EDITORIAL...

In recent months the atmosphere of “boom” which has pervaded the Australian economy over most of the post-war years has disappeared. Business has experienced a mild sense of “flatness” and a greater caution has entered into the business outlook as well as consumer spending.

It would of course be untrue to suggest that there is anything in the nature of a general recession in trade and economic activity. Over 1956/57 most sections of business achieved highly satisfactory turnovers. Indices of factory output and retail sales both showed an improvement on 1955/56 levels. Production figures of the main basic materials reveal notable increases, particularly in iron and steel. The stock exchange, a key indicator of business confidence, is
buoyant. Wool prices are still high, although at present about 5% lower than the closing rates of last season. Against all this, the threat of drought is giving rise to some uncertainty.

There has, however, been an easing of the labour market. It is here that Australia is confronted with the classic dilemma of all modern democratic economies. Should it be satisfied with a level of employment that may not entirely measure up to the "more jobs than men" standard of full employment (the percentage of wage and salary earners in employment is at present around 98½%)?* Or should it take the measures calculated to raise the demand for labour in the knowledge that these measures would almost certainly give rise to further inflation?

In spite of the enormous increase in export incomes during the 1956/57 financial year, the inflationary forces latent in the economy are being held in better check than for some time. This is undoubtedly due, in the main, to the Commonwealth Government's persistence with an austere credit policy in face of strong criticism from many quarters. The demands for a relaxation of this policy have mounted over the last few months, and the Government will need to set a rare example of political courage if it is to resist the pressure to which it is being subjected.

The maintenance of the comparative "stability" which the economy is at present experiencing was clearly uppermost in the Treasurer's mind when introducing the 1957/58 Commonwealth Budget. But Australia has been so long accustomed to boom conditions of business that employers and unions alike show a natural reluctance to settle for anything less. The concessions made in the Budget have been criticised as niggardly and ungenerous and the Government's failure to give any definite indication of easier credit conditions has been widely attacked. The Treasurer, however, made it clear that the Government was not prepared to greatly ease the brakes which it imposed 18 months ago to counter internal

*Even so, employment in Australia is "more full" than in practically any other country. Based on United Nation statistics the employment percentages for 1956 were—U.S.A., 96; Canada, 96.6; Western Germany, 96; Italy, 90; Belgium, 93; Sweden, 97.1; United Kingdom, 98.7.
inflation and to relieve the serious external balance-of-payments situation. He said: “The Government’s problem now, as always, was to preserve the state of substantial balance in the economy which had been reached”.

The Government has thus come solidly down on the side of stability and against that body of opinion favouring policies which—though its supporters would not be prepared to admit it—would undoubtedly give rise to a renewal of strong inflationary pressure. In this respect the Government's attitude is in line with leading financial opinion in Britain, the United States and other countries.

On the bare figures, greater tax relief might have been provided. But Budgets in these days have to be considered from other points of view than that of balancing receipts against out-go. It should be clearly understood that, in the context of the Government’s economic policy, the 1957/58 Budget was, in its broad outline, inevitable. What might be criticised, however, is the policy which makes really large reductions in taxation out of the question. This is the policy which imposes on the economy the tremendous burden of absorbing, at a reasonable standard of life, 115,000 migrants a year.

It is plainly fatuous to talk of dramatic reductions in taxation unless it can be shown how the Government spending can also be dramatically reduced. The level of taxation is after all determined by the level of spending and the starting point is, therefore, the latter, not the former. No one has been able to show how sweeping reductions in expenditure can be effected. Indeed, given the present policy of development and migration, they clearly cannot be.

The community cannot have it both ways. If it supports the Government policies of rapid economic expansion and population increase, then it must also logically support in general—though not necessarily in detail—the Government's approach to taxation.

Last financial year Commonwealth, State and Local Governments spent £455m. on capital projects, of which all but £50 million of net loan raisings from the public, was financed
from taxation and sundry revenues. Even so, the provision of essential public facilities is not nearly keeping pace with the needs of economic expansion and rapid population growth. The "pioneering" conditions in many of the newer suburbs of our capital cities are clear evidence of this.

But, as the total resources of the community are limited, to devote a high proportion of these resources to the expansion of essential services means that restraints must be imposed on the private sector of the economy. This restriction of private enterprise is effected through the instruments of taxation and bank credit policy. And if resources became scarce because of a decline in export income, the private sector might have to be further cramped by direct controls over imports, prices and investment. In 1956/57 total private investment declined by £193m.—mostly represented by a reduction in stocks—whereas public works expenditure rose by £16 million. Employment in the government sector rose by approximately 8,000, but in the private sector dropped by 4,000.

It is expecting rather too much of private enterprise to imagine that it will be prepared to submit meekly to these restrictions on its activities. What is certain to happen is that the Government will be subjected to intense and continuous pressure—which will be difficult to resist—to relax the brakes.

The Commonwealth Government is undoubtedly right in the efforts it is making to combat further inflation and cost and price increases. But whether this objective will prove to be feasible in the light of the general economic policy which it is pursuing must remain seriously open to doubt.
ONE of the hardest things in life is to admit that one has been wrong. It requires an unusual sort of courage to confess that a course we have been pursuing is mistaken and then to change direction. Not all of us possess it. Yet fresh ideas, the adaptation of thought to changing circumstances, the ruthless jettisoning of what has been shown to be erroneous or at least to be no longer useful, are at the root of all progress. An undeviating consistency is, after all, the hallmark of a small mind.

At some time or other all political parties face a philosophical or intellectual crisis of this kind. The old traditional party concepts become out-dated. The world changes and articles of political faith, accepted almost with the force of religious dogma, lose their relevance. Public opinion ceases to be interested in ideas formed to deal with conditions that no longer exist.

When this point arrives there is really only one thing to do—sweep the cupboards bare and start afresh. New policies must be devised to meet new conditions. It is, admittedly, not easy for a political party to shed itself of ideas that have been the source of its inspiration and unity, perhaps for many decades. It may seem a kind of treachery to the early founders of the movement. But there is such a thing as false loyalty. And the longer the inevitable is resisted, the greater is the danger of damage to the party which may prove irreparable.

THE non-socialist political forces in Australia were confronted with this kind of situation after the landslide election of 1943 which brought the Curtin Government to office with a huge majority. The state of public thinking made it clear that the traditional ways of thought of the United Australia Party were no longer acceptable to the great mass of the Australian people. This was not fully understood at the time by all the leaders and some of the influential supporters of the Party. But, fortunately, it was soon realised by a number of the wiser and more far-sighted. The nettle was boldly grasped. Out of a great deal of heart-searching and hard thought there came a new party. It had a different organisation, a more open countenance and a radically new outlook and policy. In those days the foundations were laid for the Liberal-Country Party Government which has now held Federal office for the best part of a decade.

The Australian Labor Party would do well to take heed of the experience of their opponents. For some years it has been clear—and this applies also to the British Labour movement—that the basic concepts of tradi-
Nationalisation Again (continued)

tional socialism, which had their root in the conditions of the late 19th and the early 20th century, make little or no sense in the world of the 1950's. They have become as out-mode as the road-worker with pick and shovel. But while the writings of leading socialist thinkers in recent years betray their uneasiness over the old ideas, this uneasiness has yet to result in any radical change of policy at the political level. On the contrary there is an obstinate, almost a perverse, clinging to notions which have long outlived the usefulness they may have once possessed.

The central article of faith of the pioneers of socialism was "nationalisation" — the social or public ownership of industry as distinct from private ownership. Well over half a century later it still remains pretty well where it was—at the centre of socialist policies. But there is one all-important difference. The early socialists really believed in nationalisation; they sincerely thought it to be the great cure-all for the economic and industrial ills of the times. The modern socialist does not really believe in it at all. Although he continues to write it into the platform at party conferences, he no longer shouts it from the house-tops as did his predecessors. Indeed if he makes the cardinal error of mentioning the word "nationalisation" outside the party rooms, he is quick to explain that "nationalisation" would be only applied where necessary (whatever that may mean) or that it is not meant for today or tomorrow or even the day after, but only for some time so far distant that no one need worry about it.

Why, then, do responsible socialist political leaders and trade union officials obstinately adhere to something in which they so patently no longer believe? The only feasible explanation seems to be that they are fearful of being found "out of step", of being accused of disloyalty by careerist left-wing demagogues ready to take personal advantage of any defection from party dogma.

In Sydney last June the Deputy Leader of the Federal Labor Party was reported to have said that a Labor Government would consider nationalising banking, insurance, shipping, broadcasting and television. Apart from the addition of a new ingredient, television, this seems to be the "mixture as before" — that is, traditional Labour policy for just about as long as anyone can remember. The British Labour Party has also been showing a renewed interest in nationalisation. Aneurin Bevan, an ardent advocate of wholesale nationalisation of industry, has recently come strongly to the fore in the Party's inner councils. Although all Labour parliamentarians do not agree with the nationalisation objective (Sir Hartley Shawcross, for instance, has declared that nationalisation would lead Britain to disaster) the Party vice-chairman, Mr. Tom Driberg, has said that there must be further transfers to public ownership when the next Labour Government is in office. Apparently, how-
ever, the methods of nationalisation are now to be different. The leader of the Party, Mr. Hugh Gaitskell, has suggested that the area of public ownership could be extended through higher death duties and the use of Budget surpluses and social security funds to purchase controlling interests in some of the larger industrial concerns, with the appointment of Government directors to their boards.

It is clear, then, that the socialist parties in Britain and Australia are obstinately adhering to—or at least playing about with—policies that command little interest or support in their respective democracies.

* * *

IN THE social and economic conditions of fifty, or even of thirty, years ago, "nationalisation" was a fairly effective battlecry. Whether as a remedy for those conditions, it would have done any good is open to doubt; but sick people are notoriously willing to give any medicine a try. The trouble is that today the patient is no longer sick; in Australia at any rate he appears to be in fairly robust health.

The early socialists claimed that private ownership pursuing the objective of private profit worked against the welfare of the community and especially against the interests of the workers. The profit motive, they said, was immoral and anti-social.

Private ownership, according to socialist dogma, meant exploitation, excessive prices and profits, unemployment, industrial strife, the concentration of wealth in the hands of the few, and condemned the great mass of people to a life of poverty and degradation. The facts of the contemporary world prove that private ownership and the pursuit of profit need lead to none of these things; on the contrary, that free enterprise can be—as shown most graphically in the United States but also in other English-speaking countries—an engine of tremendous social and economic progress.

Without the "curative magic" of nationalisation, living standards have improved beyond recognition; serious unemployment has been banished; glaring inequalities in income have been removed; and the ownership and profits of industry have become widely shared. In other words the ills for which nationalisation was prescribed as a remedy no longer exist. The probability—indeed the near certainty—is that large doses of the nationalisation medicine today would make the healthy "patient" sick, would conduce to a kind of pernicious anaemia in the body economic. It is patently obvious that the Australian people no longer want the medicine which the socialist doctors persist in prescribing for them.

Since the conditions which in days past were said to justify the nationalisation of industry have vanished, the only possible argument left to those who support it would be that nationalisation leads to higher
efficiency and productivity and to
greater enterprise in development
and expansion than private owner-
ship; in other words, that national-
isation would promote a more rapid
improvement in living standards than
free enterprise. The onus is there-
fore on the advocates of nationalisa-
tion to explain how these things
would eventuate. Their failure or
reluctance to do so largely stems
from the fact that they really have
little confidence in their own doc-
trines.

The basic reason why nationalised
industries cannot, in general, hope to
rival free enterprise in the matter
of efficiency is not because the con-
trollers of free enterprise are neces-
sarily any more able, enterprising,
or industrious than the administra-
tors of government-owned industries.
After all there is no insuperable
difficulty in the way of recruiting
businessmen for service on govern-
ment boards. Indeed in many cases
this has been done.

The real reason is that the mana-
gers of the government enterprise
work in an entirely different environ-
ment from the managers of the
private business. In the first place
the businessman is under compulsion
to make a profit or at least to avoid
a loss. His personal position and
reputation and the solvency of his
business depend upon it. Moreover
the prospect of increasing profits
leads him to take the risks which
are often inseparable from progress
and improvement. In addition he
can, and indeed must, conduct his
business with a strict regard to
economics. He must constantly
watch his costs and in doing so
strive to get the best out of his work
force. He must balance income
against out-go and be prepared if
necessary to abandon those ventures
which do not show a reasonable
return. In other words, his decisions
are influenced almost entirely by
economic considerations.

In the government-run concern
these compulsions to efficiency and
enterprise on the part of manage-
ment do not apply. A profit is not
essential since a loss can easily be
made good by transfer of govern-
ment funds from other purposes.
Strict business principles go into the
discard and accounting becomes slip-
shod. Since there is no direct per-
sonal gain involved (and the ever-
present possibility of being made a
scapegoat) the manager of the
nationalised project is not disposed
to take the risks necessary to pro-
gress. He prefers to play safe. He
is exposed always to political in-
fluences and pressures. He cannot
look at his task, as he should be
able to, mainly from the standpoint
of economics. He has to consider
the politics of it or he will soon be
brought to heel by politicians who
are necessarily interested in votes
before profits. He may, for in-
stance, wish to close down an un-
profitable venture. But to do so
would mean sacrificing valuable
votes. Therefore he has second
thoughts. He may wish to increase charges for a service on which losses are being incurred. But if he does so, a lot of people might be affected and that would not be good politics. If he opposes a demand for higher wages, he may be instrumental in losing political support for the reigning government.

In other words the nationalised industry unavoidably operates in a political environment and such an environment is the very reverse of what is required for efficiency, enterprise, and progress.

This has been one of the great drawbacks in the industries nationalised by the postwar Labour Government in Britain. Writing in “Review” in 1954, Sir Oscar Hobson, recognised as the doyen of English financial writers, said: “Nationalisation of industry in Britain has, by and large, been a failure. It has revealed all the defects forecast by its opponents. It has not yielded the benefits hoped for by its supporters”. . . “The greatest difficulty of all is the inability of Governments to refrain from interfering with the nationalised boards when votes are involved”.

It would be difficult to conceive of any greater stupidity than the nationalisation of industries in the virile, rapidly expanding Australian economy of the present time. Indeed it is hard not to believe that the better leaders of the Labor movement in Australia are fully aware of this.

* * *

IN a recent number of the British journal “The Round Table”, there is a remarkable article by a trade unionist. He writes: “In spite of all the study pamphlets put out and educational classes taken, the fact is that the existing pattern of trade union thinking and policies is identified with the nineteenth century class outlook and role of the unions. There exist no real policies or measures to replace the old thinking and theories, which are completely unworkable in our present-day difficulties and certainly offer no solution to any immediate crisis” . . .

“Let us try to think of something outside class and dogma. Never mind what the old pioneers said or what were their slogans a hundred years ago. They are not alive today, having to face the realities of the situation”.

Until the leaders of the Labor movement in Australia do just this, the political opposition will remain weak, ineffective and disunited. That would not be much good for the Labor Party; nor would it be good for Australia.
Creeping Inflation

The Great Debate of the moment in economic and governmental circles throughout the world concerns inflation. More specifically it concerns what is now widely called "creeping inflation." "Creeping inflation" is radically different from the old-time notions of inflation as an uncontrollable, runaway boom in prices brought about by the over-creation of money, with economic collapse and destitution at the end of the road. "Creeping inflation" is the term applied to a gradual, upward movement in prices and costs of 2% to 4% a year. (Over the last two years, prices in Australia have risen by about 5% a year.)

The matter at issue is whether an inflation of this kind and magnitude is necessarily harmful, or whether, on the contrary, it is beneficial? Is it true that a mild, chronic inflation presents the only feasible alternative to the chronic unemployment of the pre-war decades? Should official policy recognise the desirability, or at least the inevitability, of creeping inflation and content itself with preventing "running" inflation? Or, should it have no truck with inflation of any kind and aim at long-run stability in prices and the purchasing power of the monetary unit?

At the moment, government policy in the United States and Britain—in the former especially—seems to be strongly opposed to creeping inflation. In Australia the position is not so clearly defined, although the Commonwealth Government's determined persistence with a tight credit policy may be significant.

In view of its strong external position, it is rather surprising that the opposition to creeping inflation was at first most pronounced in the United States. One would have expected the strongest opposition to come from Britain where the level of costs is crucial if Britain is to secure the exports necessary to her economic health and indeed survival. Even in Australia, exports, consisting of primary and processed
products, are not in the main so directly competitive as manufactured goods and therefore so dependent on costs as in Britain. The economic background in Australia, overshadowed by the programme of large-scale development and population increase, is also rather different from the United States where inflation is seen almost wholly as a matter of preventing wages from rising faster than productivity. In some quarters in Australia it is argued that slow inflation is a small sacrifice to make for the benefits of rapid economic expansion.

*     *     *     *     *

In most countries today there is a far greater determination to prevent inflation than at any time since the end of the war. Admittedly official circles have never pretended to like inflation, but they have often not been prepared or able to act vigorously enough to seriously restrain it.

What has caused the change of heart throughout the world toward inflation? Why has the attitude of virtual resignation, the tendency to accept some inflation as unavoidable, altered to one of fear of its ultimate consequences and of determination to deal more vigorously with it?

These questions are not easy to answer. Probably one of the reasons is that governments and economists have become alarmed by the sheer magnitude of the decline in the purchasing power of their monetary units over the post-war years. If the drift continues where will it all end? Would it mean that in Australia, for instance, in another decade or two the pre-war £ will be worth about 1/-?

Another reason is possibly political. People all over the world are becoming irritated by money which every year buys less than in the preceding year. This feeling is strongest among great numbers of people in the middle sections of society whose incomes never seem to keep pace with the ever-rising cost of living. The irritation naturally vents itself on the reigning government, whatever it might be, with a loss of prospective votes and the looming spectre of defeat in future elections. These governments therefore feel impelled to take sterner measures against inflation in order to
arrest the drift in political support. A steady and prolonged rise in prices can bring about a redistribution of the national cake just as surely as changes in taxation. Those adversely affected by the redistribution can hardly be expected to look kindly on the cause of it.

A further reason seems to be the growing feeling in expert circles that somewhere or other there is a fly in the jam. There are increasing doubts whether an economy based on a steadily deteriorating monetary unit can be as healthy as it seems, even though, as in the United States and Canada, employment is full, standards of living are improving, external finances are in balance, and there are all the outward evidences of prosperity and expansion. And these doubts exist even though inflation may be moving at the comparatively mild pace of a 2% to 3% rise a year.

Of course price levels have never at any time been completely stable—nor is it conceivable that they could be in the future. In the short run prices will fluctuate in response to all manner of forces. The Australian price level, for instance, must always be strongly affected by movements in the prices of exports and imports. What distinguishes the present period from the past is that in these days prices generally move only one way—usually up, hardly ever down. In the United Kingdom the cost of living has risen in practically every year over the last two decades, the total increase being around 150%. But from 1850 until 1910 the internal purchasing power of the £ sterling, while it fluctuated during the business cycle, was practically the same at the end of the period as it was 60 years earlier.

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In the United States, the fight against "creeping inflation" is led by the Federal Reserve Board. The Board has influential support from top economists throughout the country and also apparently from the President's Council of Economic Advisers. The main opponent of the Board is the veteran Harvard economist, Sumner Slichter, who is probably the most articulate economic columnist in the U.S. and who carries considerable prestige.
Mr. William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, summed up the attitude of the Board in the following words: “We fight inflation partly because it is the forerunner of deflation. If I thought inflation would create jobs and prosperity, I might be for it. But I am convinced that, apart from transitory effects, the result of inflation is the destruction of jobs and prosperity.”

The case against creeping inflation has been persuasively argued by Dr. Winfield Riefler, the highly respected Federal Reserve Board economist. Riefler states that it is in practice impossible to limit inflation to a price rise of 2 or 3 per cent. a year. He says that once it became widely known that the government was accepting the inevitability of a mild inflation, the pace of inflation would rapidly accelerate. Knowing that prices were likely to rise, the incentive to save would be diminished and the incentive to spend would be increased. People would tend to buy more goods now because they would expect to have to pay higher prices in the future. Similarly businessmen would speed up their spending while costs were lower. People would endeavour to borrow and spend more since they knew they could repay their debts in depreciated currency. These “anticipatory” demands would give a false idea of the true long-run market demand and would lead to serious imbalances in productive capacity. These imbalances would make some recession, and possibly depression, inevitable. “An inflationary spiral, once in operation,” says Riefler, “has strong tendencies to feed on itself.”

Riefler also points out that even if inflation could be limited to a small annual price rise—and this he denies—it would be by no means as mild as people appear to think. For instance, if prices were rising by 3% a year, a man who had accumulated sufficient savings to provide a pension of £10 a week at 60, would find that by 70 his pension was worth £7/9/-/-. If he lived till 83, it would have been cut in half to £5 a week. After making similar calculations in terms of the American dollar, Riefler adds: “These calculations illustrate the tremendous stake that the worker has recently acquired in stability in the purchasing power of money.”

Sumner Slichter, however, contends that a slowly rising price level is inevitable. He argues that in a full employment
economy the strong bargaining position of labour will lead
to wages and fringe benefits rising faster than productivity
with consequent increases in labour costs and prices. He
does not agree that this will necessarily result in runaway
inflation, a shortage of savings or, eventually, a depression.
The crux of his view is summed up in the following words:
"In this imperfect world we are often compelled to choose
between evils and if the choice is between enough unemploy-
ment to halt the rise in labour costs, direct controls of wages
and prices, and creeping inflation, let us by all means have
creeping inflation. It is the least of the three evils."

A former member of the President’s Council of Economic
Advisers, Mr. N. H. Jacoby, does not agree with Slichter
that slow inflation is an inevitable accompaniment of full
employment. He argues that the trouble arises when the
full employment target is set too high (as, for example, in
the famous Beveridge definition of "more vacant jobs than
unemployed men"). Jacoby states: "The difference between
an average of 96% of the work force employed and 97% or
98% appears small, but it is vitally important. Inflationists
customarily demand a standard of 'full' employment too high
to be realized without bringing inflationary pressures into
play." . . . "More human suffering," he says, "has been
caused in the United States by the doubling of consumer
prices over the last decade than by unemployment."

But Lord Beveridge has apparently had "second thoughts".
In a speech in London in October last year he made a
remarkable admission: "Most of my working life was spent
in University service. When I left that service to become a
politician in 1945, I was able to take with me for super-
annuation enough thousand pounds to feel fairly happy for
my future. Now each of the £’s is worth about 6/8. Like
many other healthy people in the seventies I am in danger of
living longer than I can afford to live. Our plans for useful
old age are all going haywire. The underlying reason is the
claim of each industry to fix its own money wages by
sovereign action. Under full employment that is leading to
the destruction of the value of money, and is spreading wide-
spread poverty among all who are trying to live on savings
or fixed pensions."
It seems to be a case of the chickens coming home to roost. If Lord Beveridge is now proposing some form of national control of wages, it is likely to be no more successful in holding the wage line than the present system. We have had some experience of that in Australia.

Whether or not creeping inflation is a feasible policy for the United States, there must be grave doubts whether the British economy could stand it. The United States, as Slichter has put it, may possibly have a "choice of evils", Britain probably has no such choice. Perpetually rising costs would eventually make it difficult for Britain to obtain the imports she requires to maintain full employment in her factories and minimum acceptable standards of consumption. In his own inimitable manner, Sir Dennis Robertson, one of the greatest figures in British economics and a member of the newly established Council on Wages and Prices, attacked the idea of gradual inflation in these words: "I am not sure that in Britain the day when the Church of England climbed on the bandwagon by entering the market for ordinary shares will not be seen in retrospect to have signalled the end of 'a little inflation' as a respectable policy."

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In Australia the issue of "creeping inflation" appears in a rather different light from Britain and the United States. In these two countries it is regarded primarily as a race between wages and productivity with the latter lagging behind. In discussion in Australia, creeping inflation is associated mainly with the development and migration programme. (This, of course, is not to say that in the unprecedented inflation of prices and costs in Australia since the end of the war, that there have not been many other causes besides the development programme, or that wage increases have not been one of those causes.)

As we have seen, it is argued in some influential circles that a small annual rise in costs would be a tolerable price to pay for continued economic expansion on the scale of recent years. On the surface this may seem fairly plausible, but it is important to have a clear understanding of what it implies.
This is the economics of the matter. The resources available for capital development come from savings, which in turn, are determined by the extent to which people refrain from spending their incomes on their everyday consumption needs. But governments can enforce additional restrictions on consumption spending through raising taxes (thus leaving people with less to spend) or through policies which result in higher prices. The higher prices bring about a reduction in real incomes and thus in real consumption expenditure. The rise in prices, in effect, serves the purpose of reducing resources devoted to consumption needs, and of thereby freeing additional resources for the development programme.

What the advocates of creeping inflation are really saying, therefore, is that governments should, if necessary, extract the resources required to meet their development targets by reducing standards of consumption through the mechanism of price increases. The rise in prices amounts really to an additional tax. But it is unlike accepted forms of taxation in two respects.

First, it is concealed. The income-earner does not feel it as a tax, although of course he feels its effect on his standard of living. Second, it is a tax imposed with complete arbitrariness and without any regard whatever to capacity to pay. The people who pay the tax are the large minority least able to offset the inflation of prices by achieving upward adjustments of their incomes.

The great argument against creeping inflation is thus that the burden it entails is imposed without any regard to common social justice. It falls savagely on a large but minority section of the community unable to protect themselves against it. Indeed if inflation went on long enough it could effect a revolution in the social structure, through the virtual destruction of the way of life of “the middle classes”.

If the advocates of creeping inflation would put the issue frankly in these terms, it must be open to considerable doubt whether they would find much support for their doctrines.
As has been argued by representatives of the Federal Reserve System in the United States, it is also highly doubtful whether creeping inflation (arising in the case of Australia from a forced rate of development and population increase) could be prevented from gathering increasing speed. A slow rise in prices would in the Australian setting soon lead to a sympathetic movement in the incomes of those in a position to apply strong political and industrial pressure. In other words it would not be long before an upward trend in prices produced widespread agitation, which would eventually be irresistible, for an upward adjustment in incomes, particularly wage incomes. The fact that there is no longer any immediate nexus between prices and incomes (since the abandonment of the COL adjustment) does not mean that there is no connection at all. The Australian has been too long accustomed to having his standard of living protected against inflation to sit placidly by while costs of living are rising.

Thus, a creeping inflation which was wholly attributable to the pressure of demand on resources caused by an excessive rate of developmental investment, would set off a direct "cost inflation" with additional price rises on this account. One could not be sanguine, therefore, that the creeping inflation would not soon be walking and possibly running.

In the modern economy of full or close-to-full employment, and of an unceasing clamour for rising standards of living, there is a disposition any way to an upward price and cost trend. If to these pressures is added the strong additional pressure of an inflationary development programme, it seems optimistic indeed to imagine that the price rise can be restricted to a rate of 3 or 4 per cent. annually.

★ ★ ★
Railway Finances

The finances of the State Governments are being reduced to a condition of virtual chaos because of the huge deficits being incurred on all the State railway systems. The combined losses on the six State-owned systems in 1956/57 (allowing for full depreciation, interest and other charges) were about £33 million. Of this grand total, £8.2 million was contributed by the Victorian Railways and £9.3 million by the New South Wales Railways. The key significance of railway finances in the picture of State Budgets is shown, for example, by Victoria where the Budget deficit for 1956/57 was over £4 million.

The railways, like all other public utilities, have been caught up in the endless round of rising costs, but, for political and other reasons, find they are unable to increase their charges proportionately. As the major part of their costs are labour—almost 70% in Victoria—railways are particularly vulnerable to recurring wage rises. This fact, more than road competition or anything else, has put all State railways in their present financial predicament.

It is a grave weakness of most government-run instrumentalities that they are often forced to abandon accepted business principles in conducting their affairs. Their pricing and costing policies become the plaything of politics, not the tools of an enterprising and efficient management bent on achieving profits. Without the compulsion to reduce costs or to close down unprofitable activities, a too-ready acceptance of loss inevitably develops.

Because of strong resistance from all quarters to freight and fare rises on the one hand, and to any really effective attack on operating costs on the other, it will be an up-hill task to bring about a satisfactory solution to the problem of railway losses. But with the probability of further inflation the difficulties will intensify the longer the issue is side-stepped.

While in one sense it may be an advantage to keep down the cost of living by avoiding freight and fare rises, the community cannot escape paying for its transport services, provided at under-cost, in extra taxes or in some other way. Thus the burden, instead of falling on railway users, falls upon the whole community. In Victoria, railway deficits are being financed from loan monies which would otherwise be going into schools, hospitals, power and other vital services which are already lagging behind the growing
needs of the community. Victoria may again face the possibility of electrical black-outs because sufficient funds are not being made available to enable necessary generating capacity to be installed.

* * *

A NY analysis of railway operating results is hampered by the fact that it is difficult to establish the actual cost of operation of the various sections of the business. The same stations, lines and staff are used for both goods and passenger services. However, the Victorian Railways Commissioners have made some endeavour to apportion these costs over the major railway activities. The table below covering the year 1955/56 is based on figures supplied by the Commissioners:

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Interest Charges</th>
<th>Total Expenses</th>
<th>Revenues</th>
<th>Profit or Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>18.6</td>
<td>2.0</td>
<td>20.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Suburban Passengers</td>
<td>10.0</td>
<td>0.7</td>
<td>10.7</td>
<td>7.2</td>
</tr>
<tr>
<td>Country Passengers</td>
<td>6.8</td>
<td>1.0</td>
<td>7.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Livestock</td>
<td>2.1</td>
<td>0.3</td>
<td>2.4</td>
<td>1.4</td>
</tr>
<tr>
<td>All Other</td>
<td>2.5</td>
<td>0.5</td>
<td>3.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Total</td>
<td>40.0</td>
<td>4.5</td>
<td>44.5</td>
<td>37.1</td>
</tr>
</tbody>
</table>

It is apparent that passenger operations are at the root of railway losses in Victoria. This also applies to New South Wales. The N.S.W. Commissioner for Railways, Mr. McCusker, recently stated that his system was losing £10 million a year on its passenger services. Indeed, the trend seems to be practically worldwide; for instance privately-owned American railroads incur losses on their passenger traffic. The motor car and to some extent air travel have been largely responsible for this development. Thirty years ago, there were only 100,000 cars in Victoria; now there are over 500,000. In consequence the number of passenger journeys on the Victorian Railways has fallen, even though the population has increased by nearly 1 million. The loss of patronage has been worse on country trains than on suburban. The rise in passenger fares in November, 1955, caused a sharp fall in the number of country passenger journeys and as a result total fare revenues did not increase to any appreciable extent.

It may well be, therefore, that any further rise in country fares would not be a payable proposition.

The suburban railway system constitutes a particularly sticky problem. The system is already losing the equivalent of its present £15 million investment every four years. Yet it
requires immense sums of money for new rolling stock and other facilities to cope with Melbourne's fast-growing population and outer-suburban sprawl. Over 35% of suburban passenger journeys exceed 9 miles, compared with under 15% in 1938/9. Furthermore, 80% of the traffic is concentrated during peak periods. Neither the lines nor Flinders Street Station can be expected to take much more. At least half of the suburban trains are over 45 years old (many are 70 years old). The only additions in the last 25 years have been the six added in the immediate post-war period and, very recently, the twelve Harris trains (part of an order of 30 to cost £250,000 each). But while there may be general agreement on the undoubted need for further heavy capital expenditure on Melbourne's suburban railways, it is another thing to find the money, particularly for an undertaking that is already losing millions of pounds.

The sheer economics of the matter demand that something be done to try to reduce the losses on Melbourne's suburban rail transport. There is possibly some scope for operating economies, but large-scale savings will not be easy to achieve without the co-operation of the trade unions. One remedy might be to increase fares. Here the possibility of customer resistance has to be faced. This may not prove to be as big an obstacle as imagined in some quarters. Despite the 25% increase in the average suburban passenger fare in 1955, total suburban passenger journeys have only declined by about 1% and total revenue has increased by over 20%. But whatever is done, the suburban passenger service will probably remain a financial headache and highly dependent on the support of the general tax-payer.

A LTHOUGH they are losing on all their other operations, the Victorian Railways are still making a profit of £600,000 a year on the goods' freight side of their business. The Railways claim this could be considerably improved. They envisage that the curtailment of road competition would increase railway revenues by £2 million a year on interstate and a somewhat similar figure on intrastate traffic. A good part of this revenue would be profit since the existing facilities (which at present are only operating at 70% of capacity) could carry the extra traffic without a great addition to cost. On each additional ton of cargo carried, "out-of-pocket" expenses, i.e., wages of train crews and fuel, would represent only one-third of total costs. Two-thirds would be dead overhead such as depreciation, interest, track maintenance, signalling and so on.

The recent High Court decision upholding Victorian legislation which imposed a mileage road tax on heavy motor trucks is the first victory the State authorities have had in a three-year legal struggle to restrain inter-state road hauliers from competing
against their railway systems. Up till now the railways have not been able to offset the considerable advantages enjoyed by the road operators who have been able to escape responsibility for making good the “wear and tear” on the roads resulting from their operations. In addition road transport operators are not common carriers and can therefore pick and choose freight. They tend to concentrate on profitable general merchandise, leaving the bulkier goods to the railways. In the case of some owner-drivers there is also a tendency to indulge in uneconomic rate-cutting.

The break-of-gauge at Albury has badly handicapped the Railways, slowing deliveries and increasing handling costs. Their competitive position will be greatly improved once the gauge is standardised between Melbourne and Sydney. Work on this £10 million project, which is soon to commence, should be finished in 1959.

The Victorian Railways Commissioners maintain that “long distance competition between the railways and road transport is wasteful and an extravagance which the State cannot afford”. There is undoubtedly some merit in their case where it can be proved that railway costs per ton-mile over all types of goods are not much higher, on average, than true road haulage costs (which would include a charge adequate to cover wear and tear on the roads). But whether they are entitled to demand business in those instances where rail costs are appreciably higher is surely open to question. For example, on short hauls of up to and around 50 miles it is doubtful whether the railways could fairly undercut road transport—mainly because of double handling. Ideally the issue of road versus rail should be settled, to use the Victorian Transport Minister’s own words, “by fierce, free competition. Each would find his own feet and in the end would find the goods he could carry economically and make a profit”.

The road operators’ association has offered to pay a “fair share” for maintaining the roads and it now appears the State Government may be able to overcome the legal and other obstacles to imposing such a charge. When this is done the Railways expect that much of the traffic now going by road will be transported by rail. But even if this proves to be so, the total loss of the Victorian Railways would still remain at a large figure.

WHAT further steps might be taken to retrieve the position?

The closing down of notoriously unprofitable lines is a hardy perennial and more may have to be done in this direction. There is also the possibility of increasing freight rates on goods at present being carried at a loss. The main items are super-phosphate, flour, fruit, and general agricultural products. Wheat might also be added in view of the fact that it involves the Railways in expenditures
other than those directly associated with the cost of haulage to the seaport. Highly unpayable lines have to be kept open just to cart wheat for two months of the year. Trucks have also to be diverted from other uses and held idle to cope with the rush of demand during the wheat season.

Freight concessions to country secondary industries are another factor contributing to the Railways deficit. Some of the secondary industries should be able to stand on their own feet, but where this is not feasible they should be supported out of Treasury funds only after strict investigation by a responsible authority. It is quite wrong in principle to deprive the Railways of revenue to which they are justly entitled.

THE Railway problem is a classic example of democratic irresponsibility.

The deplorable financial straits to which the Railways have been reduced cannot rightly be blamed on the State Government or the Railways' administrators. The Railways are the victim of inflation. They are also the victim of politics. In both senses their predicament is one for which the whole community must stand responsibility. Difficult, and indeed hopeless, as their plight may appear, it is vitally necessary that vigorous, and, possibly radical measures be taken to reconstruct railway finances on a sound business basis. For until that is achieved there is little or no prospect of attaining stability in Government finances—in other States as well as Victoria.

APPENDIX


<table>
<thead>
<tr>
<th></th>
<th>1945/56</th>
<th>1955/56</th>
<th>1956/57</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages, Materials, etc.</td>
<td>37.3</td>
<td>38.3</td>
<td>39.3</td>
</tr>
<tr>
<td>Interest on Railways Debt</td>
<td>2.9</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Interest on £30m. Railways Debt transferred to Treasury</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Depreciation Underprovided</td>
<td>1.5</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Freight Concessions paid by Treasury</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>43.1</td>
<td>44.5</td>
<td>45.6</td>
</tr>
<tr>
<td><strong>Total Revenues (excl. Govt. Grants)</strong></td>
<td>37.6</td>
<td>37.1</td>
<td>37.4</td>
</tr>
<tr>
<td><strong>Losses</strong></td>
<td>5.5</td>
<td>7.4</td>
<td>8.2</td>
</tr>
</tbody>
</table>

1. The announced loss of £5.2m. for 1956/57 does not include the last three charges shown above.
2. This table does not take into account interest on funded debt brought about by Railway losses.
3. The State's obligation for underprovided depreciation is met by the interest-free capital grant to the Railways (at present over £33 million).
4. Labour costs increased by £1.3 million in 1956/57 mainly due to the full year effect of increased awards granted in 1956/56.

Source: Victorian Railways Commissioners.
II. Analysis of Freight Carried by Victorian Railways in 1955/6

<table>
<thead>
<tr>
<th>Carried at 4d. per ton-mile or less—</th>
<th>% Tot. Ton-Miles</th>
<th>% Tot. Revenue from Freight</th>
<th>Average Revenue Earned per Ton-Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal and coke</td>
<td>22.3</td>
<td>11.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Wheat</td>
<td>14.3</td>
<td>11.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Firewood, briquettes, wood pulp</td>
<td>8.3</td>
<td>6.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Corn sacks, etc.</td>
<td>8.0</td>
<td>8.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>6.4</td>
<td>3.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Flour</td>
<td>2.7</td>
<td>2.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Timber</td>
<td>2.1</td>
<td>2.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Fresh fruit</td>
<td>1.4</td>
<td>1.5</td>
<td>2.6</td>
</tr>
<tr>
<td>All other agricultural produce</td>
<td>7.8</td>
<td>8.1</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>73.3</strong></td>
<td><strong>56.3</strong></td>
<td><strong>3.1</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Carried for more than 4d. per ton-mile—</th>
<th>% Tot. Ton-Miles</th>
<th>% Tot. Revenue from Freight</th>
<th>Average Revenue Earned per Ton-Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods carried at special contract rates</td>
<td>9.1</td>
<td>16.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Galvanised iron, boilers, etc.</td>
<td>2.9</td>
<td>5.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Hides and skins, kerosene, iron</td>
<td>2.1</td>
<td>3.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Wool</td>
<td>1.6</td>
<td>3.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Stone, gravel, sand</td>
<td>1.2</td>
<td>0.7</td>
<td>4.2</td>
</tr>
<tr>
<td>Implements, machinery</td>
<td>1.2</td>
<td>2.9</td>
<td>8.9</td>
</tr>
<tr>
<td>Dairy produce</td>
<td>1.1</td>
<td>1.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Groceries, drapery, etc.</td>
<td>1.0</td>
<td>2.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Small parcels, etc.</td>
<td>0.5</td>
<td>1.7</td>
<td>13.2</td>
</tr>
<tr>
<td>All other</td>
<td>6.0</td>
<td>4.9</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>26.7</strong></td>
<td><strong>43.7</strong></td>
<td><strong>6.7</strong></td>
</tr>
</tbody>
</table>

| **TOTAL**                              | **100.0**        | **100.0**                   | **4.1**                           |


III. Financial Results of All State Railways.

<table>
<thead>
<tr>
<th></th>
<th>Revenues from Users</th>
<th>Expenditures*</th>
<th>Deficits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1954/5 1955/6 1956/7</td>
<td>1954/5 1955/6 1956/7</td>
<td>£ MILLION</td>
</tr>
<tr>
<td>NEW SOUTH WALES</td>
<td>71.8 73.8 77.0</td>
<td>78.4 85.8 86.3</td>
<td>6.6</td>
</tr>
<tr>
<td>VICTORIA</td>
<td>37.6 37.1 37.4</td>
<td>43.1 44.5 45.6</td>
<td>5.5</td>
</tr>
<tr>
<td>QUEENSLAND</td>
<td>30.6 30.3 35.5</td>
<td>35.5 38.7 39.7</td>
<td>4.9</td>
</tr>
<tr>
<td>SOUTH AUSTRALIA</td>
<td>13.0 13.2 13.4</td>
<td>16.9 17.4 17.3</td>
<td>3.9</td>
</tr>
<tr>
<td>WEST. AUSTRALIA</td>
<td>12.3 13.2 14.2</td>
<td>16.3 18.0 20.1</td>
<td>4.0</td>
</tr>
<tr>
<td>TASMANIA</td>
<td>2.3 2.5 2.5</td>
<td>3.3 3.5 3.9</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td><strong>167.6</strong> <strong>170.1</strong> <strong>180.0</strong></td>
<td><strong>193.5</strong> <strong>207.9</strong> <strong>212.9</strong></td>
<td><strong>25.9</strong></td>
</tr>
</tbody>
</table>

*Including interest on Railway debt written off, estimated depreciation charges (where not fully provided for in the Railways accounts) and revenue subsidies from various State funds.

Sources: Information published and provided by State Railways and other State Government authorities.
New I.P.A. Booklet for Employees

"Profits and Progress"

This 16-page illustrated booklet is designed for widespread distribution to employees as part of a campaign to achieve a better understanding of business profits.

As profit is the focal point for attacks on business and the free enterprise system every effort should be made to correct the doubts and misunderstandings which surround this subject. It is vital that the people who work in industry and commerce should have a proper comprehension of the function and the size of profits.

The I.P.A. seeks the full co-operation of businessmen in achieving the widest possible distribution of the booklet among employees in industry and commerce. It is upon this co-operation that the success of this educational campaign will entirely depend.

The booklet is being sold for 1/-d. per copy viz:

<table>
<thead>
<tr>
<th>Copies</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>£0 10 0</td>
</tr>
<tr>
<td>50</td>
<td>£2 10 0</td>
</tr>
<tr>
<td>100</td>
<td>£5 0 0</td>
</tr>
<tr>
<td>500</td>
<td>£25 0 0</td>
</tr>
<tr>
<td>1,000</td>
<td>£50 0 0</td>
</tr>
</tbody>
</table>

These charges are based on the cost of production of the booklet plus an allowance for the large free distribution which we would aim at achieving in schools and elsewhere.

The initial response to the booklet has exceeded all expectations. The first print of 20,000 copies was sold out within 7 days of its release. A second run of 20,000 copies was immediately ordered and has now been sold out, necessitating a third run. There is still great scope for the wider distribution of this important booklet, and we look to business throughout Australia to ensure that the maximum educational effect is achieved from this publication.
What's Wrong and What's Right with Britain?

By

Sir Oscar Hobson

In 1954 Sir Oscar Hobson contributed to "Review" an appraisal of the nationalised industries in Britain. We are privileged to publish a further article from the pen of one of the wisest and most respected financial and economic journalists in the United Kingdom.

What's wrong with Britain can largely be summed up in the one word "inflation" — provided of course that one gives it a wide enough connotation. Inflation in the technical sense is a malady from which nearly every country of the world has suffered since the end of the war. Britain, however, has suffered from it worse than any other comparable country* — whereas, with her traditions of sound government, financial skill and economic and social stability, she ought to have suffered less. The form of the disease which has affected her has, of course, been not the "galloping" but the milder chronic type. The point, however, is that she has found it impossible to shake off and now, twelve years after the end of the war and six years after the accession to office of a Conservative Government deeply pledged to restore her to economic equilibrium, appears to be as far from shaking it off as ever.

I have no desire — nor indeed capacity — to go deeply into the causes of our present state. There is in Britain endless discussion of them, discussion on whether it is demand inflation or cost inflation which afflicts us, discussion on the respective responsibilities of the Government, the workers and the employers, discussion on the proper remedies.

*Here, taken from the International Monetary Fund's statistics, are percentage increases between 1951 (average) and latest available date in 1957 in cost of living of various countries: — United Kingdom 28, Belgium 6, Denmark 15, France 15, W. Germany 6, Italy 18, Netherlands 15, Norway 25, Sweden 22, Switzerland 7, United States 7— and Australia 38.
Some of the facts, at any rate, are plain. It is quite clear that the motive force behind the rise in the cost of living is the pressure (which in recent years has proved irresistible) of the great labour unions to secure increased wages irrespective of any increase in productivity. The Prime Minister said in a speech at Bedford in July that, over the past six years, wages had risen by 40 per cent. and prices only by 20 per cent. In the same period industrial production has also risen by only 20 per cent. Inasmuch as the prices of basic raw materials have rather fallen than risen in the same period, it is plain enough that it is the wage demands of organised labour which have caused the rise in the cost of living. Labour, for the time being at least, has been able to contract out of the inflation which it has brought about, leaving a minority of the population, pensioners and retired people, professional and academic people, to shoulder the whole burden of it.

It is not necessary to discuss this matter in terms of blame. The trade unions have merely been exerting their bargaining power. They have been exerting it in an environment of "overfull employment" — the percentage of unemployed in Britain has in recent years averaged less than half the 3 per cent. which Lord Beveridge in his famous report considered the practical minimum — but the responsibility for that state must rest on the whole community or on the times in which we live.

*  *  *  *  *

WHAT is quite certain is that the trade unions could not have been baulked of their annual rounds of wage advances except at the cost of bitter strife and prolonged strikes. This price the Conservative Government has refused to pay. It has at times shaped as though it were going to pay it. It has proclaimed a credit squeeze, the only logical consequence of which should have been to abate demand sufficiently to reduce employment to less than "full" and weaken the bargaining power of the unions. But it has never carried the credit squeeze to that logical point. It has not pressed it to the point at which it would be really effective. On the contrary it has actually assisted the wage increase movement by granting the bankrupt British Transport Commission a direct subsidy to enable it to pay a larger advance to the railwaymen than the relevant tribunal had awarded, and by putting heavy pressure upon the shipbuilding and engineering employers to yield to the recent strike-backed claims.

In the light of recent utterances of the Prime Minister and the Chancellor of the Exchequer, there is no likelihood of the present Government dealing effectively with inflation unless it should be forced into action by a new and severe exchange crisis. The possibility of such a crisis is not to be ruled out in view of the low level of the reserves and the distrust of sterling which its continuous loss of purchasing power has engendered in foreign banking quarters.

Yet, so far as the next year or two are concerned, I would judge the probabilities to be against it. I would judge them to be against it mainly because of the sustained strength of the British export trade. Exports of manufactures are now running at two and a quarter times the pre-war volume and total exports at more than twice. This, all
things considered, is a most noteworthy feat. Despite rising costs, despite German and Japanese competition, British exports are still holding up strongly, even though they are not fully maintaining their earlier percentage of world trade.

When one turns from discussing what is wrong to discussing what is right with Britain, one can honestly pay tribute to the achievements of an industry which has made such an expansion of exports and the improvement of our standard of living possible.

It has needed exceptional scientific and inventive attainment added to our traditional skills and craftsmanship to achieve this result. In the face of a persistent decline in the overseas demand for our textiles—a generation ago our greatest single export—our metal using industries have had to be developed and expanded out of all knowledge. In several fields they can claim pre-eminence—in the development of atomic power for peaceful uses, in electrical engineering and aircraft and automobile construction. The post-war story of these crowded islands would indeed have been a sorry one if British science and British industry had not met the challenge.

Nevertheless, one must not exaggerate. In the industrial revolution of two centuries ago Britain had a clear start over all possible competitors. She has no such start in the second and, perhaps, even greater industrial revolution which is now getting into its stride. Indeed, if one takes the measure of increased volume of industrial output Britain does not show up very well in comparison with other comparable countries. The Economic Commission for Europe in its latest quarterly report gave output figures showing British production to have risen since 1953 by less than half the average increase of the countries of Western Europe.

This fact brings us back again to what is wrong with Britain today. I have said that what is wrong is inflation. But inflation is a technical, statistical term, a term without colour. It gives no clue to deep underlying human, emotional causes.

I am only capable of giving the sketchiest indication of the present state of our national psychology. It marks, I suppose, a further stage in the revolt against the Victorian semi-feudal discipline. When the soldiers were demobilised after World War I the promise was held out to them that they should come back to a land fit for heroes to live in. When they returned after World War II they were received with the same promise clothed in less romantic words. They were coming back to a "welfare state" in which everything would be "found" for them and to a state-owned industry where the workers would be their own bosses.

In neither case did the reality come up to the promise. The welfare state has brought benefits which only a few diehards would deny. The nationalisation of industry, so far as I can see, has brought none, though in the case of two of the industries taken over, i.e., coal and the railways, it is not easy to see how it could have been avoided.
The welfare state, however, has proved terribly expensive and has been largely responsible for the tremendous weight of taxation under which we still labour and which still earns us the not very enviable distinction of being the most highly taxed country in the world.

A good many people attribute to this fact our inflation and most of the associated evils which flow from it. I do not fully share that view. The tax burden certainly imposes a considerable handicap on the smooth working and on the efficient financing of industry. It very likely has some disincentive effects on energy and initiative.

Our direct taxation, nevertheless, is so highly progressive that the great mass of the workers are not affected by these. Their standard of living, though not that of the higher executive or technical grades, has risen steadily. But it is the poor spirit of work among the mass of the workers, poor in comparison with pre-war and poor in comparison with most Continental countries, which is responsible for our failure to keep pace with them in industrial production.

It is this poor spirit of work which has to be explained and I don’t know that it can be explained, concretely and convincingly. It is part of the reaction against the Victorian industrial feudalism whose disappearance unfortunately involved the grave weakening of Victorian standards of service. But it is difficult to say why this weakening should have affected Great Britain more than other countries.

In saying this I do not lose sight of the fact that between the different industries there are great differences of temper and employer-worker relations and of standards of management. There are industries with long records of industrial peace and cordial cooperation in which productivity is up to the highest standards. There are others—mostly the older industries such as transport, mining, shipbuilding—in which cooperation is poor, restrictionist practices are endemic and disputes are frequent.

It is these industries which are supplying the force to the wages pressure which provides our most immediate political problem. They cannot be saddled with the whole responsibility for inflation but they are responsible for its rising tempo. Their leaders appear to be showing less and less restraint in their demands. They are in danger of developing into a form of tyranny much more powerful because much better organised than that exercised by the Victorian capitalist bosses.

But now let us turn to the political arena in which these issues must ultimately be fought out.

The last General Election was in May 1955, when the Conservatives were returned with a majority over other parties of 60. The present Parliament would, therefore, expire in May 1960 but, taking into account the established practice under which a Government in power never risks delaying the General Election until the last possible moment, the latest practical date for the next Election would be in the autumn of 1959. Much the most probable assumption is that this is when the Election will take place. Judging by the available evidence, notably by-election results and public opinion polls, the Tory party would lose a General Election if it were held now. The odds are that it will lose the
Election whenever it is held, but from its point of view the weight of argument is certainly in favour of holding on until the last possible date or near it. One important point is that the Rent Act will then have been fully operative for twelve months, with the result that the Conservatives can reasonably hope that the unpopularity it has brought them will be beginning to wear off.

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The Rent Act is probably, both socially and economically, the most important legislative measure that the present Parliament has passed. It will in due course remedy a situation which, looking back, one can only describe as incredible. Restriction of the rent of a large majority of the rented dwelling houses had been in force since 1939 and in many cases since 1915. So far as the latter were concerned no actual increase in rents charged had been permissible since 1920. As a result many houses went into hopeless disrepair because the landlords could not afford to maintain them; mobility of labour was adversely affected because occupiers of rent-controlled houses were reluctant to move and because only local authorities could build new houses for letting; and there was much waste of house-room because married couples whose families had grown up or other occupiers whose circumstances had changed could not be induced to give up controlled accommodation which had become too large for them.

The Rent Act which frees the rents of all but the 4½ million lowest-rated houses (out of 15 million) and allows substantial increases in the rents of these, will in time lead to an important saving of economic resources and thus have anti-inflationary effects. But while the social benefits are delayed the costs falling on the individual accrue, if not immediately, within a matter of months.

If the Conservatives are turned out in two years' time, it may be the Rent Act which will be the main cause of their overthrow (which would be unpoetic justice) but I suspect it will rather be their inability to deal effectively with the cost of living. One count which a year ago would have figured prominently in the indictment against them will, incidentally, play no part. The Suez incident at the time aroused more bitter and vehement controversy than any political occurrence since Munich. The controversy is now dead and buried. If the Government made many blunders, the articulate opposition badly overcalled its hand with its attempted sanctification of the United Nations, and the majority of ordinary citizens of whichever political party were almost certainly pro-Eden all the time. Electorally Suez will cut no ice.

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But if, by reason of the Rent Act or inflation or simply the swing of the pendulum, the Tories lose the Election, what of the party which will succeed them and its men and its policies? What to begin with of the Prime Minister? One thing is certain—that never has the choice facing a political party been between two more dissimilar men. The choice, as everyone knows, is between Mr. Hugh Todd Naylor Gaitskell on the one hand, and Mr. Aneurin Bevan on the other. It is a choice between an Englishman, son of an Indian Civil Servant, edu-
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cated at Winchester and New College, Oxford, a trained economist and lecturer in economics at London University, and a Welshman, son of a miner and himself a miner in his young days, educated at Sirhowy Elementary School and the Central Labour College. It is a choice between two able men, one an "intellectual" with an academic background, the other a trade union agitator and leader, and perhaps as great a master of the emotionalist appeal as Lloyd George himself.

It might be unsafe at this stage to prejudge the choice, though the odds still strongly favour Mr. Gaitskell. As official head of the Labour Party and the Opposition he is the man in possession who has to be dislodged; he can be relied on to run a strong party line through thick and thin, even if it sometimes puts him at odds with his academic training. Mr. Bevan has not always been a co-operator. He resigned from office in the Labour Government in 1951 over a trifle. In 1955 he resigned from the Executive and only one vote saved him from being expelled from the Party for indiscipline. But his vigour and ability in attack restored him to favour and last year he was elected to the Treasurership of the Party thus returning to the Executive. In the Shadow Cabinet he was nominated as Foreign Secretary.

If his resurgent popularity and his gifts of oratory and mass-appeal should lead to his supersession of Mr. Gaitskell in the leadership of the Labour Party, it cannot be doubted that the course of the next Labour Government will run differently from what it would under Mr. Gaitskell. There may, however, be room for doubt as to how it will run differently. Some people detect in Mr. Bevan symptoms of mellowing. There is speculation on whether the final years of his political career—he is 60, nine years older than Mr. Gaitskell—might not run in a Rightward direction, parallel to those of Mr. Lloyd George.

That is speculative, probably wishful thinking. In any case, the Labour Party will be launched into office, if the electors will it that way, with a policy already shaped in the rough. What are its elements? In the first place the Labour Party condemns inflation no less uncompromisingly than the Tory Party. It now, in contradistinction to its rigid adherence to cheap money policy in its earlier term of office, professes willingness to use the monetary weapon. Mr. Harold Wilson, the Shadow Chancellor of the Exchequer, has shrewdly criticised the weaknesses of the monetary policy pursued by the Conservatives. He has hinted at Labour willingness to go much further, e.g., by enforcing more stringent "liquidity" conditions on the banks. Whether when it came to the point Labour would be more ready than the Tories to offend the "sacred cow" of full employment is more than doubtful. In any case, Labour would rely more on direct controls, notably those of an anti-capitalist nature like dividend limitation and the taxing of capital gains. That such expedients would be either ineffective or statistically irrelevant—Mr. Thorneycroft recently pointed out in Parliament that in 1956 wages increased by £700/800 millions net after tax and dividends by only £25 millions—would certainly not deter a Labour administration from relying on them, for class-antipathy and "soak the richism" are still very powerful emotions among the rank and file of the party.
ON nationalisation there has been a considerable change of attitude since the last General Election. In a recently issued pamphlet entitled "Industry and Society" which has been prepared by a study group of the National Executive (including both Mr. Gaitskell and Mr. Bevan) the new policy on public ownership is explained. In the case of only two industries, steel and long-distance road haulage, is public ownership specifically and unre- servedly recommended. These are the two industries which were nationalised by the Labour Governments of 1945 and 1950 and denationalised by the Tory Government of 1951. In respect of these two industries "the case for public ownership remains as strong as ever"—but is not argued—and they are to be restored to public ownership. But for other industries the "right" to nationalise is merely "reserved". Those that "fail the nation" may be nationalised or individual companies may be nationalised. But for the rest, the Labour Party seems more disposed to claim a share in the benefits of private ownership in its profits and "almost automatic capital gains", than to take on more of the responsibilities of management.

How this is to be done is not fully explained. Shares in large companies may be taken over in settlement of death duties and it is contemplated that the authority to be set up to administer Labour's new and ambitious pensions plan will have power to invest in equities. But "other methods and other agencies" by which State participation in the ownership of industry is to be extended are hinted at and, indeed, if any consistent pattern is aimed at it is clear that extensive powers for the compulsory acquisition of equity interests in industry must be sought.

If Labour's plans for the establishment of the "Shareholder State" are as yet rather vague, other facets of Socialist policy are equally so. In external policy we need not look for any startling changes should the Labour Party come to power. Its attitude towards the Commonwealth will be no less cordial than that of the Tories. In foreign affairs, despite recent much-publicised differences, Labour's efforts will be directed to the same objects—how to live at peace with our enemies and (sometimes it would almost seem the more difficult task) how to get on with our friends. On the question of entry into the proposed European Free Trade Area, there are no substantial differences between the parties. Public opinion and business opinion show a weight in favour which astonishes those who have lived with the tariff controversies of the last half century.

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THERE is finally one point which ought to be mentioned. In recent months both the sterling exchanges and the gilt-edged market have shown increasing sensitivity to inflationary influences. Fears have been widely expressed that the return of a Labour Government or even, as the General Election approaches, the strong prospect of such an event, might precipitate a financial panic and a run on sterling, which it would be difficult to control and which might drive us into a second devaluation. The Labour Party leaders, I have no doubt, are well aware of these fears and, indeed, of the danger in question.
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Obviously one cannot measure it by any objective or logical standards. Two years is quite a long time and much may change in the course of it. Nevertheless, one cannot but recognise that however much the Conservative Government's management of our economic affairs may have fallen short of the hopes of its supporters, the advent of a Labour Government with its anti-capitalist bias, its penchant for arbitrary controls and subsidies and its inexperience in finance, would be far more disturbing still. I cannot, as I have said, evaluate the chances of a real "crisis". I have no desire whatever to exaggerate them. What one has to recognise above all is that the slenderness of our reserves, which in relation to our overseas commitments now represent a lower level of "liquidity" than ever before, afford very cramped space for manoeuvre.

This is one of the most inconvenient aspects of the habit of overextension, of inflation into which we have fallen and from which we have found it so difficult to escape.

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