understood that the Government is confronted with a problem of great complexity upon which there is room for wide differences of opinion as to diagnosis and treatment. Moreover, whatever measures are adopted to deal with the problem, some are bound to be distasteful and therefore politically unpopular.

For its part the I.P.A. cannot accept the emphasis which the Government has placed on inflation as the main cause of the difficulties from which the economy is suffering. Inflation, admittedly, may be a seriously aggravating factor, but it is little more than a symptom of the root causes of the trouble. These causes are to be found in the changes that have taken place in the structure of the economy since before the war. These changes are the break-neck pace of development and immigration; the great concentration of employment in industries which, principally because of high costs, are at present adding little or nothing to exports; a 30% over-all increase in population; and the rise in living standards bought about by full employment, heavy expenditure on social services and a substantial rise in real incomes, particularly of the lower income-earners.

The net effect of these changes has been to increase alarmingly the economy's requirements of imports, but to fail to add to capacity to pay for these requirements by exports. In 1954/5 imports in volume (with restrictions) were 85% up on pre-war, exports only 20% up.
The present economic difficulties are due not so much to excess inflationary spending as to the tremendous annual addition to total spending which arises from these basic structural changes. For instance, if the migrant intake were maintained next year at the rate of 125,000, this would add around £300 million to total spending. Part of this huge sum must inevitably be reflected in a greatly increased demand for imports. The effect of counter inflationary action in reducing demands for imports could be overwhelmed by the increase on this account. The Government has given an undertaking to review the migration programme and possibly the level of government spending before the September budget is brought down. It is to be hoped that this will lead to a substantial reduction in the intake of migrants so as to bring it into line with the realities of the present economic situation.

The great pace of development and population increase, which is unprecedented in Australia's history, was possible without grave economic embarrassment when the terms of trade (which for some years averaged 40% better than pre-war, and which in one year were 84% better) were so much in our favour. This whole situation has drastically changed now the terms of trade are back to, or even below, the pre-war position. This sharp change for the worse in our fortunes is the salient fact to bear in mind in relation to the present problem. If a sound balance is to be restored to the economy we must face up to it and accommodate the rate of investment (including government spending on public works) and population increase to the new situation. Before long this adjustment will, in any case, be compelled by the sheer pressure of events. We are only postponing the evil day, and we are running the gravest risks with the economy, by striving to maintain a rate of development and population increase which our resources are no longer adequate to sustain.

The level of spending on investment—both in the private sector and on government projects—is in the main a response to the rate of population increase which has been boosted by migration to nearly a quarter of a million a year. If this rate is cut back—as it can be—then it will be possible to satisfy the community's needs with a substantially lower volume of public and private investment.

But even if inflation were the main cause of our troubles (we do not believe it is) there would still be room for legitimate differences of opinion on whether the Government's programme of higher taxes would be very effective. There is, for instance, a distinct possibility that increased taxes may result in pushing up the already over-high level of costs. This could occur because of automatic wage and salary adjustments (in the case of tobacco and probably food and fares); increased
transport costs (because of the tax on motor vehicles and petrol); and a clamour for higher incomes in general brought about by higher prices for a wide range of commodities and the tendency for companies to adjust their prices upward because of increased company tax. *Insofar as money incomes increase as a consequence of the Government’s policy, the central purpose of the increased taxation, namely to cut back real purchasing power, would be undermined.*

The increased duties on liquor and tobacco, which are calculated to bring in additional revenue of over £40 million a year, are vital to any success the Government’s policy might achieve. But their effectiveness is clearly dependent on the realisation of one crucial assumption. This is that the higher prices will not cause the public to seriously cut back their consumption. The Government here is obviously relying a great deal on past experience when, as the Prime Minister pointed out, increases in prices did not result in any diminution of consumption. But these increases took place in a period of rapidly rising incomes which helped counteract the natural resistance to higher prices. If the Government’s hopes are not realised and there is a falling off in consumption, then two consequences will follow: First, the Government will fail to get the additional revenue from these sources which it is banking on to contribute a large part of the money it requires to balance governmental accounts. Second, the higher duties will fail as an anti-inflationary device to soak up excess purchasing power, because people will still be left with roughly the same amount of money to spend on other things.

But even if the increased taxes, combined with higher interest rates, are effective in reducing excess demand, the I.P.A. would not expect that there would be any notable improvement in the Australian financial and economic position. Certainly, as the Prime Minister said, a period of consolidation is now an urgent necessity. But consolidation will be difficult, if not impossible, while the existing levels of government spending and migration are maintained. A large cut in these two items is imperative. *Not until this step is taken will we really be striking decisively at the root cause of the economy’s difficulties.*

Looking backward at the post-war period, it is difficult to avoid the conclusion that as a nation we squandered many of the opportunities of the good years, we failed to consolidate and stabilise, we were content to be carried along on an exceptional tide of prosperity, rather fecklessly, without much thought of where we were going and of what we would do if the fates turned nasty. The three things most vital to long-run stability—costs, productivity and exports—were disregarded. The road back to economic health will not be easy and will probably not be short. The sooner we start on the journey in real earnest the better.
More on Taxes and Economic Policy *

The great economic debate reached its climax with the “eight economists’ plan” for increased taxes. To many, the publication of this plan was taken as an indication that the Commonwealth Government would, at an early date, introduce a supplementary tax budget as its main weapon in the attack on inflation and the balance-of-payments deficit.

The plan was immediately met with a blast of criticism from business leaders, trade union officials, and the daily press. Indeed, in all the land, it was hard to discover anyone who supported it. Unfortunately, with few exceptions, the critics suggested nothing to take its place. This might have been taken to mean that they thought that the economic prospect was far from as black as it had been painted and that there was, therefore, no call for extraordinary measures; or, on the other hand, it might have meant that they had no alternative to propose.

Altogether the economists’ plan deserved something more than the summary rejection which it received at the hands of most of its critics. But, even when carefully examined, the proposal to raise taxes remains entirely unconvincing. The most important argument against increased taxation lies in the considerable doubt whether it would be effective — whether it would, in fact, make any worthwhile contribution to the purposes for which it is intended. These purposes are to counteract inflation, to reduce the demand for imports, and to restore balance to the rickety external situation. The doubts stem from both political and economic considerations.

Since the publication of their plan, the economists — with Professor Karmel of Adelaide University as main spokesman — have insisted that their intention, which was in some doubt, was that the extra tax revenue would be used to provide a genuine budget surplus, so that total spending would, in fact, be reduced by at least the amount of the additional tax revenue. This may be good economics, but is it, in the Australian setting, practical politics?

The theory of the compensatory budget achieved prominence in the thirties largely under the influence of Keynes. The original idea was that the central government should budget for a surplus in good times and a deficit in bad — by varying its taxing and spending policies — as a counter to inflation and deflation. (Today there seems to be a readiness to increase taxes, but a strange reluctance to countenance reductions in government spending). As a theoretical abstraction the idea had excellent possibilities. But experience has not dealt kindly with it and there is now far less confidence that governments can, in practice, adjust their taxing and spending policies in such a way as to assure price and general economic stability. Governments are human and the temptation to use surplus tax proceeds for countless worthy projects pressed upon them by numerous pressure groups, frequently proves to be irresistible. What sets out to be a budget surplus usually ends in increased government spending.

These considerations are especially important in Australia, where the States have, politically, everything to gain and little to lose by increasing their expenditure. It is anything but easy for a central government, flush with funds, to resist the clamour of the States for a
parcelling out of the booty. For these reasons it is hard to place much reliance in the conception of a budget surplus as an instrument for cutting back total spending. It is not enough, therefore, for the authors of the economists’ plan to insist — as Professor Karmel, one of its signatories, has done in reply to its critics — that the additional tax revenue should not result in increased government expenditure. The critics of the plan would be justified in being sceptical whether this is at all likely.

Professor Karmel made two other points, neither of which comes to grips with the main criticisms raised against a programme of increased taxes. He disputed the idea that higher taxation is inflationary because it raises prices and costs. He argued that an increase in indirect taxes which resulted in a once-and-for-all rise in the price level would serve to mop up excess purchasing power. But are there any grounds for believing that a once-and-for-all rise in the price level would be at all possible — particularly in the Australian setting where the connection between incomes and prices is much more direct and automatic than in other countries? Is it likely that the trade unions, for instance, would acquiesce in a higher price level designed to restrict the purchasing power of wages without agitating for higher wages in compensation? There is certainly nothing in the wage history of the last few years to believe that they would. Even at the time of writing the trade unions are exerting strong pressure for the restoration of the cost-of-living adjustment for those coming under Federal awards. It would seem to be the height of optimism to suppose that, in the Australian scene, a rise in prices would be feasible without a general increase in money incomes. Until there is much more evidence than there is at the moment that the trade unions and other interests would be prepared voluntarily to agree to a reduction in real incomes, the proposal of higher indirect taxes to mop up purchasing power seems to be of limited practical worth. On the contrary, in view of the already excessive level of Australian costs, higher sales taxes should be approached with the greatest caution.

Professor Karmel then deals with the third of what he calls the three “main arguments” put forward against increased taxation — namely, that higher taxes reduce productivity. In their original policy statement the eight economists were inclined to discount the effects of higher taxes on productivity. Professor Karmel, however, unlike his colleagues, seems prepared to concede some merit in the argument that higher taxes will adversely affect productivity, but claims that in the absence of action to curb inflation, productivity would decline in any event. It is true that inflation, because of labour shortages and easy profits, gives rise to widespread inefficiencies. But the validity of Professor Karmel’s argument hinges on whether higher taxes would prove an effective counter to inflation. For reasons given above — that is, the political difficulties of achieving a budget surplus and the effect of higher taxes on the level of money incomes — it is highly improbable that moderate tax increases would exert a very pronounced disinflationary effect. Indeed, the probability is that they would soon lead to further substantial rises in prices and costs. It is reasonably certain that, in the long run, the heavier burden of taxation would discourage
rapid improvements in productivity and would be particularly dangerous so far as the all-important export industries are concerned. Professor Karmel makes the familiar assertion that improvements in man-hour output are slow and therefore not a solution for a short-term emergency. But, Professor Karmel and his fellow signatories would no doubt agree that higher productivity is an indispensable ingredient of the medicine required to restore the Australian economy to ultimate good health. It would surely be wrong to achieve a little temporary relief from inflationary pressure by measures which would endanger the long-run goal of external economic balance.

PROFESSOR KARMEL has not attempted to answer several major criticisms of increased taxation made by the I.P.A.*

The first is that higher taxes on personal income would not reduce personal spending by anything like the amount of the additional tax. We pointed out that people develop a kind of habitual standard of everyday spending which they do not easily or willingly relinquish. If their incomes are reduced by higher taxes, they will be prepared to save less in order to maintain this standard. Thus the effect of higher taxes on income will be to reduce the total of personal savings. This is particularly so since the great proportion of income tax is paid by people in the middle and higher income brackets — farmers, business and professional men, salaried executives and so on — who can afford, if necessary, to reduce their savings. This fact clearly has important implications for the loan programmes of governments. If contributions to public loans are inadequate — as they are today — then higher taxes will certainly increase their inadequacy. The maintenance of expenditure on government projects would thus imply that part of the additional tax proceeds will have to be applied to cover the fall in contributions to public loans.

Another important point is that the income on which the recipient's attention is concentrated today is not his gross income (i.e. income before tax) but his "take home pay". The combination of higher tax rates and the introduction of "pay as you earn" has been largely responsible for this change in attitude. This means that the level of wages and salaries is much more responsive to tax increases than it used to be. For instance, in the salaries group, there is no doubt that higher taxes will eventually lead to higher incomes through an adjustment in yearly salaries. As with an increase in indirect taxation, the aim of higher income taxes is to cut back the purchasing power of incomes. But part of this objective will be nullified if incomes rise — as indeed they will — in compensation.

The crucial argument against higher taxes is that, no matter what form they take, they will sooner or later give rise to increased incomes and thus to higher costs and prices. Under present conditions, Australia is in no position to stand a further lift in a cost structure already much too high, and policies which tend in that direction should be avoided.

It has been necessary to restate here these criticisms of increased taxation because the advocates of such a policy have not yet satisfactorily answered them. But, even when all this is said, the main part

* See article: "Proposals to Increase Taxes" in October/December "Review."
of the case against increased taxation rests on entirely different grounds.

If we allow that a policy of all-round tax increases would be effective in removing inflationary pressure (for reasons given above we do not think it would) the question still remains whether this would bring the economy materially closer to the point where spending on imports was balanced by export receipts. Or would we be still left with a yawning gap in overseas payments which would have to be bridged by severe import restrictions? The question at issue is vital. It is whether Australia’s difficulties are due to no more than excess inflationary spending, or whether they go much deeper, and are inherent in the structural composition of the post-war economy. In a number of articles in this publication we have emphasised our view that the Australian economic problem is primarily due to these structural changes and that unless policies, which take proper account of them, are devised, then the situation is destined to grow worse. Inflation, in this view, is mainly an unpleasant symptom of the economic indisposition, not the cause of it.

This analysis seems to be confirmed by the observations of an eminent Swedish economist, Professor Lundberg, who recently visited Australia at the invitation of the Commonwealth Bank. Professor Lundberg says* it is very likely that Australia would have a considerable balance-of-payments deficit even if the economy were brought into internal equilibrium and the inflationary gap eliminated. He points out that in 1953/4 when there was little inflation, there was no deficit in the balance of payments. But this, he states, was due to two factors: First, the highly favourable terms of trade, which were 25% above the pre-war level which we are at the moment again approaching; and second, quantity import restrictions. He says that if the terms of trade had been normal and there had been no import restrictions, there might have been a deficit in 1953/4 of about £200m. Professor Lundberg concludes: “The fundamental disequilibrium in the Australian balance of payments seems to be due to the tendency for import volume to grow at about the same rate as the real national income, while the volume of exports grows at a much slower rate, determined largely by the increase of productivity in primary industries. The import replacement effects of the very rapid expansion of manufacturing industries in Australia since the end of the war seem to have been neutralized by the large demand for machinery and raw materials that has accompanied this expansion. There is no easy way out of Australia’s balance-of-payments problem — if as seems probable to me — they are of a long-term structural kind.”

This is what the I.P.A. has been insisting for some time. Admittedly, Professor Lundberg says that the first thing is to eliminate inflation and over-full employment and that only when this has been done will we know where we stand. The I.P.A. agrees that it is imperative to remove inflation — we do not think this can be done through taxes — but, if it is true that our troubles arise from basic structural causes, then it is far too late to postpone immediate action to deal with these causes. Otherwise the situation

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*In an address to the N.S.W. Branch of the Economic Society.
would continue to deteriorate, with the gravest consequences to the Australian economy.

In order that there should be no misunderstanding about the nature of these structural changes we restate them here. They can, in our view, be reduced to four in number. They are:

First, the great growth in the size of the economy, including the growth in population which is now over two million or 30% greater than before the war.

Second, the abnormally high current rate of development, which, of course, has made this growth possible. For instance, investment in 1954/5 took 25% of gross national product, as against consumption (including cars) 71%. In 1938/9 the figures were investment 19%, consumption 78%.

Third, the employment of 30% of the working population in manufacturing industries, contributing mainly to the home market but little to export. Two decades ago the proportion employed in manufacturing was 20%. In the meantime the proportions engaged in the primary or export industries has declined from 24% to under 15%. This implies no criticism of our manufacturing development. It is perfectly true that a large proportion of migrants can only be absorbed in the manufacturing industries. It follows that if we are to continue large-scale migration there must be a corresponding development of manufacturing. But it is also surely true that this development cannot be supported unless the industries in which the great increases in production and employment are occurring make their contribution to export income. At present, the high level of costs is an almost insuperable obstacle to any rapid expansion of export markets.

Fourth, the big lift in average living standards, mainly of the lower income earners as a result of full employment, higher real wages and salaries and comprehensive social services.

If this diagnosis of Australia's difficulties is correct it would be the height of folly to refrain from resolute action aimed at reducing the rate of development and intake of migrants. Some cut in living standards is, in any case, inescapable because of the reduction in real resources following from the import restrictions.

Some people seem to talk of the Australian economy as if its basic structure were broadly similar to pre-war. At that time the vital factor influencing current prosperity and the rate of development was the earnings of our exports of primary products — wool, wheat, meat, etc. — and these were generally sufficient to support a smaller economy, not fully employed, at a lower standard of living than today without serious embarrassment to the external payments position. The basic economics of that economy were brilliantly expounded by economists such as Sir Douglas Copland and the late Professor L. F. Giblin. But all this has changed, and changed vastly; and we have yet to work out the basic economics of the post-war, highly industrialised Australia with a new conception of the living standards which its people consider their entitlement. It is a great task waiting to be done.
Understanding Free Enterprise

This article comprises a report by the Secretary of the I.P.A. on his recent visit to the United States. The main purpose of his visit was to study the work being done to inform the American people of the achievements of business and the operation of the free enterprise economy.

For many years longer than any of us can remember people have been misinformed about the business system. Over 100 years ago Karl Marx sowed the seeds of hate for capitalism. But if he were alive today he would not recognise the system he condemned. Vast changes for the better have occurred and are still continuing. Thanks very largely to the productivity of the free enterprise economy the people of the western world today enjoy better living. They live in better houses, eat better food, wear better clothes, work in better factories, receive better and more regular pay, enjoy better education and have more leisure than ever before. Wealth has been redistributed and more and more people have become shareholders in industry.

But, even with all these advances, it is still necessary to correct widespread misinformation and build a better understanding of the business system. False ideas about business are still undermining efficient teamwork between management and men. Briefly the problem boils down to an urgent need to explain to the man in the street:

- How business works in the public interest.
- How increased productivity contributes to higher standards of living.
- How profits and investment provide better jobs and better products for more people.
- How competition assures better products and services at lower prices.
- How management must keep the interests of consumers, employees and shareholders in balance.
- How government should function in a free economy for the best interest of all.

Economic Education Programmes in U.S. Industry.

What is being done about this problem of economic education? The writer was privileged to spend some weeks last year in U.S.A. studying what leading American companies and business organisations are doing in the field of economic education. The first important conclusion that emerges, is that American industrialists believe that this is a task which must be undertaken primarily by businessmen themselves.

Businessmen in the U.S. realise that they have a tremendous job to win and retain public goodwill. They realise that the future of the free enterprise system depends to a great extent on encouraging employees to learn more about that system. American industry is therefore spending vast sums each year as part of a continuing programme to explain the operation of the free economy. It is not possible to obtain figures of the total cost of economic education programmes. But the magnitude of it can be gauged by the fact that something like $100,000,000 per annum are being spent on employee magazines alone. The New York Stock Exchange itself has a budget this year of approximately $700,000 solely to explain the working of the Stock Exchange and to encourage wider share ownership.

U.S. industry is nevertheless having a second look at the problem of economic education. This might be said to have dated from an article entitled "Is Anybody Listening?"
which appeared in "Fortune" in September, 1950. It is now realised that in the past a great deal of money was wasted on one-sided propaganda. Today there is a far more intelligent and thoughtful approach to economic education.

Some of the main forms of employee communication in operation in U.S. industry are described briefly below:

**Employee Magazines.**

U.S. industry has discovered that the soundly-edited employee journal is one of the most effective mediums of communication between management and labour. Over 50,000,000 copies of house journals are printed each month—a circulation greater than that of "Life," "Time," "Saturday Evening Post," "Colliers" and the "Reader's Digest" combined.

Most employee magazines contain at least one economics article in each issue. These articles cover such matters as company operating results, future plans and inspirational ideas or basic facts bearing on the economy.

The du Pont journal, "Better Living" enjoys the reputation of being one of the best employee magazines in U.S.A. It has a circulation of close on 150,000 copies an issue. Apart from du Pont employees, it is distributed widely among newspapers, libraries, schools, doctors and social and civic organisations, especially those in du Pont plant communities. "Better Living" was planned as a picture magazine because the reader has so many calls on his time and because of the power of a picture to get an idea across.

**Reading Racks.**

Over 700 U.S. companies are now using information racks in their plants and offices. Employees are entirely free to take literature from the racks or leave it alone. The material is there if the employee wants it but he is not urged to take it. He is free to disregard it entirely. This voluntary feature is all-important. Reading a booklet is the employee's own idea and for that reason he is more inclined to approach it with an open mind and to believe what he reads.

General Motors' employee surveys indicated a genuine hunger for information. Accordingly they have installed in plants and offices about 2,000 reading racks to fulfill this need. Since 1949 nearly 100,000,000 copies of about 500 booklets have been distributed through G.M. rack services. G.M. puts out more booklets than automobiles.

G.M. information rack booklets are issued on the following basis:

(a) General Motors Information ... 10%
(b) Home and Family, such as "Cookery," "How to Raise Plants in the Home" ... 23%
(c) Inspirational, such as "The Man Who Discovered Christmas" ... 13%
(d) Health and Safety ... 14%
(e) Technical and Mechanical Information ... 5%
(f) Economic and Social Material, such as "Big Business for a Big Country" ... 35%

It will be seen that a good share of the booklets are aimed directly at informing G.M. employees on the economics of their own company and of American business in general. However, the company is careful not to overdo the economic information. That would be a quick way to kill off interest in the racks. G.M. have installed racks on request in a number of universities, in the Y.M.C.A., Chambers of Commerce and other community centres.

Among the well-known companies which have adopted the reading rack system are U.S. Steel, Swift and Co., Standard Oil Co. (N.J.), Esso Standard Oil and the Aluminium Co. of
America. But there are more small companies using racks than large organisations. The rack programme is practical for any company regardless of size.

HOBSO (How Our Business System Operates).

This is an educational programme which was developed by du Ponts. It consists of three 90-minute discussion meetings of not more than 20 employees. The meetings are held in company time and the discussion is guided by a conference leader. The sessions are devoted to the following:

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The conference leader does not preach nor take sides in the discussion. His role is to maintain a non-partisan, neutral stand and to make the discussion as open and frank as possible.

Du Ponts have trained 140 programme leaders and have presented HOBSO to 85,000 of their employees. The company is certain that management-employee relations have improved as a result of HOBSO.

In 1950 the programme was made available to the National Association of Manufacturers. N.A.M. have trained men from over 350 other companies and approximately 500,000 employees in these companies have now participated in HOBSO discussions.

HOBSO is probably the most widely used economics course in U.S. industry. But there are many others. Swift and Co., for example, have an employee discussion course based on a small, illustrated booklet entitled "How We Live". The Sun Oil Co. has a programme called "Our Economy at Work". This course was developed with the aid of the University of Chicago. It is based on ten excellent booklets which cover matters such as competition, producing for better living, money and profits. Sears Roebuck spent about $1,000,000 on a film programme designed to educate their employees in the economic facts of life. It also endeavours to show how Sears measures up as a responsible company in the U.S. economy. This course has been presented to over 200,000 employees.

A survey made by The Opinion Research Corporation revealed that one large U.S. company in every five was conducting a special economics course for its employees and that the trend is rising. About 90% of foremen and rank and file employees who have attended economics courses have voted for more of them. In surveying employee reaction to these courses this comment from a steel works foreman is typical:

"It made me feel that the company thinks of us as real people. I felt flattered that they thought enough of our opinions to pay us to sit around and discuss these problems."

Companies believe improved economic understanding will result in better employee attitudes, better work relationships, increased productivity, high job morale, better citizenship and more intelligent voting. An employee who understands company economics is a better and more productive employee.

"Let's Face It."

This is a programme sponsored by U.S. Steel as a public service. The project was developed in conjunction with The American Economic Federation.
“Let’s Face It” is a film discussion programme designed to explain economic facts in easily understandable language. The film is presented in a setting with which any member of an audience can identify himself. The film shows that workers, investors and management want the same things out of life. But rewards can only come as a result of customer security, that is, by teamwork which enables the business to win and hold customers. The theme is that if we work together we can all get more.

“Let’s Face It” consists of two 15-minute 16 mm. black and white films and a flip chart of 62 pages. After each reel a discussion leader turns over the flip chart which guides the discussion. A trained discussion leader is not needed. Any member of the group can handle the charts. Experience has shown that better results are obtained when no member of management is present at rank and file meetings.

On account of its size (30% of U.S. market and 275,000 employees), U.S. Steel is very conscious of public opinion. The company feels that objectivity is the secret of success in economic education. “Let’s Face It” is a first-class programme. It is entirely objective. This is, no doubt, the reason why the programme has been used in community-wide projects and in schools, colleges and social and religious groups.

Open House for Employees’ Families.

“Family days” in the plant answer the natural urge of wife and children to see what goes on where father works and just what he does. And the opportunity to show his family the work he performs enhances his feeling of importance and prestige in the company. An excellent opportunity is afforded management to straighten out for the family—whose influence on the morale of the employee is obvious—some of their questions about company operations.

Many of the companies I visited hold these open house visits at least once each year.

Regular Employee Meetings.

The practice of holding regular meetings of employees presided over by top executives is growing. Employee attitude surveys indicate that there is a genuine desire for information about company plans and financial results. U.S. managements believe that employee meetings and discussion groups provide a direct channel of communication and enlightenment. Many companies consider it is valuable to have their chief executive officer give employees periodic reports of the company’s financial operations, its problems and future plans. Major changes in policy are effectively presented in this way, with details and questions left to subsequent handling by departmental heads and supervisors.

Some companies have had success with “Nail the Rumour” sessions. Employees are given an opportunity to write down “what they hear” on a slip of paper and post it in a rumour box. Periodically, company officials present the true facts at a group meeting so that all may hear.

General Electric, Standard Oil (N.J.), Corning Glass and Kaiser Aluminium are examples of companies which believe in holding regular “face-to-face” meetings. At General Electric, meetings of 15-16 employees at a time are held each year at which a departmental manager will discuss sales, prices, financial results and prospects for the coming year. The Standard Oil Co. (N.J.) believes that top directors should be seen by employees, so the President normally opens employee
meetings. This company carries out periodic surveys of what the employees want to know. The answers are given at employee forums and discussion groups.

U.S. industrial relations people believe employees must have a source of information. If the facts are not given, rumour and misunderstandings will flourish. The employee wants recognition. He wants to be put into the picture and he wants to know the facts which affect his livelihood.

Above All Else, Recognition.

One evening on board an aircraft bound for New York, three or four Corning Glass executives were discussing with me an issue of the I.P.A. publication "Facts." This contained the results of a survey of what Australian workers want most from their jobs. In order of preference, these were listed as security of employment, high pay, ample holidays, opportunity for advancement and good working conditions. The Corning men thought all of these were important. But they had no doubt that what the U.S. worker wanted above all else was recognition—a desire to be recognised as a human being and to be informed about the company, its organisation, the goods it produces, customer reaction, the reasons behind changes in production methods, profits and losses and prospects for the future.

The view is widely held throughout the U.S. that employees who realise the purposes behind their jobs and know how the products will be finally used have a better attitude to their work and get more satisfaction from it. An undertaking that neglects to keep its employees informed becomes a breeding ground for rumours. And, last but not least, employees cannot be expected to believe in and support the system of free enterprise if they fail to realise what they stand to gain from it and do not regard themselves as contributing towards it.

16 mm. Documentary Films.

In both U.S.A. and Britain use of films dealing with business and the economic system is increasing to a marked extent. Most recent films endeavour to strike a balance between entertainment and information.

There is no question about the effectiveness of a good film. But the experts believe it is debatable whether just showing a film will really clarify issues to the extent that all people can understand them. This is especially true with films about the economic system. For real understanding, people should have an opportunity to ask questions and discuss the points made in a film. The film discussion meeting is an excellent device for getting across facts. It combines the advantages of visual presentation with audience participation.

One of the most successful educational projects undertaken by the U.S. Chambers of Commerce has been the film "It's Everybody's Business".* This is a colour cartoon film which was developed by the Chamber in co-operation with E. I. du Pont de Nemours and Co. Among other things, the film endeavours to explain how business works in the public interest, the importance of profits and how productivity contributes to higher living standards. This film has been a tremendous success in U.S.A. About 500 prints have been sold. It is estimated that 60,000,000 people have seen the film on T.V. In addition, it has been shown to some

* The Associated Chambers of Commerce, Canberra, have a copy of this film. The I.P.A. hopes to have a print which will be available to borrowers later this year.
3,000,000 people in small community groups.

The National Association of Manufacturers, New York, have made a number of important films. A feature of the N.A.M.'s work has been a weekly T.V. series "Industry on Parade". This series has received universal acclaim. A new film is produced each week for screening on the T.V. network throughout the U.S. In addition, these N.A.M. films are regularly shown on T.V. programmes throughout the world.

In contrast to Australia where films about free enterprise are seldom if ever made, in the U.S. scores of companies and other organisations have produced educational films of this type. Not all of them are good. But there are many excellent productions which could be used to create better economic understanding in this country. Among them are films dealing with subjects such as banking, inflation, industrial research, profits, productivity, investment and human relations.

Business and the Schools.

In the scope of this article, it is possible only to mention briefly that responsible businessmen in U.S. are giving a great deal of thought to the need for better economic education in schools. It is recognised that schools provide the employees of tomorrow and that the attitude of students to business is greatly influenced by the views expressed by their teachers.

The U.S. Chambers of Commerce each year organise a Business Education ("B.E.") Day. On this day school teachers visit factories and businesses in their school areas. Since the "B.E." Day programme was first launched, 300,000 teachers throughout U.S. have visited 36,000 plants, factories, stores and offices to learn more about how business operates.

An interesting project has been developed by the Foundation for Economic Education of New York. It is the College-Business Exchange Programme. Each year fellowships are available during the summer vacation for college professors to devote six weeks to "on-the-spot" study of a business firm. Some 500 professors have participated in the programme to date. One professor after his fellowship with a large retailing establishment said:

"I was surprised and pleased that we were allowed the utmost freedom (even encouraged) to inquire into any phase of the Company's activities which interested us, e.g., costs, margins, profits, wage scales; that all our questions were answered fully and frankly; and that we were told, in confidence, of new programmes, new policies, new products, and new management and merchandising techniques that were being developed."

Productivity and Automation.

1955 was the most prosperous year in U.S. history. Employment was over 65,000,000 jobs—an all-time high. Personal incomes reached the highest level ever and records were broken in industrial production. Informed people were talking of a fabulous future, higher living standards, automation and of rising productivity. Automation was being discussed everywhere.

What is automation?

The Chairman of Radio Corporation of America, David Sarnoff, has defined it as "the process of substituting automatic for human controls in the manufacture, packaging and distribution of goods; and the equivalent process in mines, office work, accounting and the like". Other authorities prefer to regard automation as an advanced stage of mechanisation or an acceleration of a process which has been going on since the Industrial Revolution. In any event, where
it has been introduced automation is taking the hard manual labour and certain human decisions out of the job. The machine rather than a tradesman controls the accuracy of the operation.

International Business Machines (I.B.M.) and Remington Rand have produced a range of electronic machines which are offering enormous savings in man-hours in offices. They are now being used to type cheques, do payrolls, and perform a whole range of involved calculations for industry, banks and life insurance companies.

Remarkable advances have been made in the electrical industry by the application of automation. Circuits for radio and T.V. sets are no longer individually wired. They are printed and connections are automatically soldered.

H. J. Heinz have an automatic warehouse in Pittsburgh. The entire factory output is moved electronically by conveyors to selected positions in the warehouse, where stocks will be ready for shipment.

During a visit to Corning Glass Works I saw revolutionary ribbon machines spitting out glass shells for electric light globes at the incredible rate of over 1,500 per minute—much faster than a machine gun can fire bullets.

Today, there is £7,500 in assets of all types behind each employee in U.S. industry. This is one of the secrets of U.S. productivity: it is also one of the results. This asset backing is likely to increase as automation becomes more widely adopted. But enlightened managers clearly recognise that, no matter how much capital investment is made, increased productivity will only occur if the employees are willing. This is a vital pointer to the importance of sound human relations policies as an aid to productivity.

The U.S. provides many examples of automatic machines manned by one to four men replacing 20, 40 or even 400 men. It is only right that industry should accept its share of responsibility for the readjustments which may be required. General Electric, for example, have avoided labour displacement by a vast system of re-training workers in new skills. This, and normal labour turnover, have enabled the company to absorb people who have been displaced by automatic processes.

American industrialists believe that automation provides one answer to the high cost problem. Several expressed the view that there was considerable scope for automation in Australian industry owing to our rising wage level. For example, Mr. M. J. Beecher of the American Management Association told me:

"Automation is adaptable to the smaller business employing 500 employees or less. Variations could be made to suit many Australian businesses. In smaller mass production plants where there is a standardised product with a steady market there is room for automation. But you must analyse the market and competition more carefully than ever before prior to launching automation."

Trade Union Attitudes.

American trade unions accept capitalism. This is primarily because the competitive economic system has "delivered the goods" and has given Americans a steadily rising standard of living. The unions want business to be efficient and profitable. They know very well that, when it comes to bargaining time, a company which is not making money cannot afford to give wage increases and liberal employee benefits.

Americans have been prepared to develop their natural resources fully. They have seldom supported the fal-
lacy that men might work themselves out of a job. U.S. unions understand the significance of rising productivity and they are ready to work hard for ever-rising living standards. At the same time they fight for their due share of higher productivity.

In Detroit I visited Solidarity House, the headquarters of the powerful United Automobile Workers—one of the strongest trade unions in U.S.A. This union has over the years obtained very great benefits for its members. But the union fully appreciates that employee gains must come out of higher productivity. Among other things, I asked Howard Lipton, editor of the U.A.W.-C.I.O. journal, "Ammunition", what was the trade union attitude towards automation.

"This union," he said, "does not oppose automation. We have never stood in the way of technological progress, which has been the source of many of the benefits our members enjoy today. But if automation brings with it displacement of labour we shall demand employment safeguards."

I called on Nat Goldfinger, Associate Director of C.I.O. Research in Washington. He is one of the leading figures in this great trade union. He confirmed that the C.I.O. had never opposed technological change. Mr. Goldfinger believes that social consciousness is growing in U.S. industry. There was more of it among the bigger companies which are in the public eye than in the smaller and medium-sized firms.

A good indication of how U.S. trade unions support free enterprise is the way American unions invest their funds. Among the shareholders of the Midwest Rubber Reclaiming Company in East St. Louis is the local branch of the Rubber Workers' Union. America provides many other examples of trade unions investing money in industries with which they are associated. This helps to create a common interest in what is essentially a joint endeavour.

What can we in Australia learn from the methods which have been tried and tested overseas?

The main lesson is that individual companies in Australia can do far more to promote a better understanding of free enterprise among their employees. It must be recognised that there are limits to what organisations such as the I.P.A. can accomplish by themselves. In order to get the message across, and to establish the free enterprise philosophy more firmly in the minds of this nation, businessmen must accept a greater share of responsibility for economic education in their own organisations. Based on American experience, Australian companies can do much more, for example, in the field of employee magazines and in holding regular meetings with employees to explain and discuss aspects of business operations.

At all times the case for business must be stated frankly and truthfully. It would be well to bear in mind these words of an eminent business leader:

"I think many business firms make a mistake in saying that the capitalistic or free enterprise system is perfect, and therefore, whatever is done by business firms in such a society is proper. There are wise policies in a free society and unwise ones."

Given wise business leadership, better human relations will follow. This in turn should promote greater productivity and a more enthusiastic industrial effort.
WAGES and prices are on the march again. After a brief 18-month period of comparative stability, the “six capitals” retail price index showed an increase of 3/- in the first quarter of the 1955/56 financial year and another 3/- in the second quarter. For Melbourne, which was well over the average for all capital cities, the increases were 6/- and 5/-. The immediate prospects of regaining stability are anything but encouraging. Indeed, for a variety of reasons, the increase for the third quarter of the current financial year might well exceed those of the first two quarters. As the cost of living rises and the disparity between the wages of those paid under State awards and of those under the “frozen” Federal award widens, it needs no great effort of imagination to see that it will become increasingly difficult to restrain the advance of the wage line as a whole.

In the light of the menacing external payments position, the prospect of a renewal of the wage-price inflation must be viewed with the gravest disquiet.

The uncomfortable truth is—and other countries are facing the same problem, if in a less acute form—that no way has yet been found of avoiding the continued depreciation of the monetary unit in the full employment economy. The record in Australia since the war is one of continuous and unprecedented additions to wages and prices which have now reduced the purchasing power of the £ note to about 7/6 compared with 1939.

The increases since 1945/6 are set out in the Table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages (1)</th>
<th>Prices (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945/46</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1946/47</td>
<td>103.7</td>
<td>102.4</td>
</tr>
<tr>
<td>1947/48</td>
<td>116.4</td>
<td>109</td>
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<tr>
<td>1948/49</td>
<td>132.2</td>
<td>119.6</td>
</tr>
<tr>
<td>1949/50</td>
<td>145.1</td>
<td>130.6</td>
</tr>
<tr>
<td>1950/51</td>
<td>174.2</td>
<td>149.1</td>
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<tr>
<td>1951/52</td>
<td>214.5</td>
<td>182.9</td>
</tr>
<tr>
<td>1952/53</td>
<td>235.0</td>
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<td>1953/54</td>
<td>246.2</td>
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</tr>
<tr>
<td>1954/55</td>
<td>257.2</td>
<td>206.9</td>
</tr>
<tr>
<td>1955/56</td>
<td>273.1</td>
<td>214.9</td>
</tr>
</tbody>
</table>

2nd qr.

(1) Based on average weekly earnings per male unit.
(2) Based on “C” series retail price index for six capital cities.

If one of the main purposes of economic policy is to preserve a reasonable stability in the value of the monetary unit, then Australian governments, irrespective of their political complexion, have a dismal record of failure in this branch of economic management over the post-war decade.

Where will it stop? Or are there no limits to the internal depreciation of the £? If there are limits, what are they?

After all, it can be argued that the huge rises in costs and prices over the post-war years have been accompanied by an almost uninterrupted prosperity and by one of the greatest periods of development in Australian history. Inflation may have given rise to certain minor discomforts and to inequities between different sections of the people; but it might be contended that these disadvantages have been far outweighed by the gains of full employment, a buoyant prosperity and unparalleled development. Indeed, the fact that these constant increases in prices have occurred over a long period without any major economic upsets has brought about a rather complacent attitude toward them. By and large the Australian people no longer
worry, in the way they once did, about soaring prices and living costs. Nor, certainly, do governments and monetary authorities.

In an economy as dependent on international trade as the Australian, there are, however, definite limits to the level to which wages and internal costs can rise. These limits are set by the level of export prices. So long as the major export commodities remain profitable—on some of the less important exports, costs already exceed prices—the Australian economy can carry on in a fashion, provided export returns are sufficient for the purchase of the minimum imports necessary to the maintenance of employment and living standards. But if the costs of producing wool and wheat and one or two other vital exports overtake the prices which other countries are prepared to pay for them, then serious disruption of the economy cannot long be postponed.

There is, fortunately, still a margin between the selling prices and costs of Australia's main exports, although it has narrowed very appreciably over the last few years. But the real tragedy of the renewal of the wage-price inflation is that it comes at a time when not merely the maintenance of exports, but their rapid expansion, is a matter of paramount urgency. Any increase in internal costs must render a task, difficult enough in all conscience, infinitely more difficult.

The problem in its long-term aspects really boils down to the question of whether full employment is possible without inflation, and, if not, whether full employment contains within itself the seeds of its own destruction. This is a question to which economists throughout the world are seeking an answer.

To put it in another form—is it possible for economic policy to provide employment for everyone and, at the same time, to avoid a serious inflation of wages and prices? This is really a problem of ensuring that, in a full employment economy, wages do not rise faster than output.

There are two main reasons why this problem is proving not merely difficult, but, so far, insoluble.

Firstly, a full employment economy places an almost unbearable strain on the social conscience of the trade unions, on their willingness to reconcile their own private demands with the public interest and the requirements of internal and external financial stability. In a tight labour market, the temptation to bargain for higher wages and improved conditions is strong and the trade unions—even more so in Australia than in many other countries—like Eve, have shown no great inclination to resist the lures of the serpent.

In the early planning for full employment it was recognised that one of the conditions of its success was that trade unions should use their enhanced powers with a sense of moderation and responsibility. Thus the 1945 Full Employment White Paper, produced under a Labour Government, specifically states: “The trade union movement includes the great majority of consumers, and should protect their interest by ensuring that a minority does not obtain temporary benefits which will involve higher prices for consumers in general”. It must regrettably be said that, so far, the trade unions in Australia have shown little appreciation of what a full employment economy requires of them if inflation is to be avoided and financial stability preserved. On the contrary, notwithstanding some exceptions, their powers have been used unsparingly over the post-war period in an all-
out drive to advance the wages and conditions of employment of their members. Both governments and industrial tribunals in acceding to many of the union demands in the interests of industrial peace have been, to say the least, under considerable pressure. It is significant that the magnitude of the concessions granted has far exceeded anything in our pre-war industrial history.

Nevertheless, the difficulty which confronts the trade unions in withstanding the temptations of full employment is probably the small part of the problem; and, in any case, human nature being what it is, it may be rather too much to expect the unions to refrain from exploiting the powers which the new economy has placed in their hands.

The real crux of the problem may lie in preventing “full employment” from overflowing its banks and producing the flood of over-full employment. This is a matter largely for government policy; but so far in Australia, governments have shown no pronounced desire to come to grips with it. Since 1947, “more jobs than men” has been the rule rather than the exception. This has come about not only because unusually buoyant returns from exports have generated excessive internal spending power, but also because the consensus of expert economic opinion in Australia has been inclined to favour the “more jobs than men” economy rather than the more modest goal of “full employment”. In this attitude they have been at odds with their fellow-economists in the United States, Britain and Canada.

“Over-full employment” is, of course, merely another name for inflation, but apparently many Australian economists did not see this, or if they did see it, they did not regard it to be of crucial importance. A shortage of labour unavoidably generates increasing wages, costs and prices in a number of ways.

In the first place, if the demand for labour exceeds its supply, its price, like that of anything else, will rise. Thus, throughout a good part of the post-war period, over-award payments of a not negligible magnitude have become an almost accepted feature of the Australian economy, and award rates have ceased to be the standard on which employers base their wage and salary payments. Indeed, in the momentous 1950 basic wage judgment, in which the Commonwealth Arbitration Court awarded a £1 increase, one of the main reasons advanced by the Court to support its decision was that it would be unrealistic for the Court to establish a wage level substantially lower than that which was already the general rule throughout industry. At the same time the Court seemed anxious to protect itself from any undesirable consequences which might follow from its judgment. It, in effect, warned employers that they should adhere to the rates granted by the Court as those in the best public interest, and that if they persisted in paying above-award rates then the responsibility would be theirs. Wherever the responsibility fell, the impact of the judgment on the Australian cost structure was certainly spectacular.

Moreover, above-award payments are only a part of the story. The competition for scarce labour which forces the wage level well above the standards set by industrial tribunals, also leads employers to offer all sorts of additional inducements—other than wages—in order to obtain their labour requirements. One has only to study the advertisements in the daily press to gain some idea of the wide variety of the attractions offered. They range all the way from subsidised meals, hair-dressing
salons, to regular time-off for shopping. The total effect of the concessions is to push up labour costs and aggravate the inflationary movement. Since, in an inflationary situation, the employer is for the most part able to recoup the cost in his selling prices, the concessions are paid for by the consuming public.

The matter does not end here. Where there are more jobs offering than people to fill them, it is only natural to expect that many people will drift around from occupation to occupation, sometimes to satisfy a desire for a change, sometimes in response to the notion that "far hills are always green" and sometimes to take advantage of better pay and conditions. No doubt this is a very satisfactory situation for the "drifters", but it is a very costly one for the national economy. It is no coincidence that, over a good part of the post-war period, labour turnover in Australia has been excessively high by comparison with other countries. This has been noted by the Commonwealth Tariff Board from time to time in its Annual Reports, and deplored because of the serious addition to costs which it implies.

There is a further aspect. The over-inflated economy is an inefficient and therefore a high-cost economy. On the one hand, the least efficient marginal labour is sucked into employment. On the other, competition among employers for markets is weakened, profits in some industries become too easy to make and scarcities of materials and labour lead to discontinuous, high-cost production.

For all these reasons inflation contains within itself the seeds of further inflation. Once under way it is not easy to halt.

**WHAT is the solution?**

Under full employment, it is probably impossible to avoid some measure of inflation. The most that can be hoped for is to restrain the inevitable upward drift in costs and prices to a moderate tempo, and to avoid the kind of runaway movement we have experienced since the war.

One thing is certain. Once the cost of living starts to rise, it is idle to expect wages to stand firm. A rise in the cost of living may be initiated by causes other than an increase in wages. It may come about as the result either of a lift in external prices or of the mistakes of internal financial management. These mistakes have played a not negligible part in the great post-war inflation of Australian wages and prices.

There is really only one course which is consistent with stability and the avoidance of inflation with ever-mounting living costs.

The monetary, financial and economic policies of the central Government must be directed at securing a rough equation between the supply of jobs and the supply of workers. The former must not be allowed to over-top the latter. Perfection, of course, is not to be expected. Sometimes the best-regulated policy will err on one side, sometimes on the other. But at all times the Commonwealth Government must be on the alert to avoid the kind of situation of labour shortage with which we have been plagued since the war. The huge scale of its own spending—and that of the States, too—both on current activities and capital projects has been an important element in this situation.

Whatever advantages an excess of jobs may appear to have for some, in the end it will be to the disadvantage of all. Sooner or later the over-full employment economy will burst its seams and culminate in the catastrophe of deflation and unemployment. The culmination may, by a favourable combination of circumstances, be long-postponed but that does not lessen its inevitability. Already it is perilously late.
Britain’s Productivity Problems

By

Graham Hutton
O.B.E., B.Sc.(Econ.), Barrister at Law

Economic adviser to the British Productivity Council and professional consultant to leading businesses, Graham Hutton is one of the foremost authorities in the world on productivity. His book, “We Too Can Prosper” (published 1953), together with numerous articles and lectures, have won him wide acclaim in this field. Mr. Hutton was Assistant Editor of “The Economist from 1933 to 1938 under a famous Editor, Sir Walter (now Lord) Layton. He spent the war years in Government service, and in 1947 went into business on his own account as an economic consultant.

The I.P.A. regards Mr. Hutton’s article as one of the most important contributed features which has yet appeared in “Review.”

Britain’s productivity problems are more pressing than ever in her history, like the inflation of the last sixteen years which a faster rise in her productivity alone can really overcome. In these things—though in little else—the British economic problems are basically the same as those facing Australia, though they arise from different causes. The Australian inflation, which has lasted longer than the British, is basically
due to a rate of industrialisation faster than a still important primary-producing country can finance and man-up. The British inflation per contra is due to a rate of Governmental and private "investment" (using that term to cover consumers' durable goods as well as productive capital apparatus) faster than the rate justified by what Government, people and businesses are prepared to save from current consumption. The Australian, like the Indian or South African or the earlier Russian, inflation is in a primary-producing country fast converting to industry. The British inflation per contra is in the country first to industrialise in the world, with the oldest capital apparatus (look at Britain's highway and railway network, unimproved for a generation!), and with a formidable backlog of vitally necessary capital works caused by, or postponed from, the second World War: in a country, moreover, which had abruptly shifted its economic situation in the world from a creditor to a debtor (in six years of war), more than doubled its financial and manpower burden for defence, and facing a drastic relative increase in the world price-level for its vital imports of food and industrial materials (over half its food requirements, and nine-tenths of its industrial materials) in contrast to the slower rise in world prices for manufactures which it exports. It is not too hard a saying that the Australian inflation is due to the headstrong rapidity of a youthful country set on industrialisation at any cost, and the British inflation to an ageing and tired country set on State welfare and an easy life at any cost. Clearly, the problems of inflation will declare themselves in both lands in much the same ways; but in most respects it is easier to overcome the Australian than the British inflation. Let us take the British set of inflationary problems to pieces.

First, some necessary figures. Carlyle once said that "a wise man looks at statistics not to gain knowledge, but to save himself from having ignorance foisted on him!" Here are the bare statistical bones of post-war Britain's inflationary problems. Britain's population is up since 1938 by only 7%, but owing to the inflationary creation of over-full employment (the vacancies being three times the able-bodied unemployed) the full-time working population is over 25% bigger. The average household in Britain has just on two earners in it; one-
eighth of all households have three or more full-time earners. The Government takes (by taxation) and spends one-third of the entire national income, and through the greatly expanded State-owned industries and services it “invests”—from taxes in part, if it makes a Budget surplus, and chiefly from borrowings or Government-created credit—over one-half of all capital set aside each year from current consumption in Britain. Private enterprise, which does over 99% of Britain’s vital export trade and nearly 80% of all output, has only been able to make painful and spasmodic increases and improvements in its capital apparatus in the last 16 years; and in every one of Britain’s biennial post-war economic crises, private capital improvements have been the first to be cut back. The flow of money in Britain is broadly 3\frac{1}{2} times what it was pre-war; so is the national income in money terms; and wages and salaries together (over 80% of the total of all personal incomes) are over 3\frac{1}{2} times what they were (so the incomes of professional and other earners have fallen behind). The outcome of the rapidly increased purchasing-power of three-quarters to four-fifths of Britain’s people has been a notorious (and hitherto non-stop) rise in the cost of living, which is over 2\frac{1}{2} times what it was. If incomes are mainly 3\frac{1}{2} times what they were, and prices only 2\frac{1}{2} times, there must have been a rise in productivity—somehow—to stop the prices from moving up exactly parallel with the 3\frac{1}{2}-times-multiplied flow of money. But since the full-time working population is about 30% up, and the real national output (reckoned in goods and services turned out) is about 50% up, the increase in output per man-year over the 16 years is disappointingly low: roughly 1% per annum on average, but nearer 0.75% per annum compounded. In America, Canada, Switzerland, the increase has been about three times that rate per man-year: but in those lands the rate of increase in productive capital apparatus per worker has also been three to five times what it has been in Britain, where, for party-political reasons (both parties), most of the net expansion in “capital” has not been in productive apparatus but rather in such “consumers’ durables” as dwelling-houses built with public funds and subsidised as to their rents out of taxes, schools and other public buildings, public amenities of all kinds, consumers’ services to their homes, etc. (Even the essential basic services of rail and road
communications have not been expanded, up-dated or improved for 25 years.) The net upshot of all this—and here we can drop statistics—is plain.

* * * * *

THE flow of incomes net of taxes, the expanded money-demand by Governments, the combined public and private demand for capital resources, the swollen demand on British industries by other countries holding Britain's new sterling debts, the relatively increased demand for British exports by primary-producing lands who can still on balance get better prices for their sales to Britain than Britain can get for her exports of manufactures in return, the manifold-multiplied foreign defence and policing commitments of Britain abroad for which she must export additional manufactures—all these causes have combined to produce inflation. And what is inflation? It is not the rise in prices; for that is only the way inflation tries to cure itself—by jacking-up each price for each good, so that the smaller flow of goods is brought into line with the bigger flow of money.

Indeed, a general rise in prices (without a further rise in money-incomes) is the usual, non-political, historical, automatic cure for inflation, since a pegging of money-incomes at the higher level of prices would bring stability. Inflation, rather, is the continuing and accelerating outdistancing of the output of goods for consumers by those consumers' money-incomes: they always have more money to spend than they are prepared to turn out goods on which to spend it. And such inflation can be produced in differing ways: by trying—as in Australia and Britain—to collar and convert resources (materials, manpower, fuel, services, etc.) into capital at a faster rate than the people are prepared to save (either voluntarily, or forcibly through Budget surpluses), so that all the funds for this capital put out again into the consumption markets by way of wages and salaries without having expanded the output of consumers' goods. Or, as India and Russia and other under-developed lands found out, inflation can also be produced by a poor people's utter inability to save anything, so that a forced, rapid rate of capital expansion is done on Government credit (the printing presses). Or, as pre-war
Nazi Germany and Fascist Italy and expansionist Japan proved, inflation can be produced by a forced, rapid rate of rearmament in peacetime, faster than Government or people are prepared to save for. Anyway, unless the expanded mass-demand for goods of all kinds—straight earnings, Welfare State redistributions, subsidies (rents, foods, travel, education, etc.)—is exactly met, or even surpassed, by an expanded flow of goods on to the consumption markets, up must go the price of each good. Productivity therefore defeats inflation.

Now the first man in Britain really to perceive this axiom and state it in the political arena—fearlessly and bluntly—was the late Sir Stafford Cripps. Towards the end of the war he had courageously told his fellow-Socialists that Britain's post-war economic problems would revolve around a greatly increased need of exports to buy the relatively dearer vital imports in a rapidly industrialising world; and that therefore—if the British workers' living standards were to rise quickly and stay there—output per worker would have to rise much faster and farther.

Cripps saw that, in order to have more goods per head at home, post-war Britain would first have to turn out and sell abroad enough to pay for the dearer terms of trade, to pay her new war-created indebtedness abroad, and to discharge her new post-war foreign commitments for defence and for developing the resources of the underdeveloped sterling area. Consequently when that great American, General Marshall, in June of 1947 sketched the outlines of his famous Plan to aid Europe, Cripps, as Economics Minister and later that year Chancellor of the Exchequer, froze on to Marshall Aid as on to a lifeline woven of American capital. Britain's savings were negligible. She was a struggling, drastically rationed, limping nation in an enfeebled and vulnerable Western Europe, faced with crushing international problems. The four years of Marshall Aid gave birth to the European Recovery Programme, which gave birth to the Organisation for European Economic Co-operation, and thus to the European Payments Union and other agencies of West European economic collaboration for economic recovery. It enabled Britain to gain breathing-space in which she could improve her own economic equipment, discharge her crushing liabilities, improve her trading efficiency,
and pass on the bulk of the American aid she received, after a brief delay, to the Dominions and Colonies by way of her special arrangements—repayments of debt or new loans—in the sterling area. Cripps took the lead in setting up at the British end the Anglo-American Council on Productivity, formed from the national bodies of employers and trade unions.

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UNDER the AACP just on 70 selected teams of experts—trade unionists, managers, employers, accountants and other professional technicians—visited their opposite numbers in American economic life for extended tours of inquiry from 1948 to 1953, reporting (virtually in 99% of cases unanimously) in an impressive series of “Productivity Reports” what the British could learn from the American methods, and setting up “follow-up activities” in their British industries to ensure that the experience should pay-off in measurable results. My own book (1953) “We Too Can Prosper,” a study of productivity, had its origin in these 70 Reports and in the nation-wide work of the AACP, which, on the end of “Marshall Aid” in 1952, became, as it now is, the British Productivity Council.

This BPC is still composed impartially and co-operatively of the trade union and employers’ bodies’ representative. Since 1953 it has launched many nation-wide activities to instruct and inform and stimulate public opinion—mainly within industries, services, and agriculture at local level—on the necessity for rapidly raising the productive efficiency of these ingredients of the nation’s wellbeing. Its aim is that the standards of life, conditions of work, improvement of leisure, and other good things in the British people’s consumption should not only be maintained but enhanced, in a world industrialising even more rapidly and becoming more competitive for the manufactures which are all that Britain can export, and by which, alone, she can buy her vital imports. Documentary films of high quality have made a big impact, privately through industrial workplaces and publicly on the TV screens. A nation-wide “circuit scheme”—inland teams, drawn as before from all facets of an industry or locality, visiting specified works in that locality to learn all they can and share their experiences—
has proved a great success, and is still growing. There are over 100 local Productivity Associations, through which such schemes, debates, film shows, lectures, and discussions are organised. A national, and mobile, Work Study Unit was set up by the BPC itself to put its experience at the disposal of the local productivity associations and their member firms. Gradually, by these methods of co-operative endeavour and give-and-take, the traditional insularity and mistrust of British firms have been broken down; frank helpfulness at the local level has emerged; local good feelings and community sense have grown; industrial relations have improved (the local trade union bosses regularly sit down, eat, drink, and discuss with the commercial and industrial bosses); and—much the most important—a slowly-spreading realisation of Britain’s real economic problems and their possible solution has clearly had a good effect within the last three years. No one in the BPC would claim that British industry—with its age-long backlog of suspicion, mistrust, and bad feelings, inherited from evil days of mass unemployment and worldwide depression—is out of the wood. They would, rightly, claim no more than that the ways out of a black forest are beginning to be dimly perceived, and a little advance made in this direction and that. But anyone with a good memory of what things were like in British industrial life 20, 10 and even 5 years ago will testify that the advance has been striking. The trouble is the deadweight mass of that psychological backlog of traditional fear, suspicion and mistrust. It is not capable of being shifted overnight. It is something—indeed, it is a tribute to the outstanding efforts of the trade union and industrialist leaders who share the direction of the BPC—that, in a country of only two major political parties, one of them Socialist and financed as to four-fifths by the trade unions, the other so markedly and overwhelmingly supported by employers and traders, such a truly impartial and co-operative body as the BPC should command more enthusiasm from leaders of both “sides” (horrid word!) of industry today than it did five years ago.

“But what good came of it at last, Quoth little Peterkin!” What actual results can this movement for national education about the need to raise economic efficiency show? Obviously, the BPC and its local associations cannot prove that, say, a
measurable rise of 5 or 10% in over-all output, without any corresponding rise in costs, is simply and solely due to BPC work. It may be due to any number of things: a whacking new capital programme just coming into work, more efficient direction of the concern, an improvement in the quality of the labour force, or a stabilising of it in steady work (abolition of "turnover of labour"), and so on. Even with its Work Study Unit, the BPC aims—as it does with all its work—only to prepare, improve, and fertilise the ground, the "climate of opinion," in which firms and trade unions themselves must remain free either to grow good fruit, or to make fools of themselves. Understanding of what is involved in all the issues is the prior requisite.

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But in a country—and here, too, Australia and Britain are alike—in which long-standing traditions of employers and trade unionists alike have put a deadly, impeding weight of restrictive practices on productivity and progress, to get free and frank examination and discussion of the "whys," "hows," and "wherefores" of familiar, traditional, yet uneconomic and inefficient methods, is an enormous forward step. Nor should such a forward step be sought from the masses of ordinary workers first. The first place to make it is at the top: the top of the firm and the top of the trade unions involved. Get the opinion-formers, the leaders, convinced, and the task with their followers will be easier. So in Britain it is hard to say precisely what results have stemmed from BPC activities in this or that firm or town. What can be said is that, in particular industries or branches of industry and agriculture, as well as in business professional bodies like accountants and in training institutions for management, the results have often been striking and easily traceable to the national productivity campaign.

In Britain's languishing, hard-hit cotton industry, for instance, remarkable increases in output per worker per year have been recorded, from one year to the next, both in spinning and weaving, accompanied by substantial rises in earnings per worker, by no enforced unemployment or redundancy, and without any significant input of new capital equipment. It has been done simply by reorganisation of work, better (not
heavier) work, better methods, more intensive use of existing machines or facilities, elimination of waste, improvement in quality of work, and lightening of the worker's physical or nervous effort. In iron and steel production, brick and cement making, electrical engineering, chemicals, oil refining, synthetic fibre output, and many branches of mechanical engineering—for instance, making of components for motor-cars rather than the final assembly of cars themselves—the swift rises in productivity since 1953 have clearly been due, in great measure, to the quick spread in those industries since 1951-52 of organised training to improve management, from top executives down to foremen and supervisors, to make it productivity-conscious. Much the same could be said for the British trade unions involved, many of which in this period have set up their own training schemes for their best men to learn work study and other productivity techniques. (The British Trades Union Congress runs its own courses in these things in London, and encourages similar courses elsewhere). After all, the endemic, chronic, persistent inflation in Britain—due to overwhelming monetary demands on resources—must not get out of focus. Despite it, Britain's industrial output shows a rise of productivity per worker per year from 1952 to 1956 of something like 3½% p.a. compound. Of course, the actual rise in its production (obtained largely by swelling its labour force to include grandmothers, to the point at which vacancies outnumber unemployed!) is bigger than that—but the fact remains that productive efficiency, per worker and per unit of capital or other resources employed, has been steadily rising. The outflow of money has unfortunately risen much faster; so inflation has romped ahead. Even more unhappily, the more than 50% of Britain's total output of goods and services which comes from non-industrial production—i.e., from the basic nationalised industries or services like coal, gas, electricity, transport, or from the private commercial sectors of commerce and banking and insurance and distributive services, or from the central and local government and public boards of civil servants—is still turned out at a deplorably low level of efficiency, or productivity, per item of ingredients put-in. So British industrial productivity is, in the national outcome, clawed backwards by the relative inefficiency of this dead-
weight sector accounting for over 50% of all Britain's annual output. Thus, the targets and goals before the national productivity campaign of the BPC remain big and challenging.

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This brings me to the concluding section of this essay. I headed one chapter of my productivity book “Nations Live as they Deserve.” It is a true and useful phrase. If a nation—elderly Britain or youthful Australia—is made up of people who esteem leisure, easy and short work, “made work” (by restrictive practices) and easy profits higher than they esteem much better material standards of life for themselves; if they prefer an easy, slack, 44-to-48-hour week, with relatively low income of goods for their own consumption, to taking off their restrictive practices, flogging their machines in shifts, working only 38 hours a week, and so getting more consumers' goods; then nothing will succeed in making such people like Americans—who get double the consumption of goods in a week’s work of only 39 hours on average, compared with the Briton’s consumption of goods for an average working-week of 47 hours! How is it done? By flogging the capital, not the labour, in America: by utilising machinery and horsepower to the full in a given hour, week or year; by junking it when worn out after only a few years, and replacing it with a newer better model; by letting people earn well, right up to the managing director, and keep a good deal free of tax, and save well, and by rewarding efficiency and skill and responsibility; by doing away with restrictive practices, “made work,” artificial overtime (the machines do the overtime, and get junked, not the men!); and, in short, by organising all work so that men do least, and machines most, in a week. Britons live at half the American worker’s material standard of life, and work one day a week longer on average to do it. Australians, in industry, come uncomfortably close to this British standard. There is something crazy in it somewhere. No one will maintain that American workers, recruited in less than three generations from the poor of every nation in Europe and a good many outside it, have become, in a flash of biological time, superior beings physically and mentally. Still, nations live as they deserve. You get the standard you organise for. You eat what you turn out, after swopping it around a lot.
The task of raising productivity—in agriculture, in the civil or defence services, in industries—is the task of human progress. If you want to progress, in consumption or the education or health of your children or in leisure, you must install more productive capital; then flog it and junk it and install more and better productive apparatus. That means so improving your output that you can repay the old capital and still reinstall new capital. And that means, in turn, such careful measuring of the relative efficiency—the relative fruitfulness or productivity—of each separable item of input, so that you (the good manager) can tell how best, and most quickly, you can turn out more goods at lower unit-costs; that is, turn out more goods for a wider market, which you secure by being able to lower your prices. “You” can be a farmer, a firm, or a whole nation: the basic principles of productivity are the same for all of them, as they have been for all peoples throughout history; as they are today for Russians and Americans, Chinese and Indians, British and Australians.

This measuring of the relative productivities of each ingredient of input, as against the combined output—that is, the productivity-contribution of each item of input to the final result—is the really significant advance that has been made by American management over the last sixty years, since American output per worker, and that worker’s standard of consumption, began to streak ahead of any British worker’s output and standard of life. There is, as I said in my book, and as the majority of the 70 British productivity teams said, no American secret formula for their high standard of life, which stems from the high productivity of their machines and their men. The formula is open to all. It was known in Britain a century ago, before the American Civil War. It consists in viewing production—the output of the things men and women all over the world yearn for—as the great, human romance it really is: the challenge to Adam to earn a good living without sweat: the simple use of man’s brain, which fashioned tools for his peculiar thumb-joint to utilise millennia ago, to save enough out of his current output to make bigger and better tools, and then to flog them all the hours of a day or week, so that men need work fewer and fewer hours for more and more good things, including leisure. If that is not romance, I do not know what is.
THAT is exactly what work study, scientific management, industrial engineering, productivity measurement, amount to. The results of these studies of work-organisation—studies of varying ingredients to input to get the best, and cheapest, and least laborious output—have poured in, from all lands where capitalistic methods of production are in use: from Russia as from India, from Japan and Germany as from America or Brazil. The disputes and debates among economists and industrialists in Russia today are almost on all fours with those in Britain or America. We stand, all the world at differing levels of development, on the threshold of the Machine Age. The great Industrial Revolution is about to break out. Its tools will be those whereby productive efficiency, the fruitfulness contributed by ingredients of input, productivity, or (to use the old words) economic efficiency is measured. But to Britain—as to Australia—the challenge comes to our old, familiar, traditional ways of viewing work, output, and its organisation. The task of preparing public opinion in our countries for the challenge must be performed successfully, ere any of us, as consumers, will be able to enjoy the pay-off. Let us hope we can enjoy it before the Russians, Indians, and Chinese enjoy theirs.