The Budget

THE Federal Treasurer can be generally satisfied with his first essay in budget-making. The technical flaws (the Post Office charges and the medical prescription fee) that have been disclosed since the Budget was brought down, should not be permitted to confuse opinion on its broad economic and financial merit. In its main outlines, the Budget is a sound, competent piece of work. Necessarily perhaps, it has nothing in it to fire the public imagination.

Given the basic premise underlying the Australian economy today, namely continued high-speed development, the room for manoeuvre in budget-making is painfully narrow. Large-scale development must be paid for and it must be paid for in high taxes and their concomitant of suppressed consumption. This is the dilemma confronting the Government; it is one ill-understood by the general public. It is simply not possible for the Government to offer much more than token reductions in taxation while there is such tremendous pressure for the expansion of basic public facilities of every kind. Total Commonwealth expenditure will be just short of £100 million
greater than in 1958/9. Of this, £21 million is directly attributable to increased spending on public works and housing, and £35 million to increased payments to the States, much of which is necessary to meet the pressure on State budgets caused by expanding population.

Long before August 11th, it was clear to many (but not all) students of the Australian economy that the scope for tax reductions would be rather severely limited and this has proved to be the case. In fact, when increased postal and telegraph charges are taken into account (which will directly or indirectly affect practically everybody) the budget concessions, excluding increases in pensions, are negligible. Even so, the Treasurer has been forced to budget for a deficit of £61 million in a year when such a deficit might prove difficult to justify on strictly economic grounds. The overriding need in the Australian economy at the moment is stability of prices and costs (indeed this is the best incentive industry could have and the essential basis of the drive to expand exports). Yet it is hard to reconcile this need with a deficit of the magnitude of £61 million. There seems little doubt that the Treasurer is hoping for a larger return from tax revenues and loan raisings than the amounts budgeted for; but there is, of course, no certainty that a greater sum will be realised.

The deficit of £61 million, admittedly, is notably less than the budgeted deficit of £110 million for 1958/9. But when the Budget for that year was brought down, it was widely expected that the outflow of money on account of overseas transactions would not be less than £100 million and might be very much more. Indeed, the budgeted deficit for 1958/9 was justified in the Budget Speech of that year on the grounds that such an expansion of internal money supplies would provide a desirable offset to the drain on liquidity resulting from the prospective deficiency on external account.

As events turned out, this did not occur. Export income was much larger than had been anticipated and this, combined with an unexpectedly buoyant inflow of private capital from abroad, meant that the deficit on overseas payments for the whole year was only £10 million. Moreover, because of successful Government borrowing in London and New York; the issue of special bonds; the influence of the new short-term
money market; and the taking-up of large parcels of Commonwealth bonds by the trading banks, the loan market produced about £100 million more than the Budget had allowed for. The actual deficit for the year was only £30 million compared with the budgeted amount of £110 million.

This year, prospects on account of overseas trading, and for capital from abroad, appear good and, in spite of the relaxation of import restrictions to the tune of £50 million, it is quite possible that sterling reserves will not need to be drawn upon to finance a balance-of-payments deficiency. Thus it could be argued that there is much less excuse this year for a budget deficit than there was at the time of the introduction of the 1958/9 Budget. The Budget has been accused by some commentators of lacking any element of adventure, but in this respect the Treasurer has taken some risks, which may, however, in the whole context of the Budget, be justified. Indeed, if the Treasurer had resolutely set his face against a budget deficit there would have been no tax concessions at all and no increase in social benefits. Looking at it this way, it might be said that most people in the Treasurer's shoes would have done exactly as he did.

On the detail of the Budget much has already been said and little comment need be made here.

Given the limited field for manoeuvre, the choice of personal incomes and private companies for the provision of tax relief could not have been bettered. The present scale of income tax makes it extraordinarily difficult for the up-and-coming, hard-working, enterprising man, without much capital behind him, to get ahead in the world. The income tax concessions will furnish a little more incentive for these people who are among the most worthy and, from an economic standpoint, among the most important in the community. They have been "the forgotten men" of the postwar period and it is good to know that this is realised in government circles. Perhaps it might have been better to apply the concession on a proportionate scale rather than as a flat rate percentage reduction over the entire income range. The course that the Treasurer has chosen favours the single man more than the married man and also has the effect of reducing the steepness in the rate of tax progression.
The relief granted to private companies is to be commended on the same grounds. It will make it easier for the small private company, with limited access to outside capital sources, to expand and grow. The concession made is in line with essential free enterprise doctrine.

There is certainly no one in Australia who would begrudge the rise in pensions. Most people would like to have seen an even higher rate of increase; but pension increases are costly and greater generosity would seem to have been precluded by the overall financial position.

Everyone will applaud the decision to set up a Committee of Enquiry to examine the taxation system. It would be disappointing, however, if the terms of reference of the proposed Committee were too restricted. What is wanted is an enquiry which embraces the whole field of taxation, including its manifold economic and social aspects. Over a period of years the tax structure tends to become almost “a thing of shreds and patches”—a bit is added here, something taken off there. Every so often, it becomes highly desirable, indeed imperative, to examine the architecture of the structure to ascertain whether it satisfies commonsense, equity and the needs of the economy.

The proposed independent review of Post Office finances is also to be warmly applauded. The Post Office is the biggest undertaking in the Commonwealth and it is vital that it should operate on an efficient basis and, as far as may be, in accordance with accepted business principles.

It is easy, of course, to find fault with the Budget and many have done so. No doubt it is open to criticism on points of detail. But, then, what Budget is not? Those who assail the Budget on the grounds that it fails to reduce this tax or abolish that, without indicating where compensatory reductions in Commonwealth expenditure can be effected, and without regard to overall budget balance, tend to mislead the public and do the country no service. Much of the comment on the Budget either has been irresponsible or has arisen from ignorance of the financial requirements and economic realities of the present-day Australian economy. Notwithstanding the lack of enthusiasm with which the Budget has been greeted, the Government and those who advise it have fulfilled their task in a responsible, workmanlike manner.
Can Modern Capitalism Survive?

In those countries with industrialised economies there has been a vast increase in the role and powers of government over the last few decades. This development is common to all industrialised countries, although the extent of governmental power (in the economic sphere) varies widely from Soviet Russia at one extreme, where the power is absolute, to perhaps the United States at the other extreme. Britain is popularly supposed to occupy a position somewhere in between.

The laissez-faire economy belongs to history. All economies today are, in a sense, planned or regulated. Moreover the state is not only a planner and a referee. It participates actively in the game itself. It is both a producer and a consumer on a large scale.

The increasing intervention of government in economic affairs has given rise to great fears, among businessmen and many ordinary citizens, of the advance of socialism and of the loss or diminution of personal liberty. These critical questions are examined in a large and scholarly work, "The Economy, Liberty and the State", published recently by the Twentieth Century Fund in the United States. The author is Calvin B. Hoover, a leading economist.

Hoover is a former President of the American Economic Association; he is professor of economics at Duke University, and has had a wide practical experience as a consultant to business organisations and as a governmental adviser and administrator. The book, which is the outcome of three year's study and travel, is the product of a mature and erudite mind. Although a classic of its kind, it may not be widely read. Many of its conclusions nevertheless are of high significance for contemporary politics and economics in the Western World. On the whole they will be reassuring to those who are convinced of the superiority of free enterprise over other economic systems.

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"What is the likelihood," Hoover writes, "that within the next two or three decades the modern type of capitalistic economic system will be supplanted in any important country of the West by a collectivist economic system? At the present time there is almost no chance that this would happen by the conscious will of the majority."

Most observers have assumed that the enlargement of the role of government in practically all countries indicates a trend away from capitalism toward socialism and that the modern economy is a kind of mixture containing some of the elements of both. Hoover does not see it this way.

Traditional socialists believed that the limitation of private property would result in a much greater share of income being available for the workers, because of the reduction in "property income". They also believed that the workers would work much more willingly and productively when they were, so to speak, working for themselves than when working for the profit of capitalists. Socialists believed, too, that productivity would benefit through the substitution of public planning and nationalized industry for the wastes of competition and the restriction of private monopoly.
However, writes Hoover: “In the cases where private property has been abolished and the powers of the State have been extended without limit, progress towards the goals of socialism, as these goals were understood in the past, has been least. On the other hand, substantial progress towards the commonly accepted goals of socialism has been made in some countries without any deliberate move toward socialism and without even partial nationalization of industry.” In other words, we are confronted with the paradox that in most modern economies, many of the objectives of socialism—for example, greater equality of income, better standards of living for the lower income groups, greater security of employment and an improved status for the worker—have been achieved without following the prescriptions of the socialists. Rather, these goals have been realised by modifications and improvements to essentially free enterprise methods and institutions.

Hoover notes that where nationalization of particular industries has taken place, no measurable gain in productivity by “the worker now working for himself, and not for the capitalist boss” has been noticeable. “There can be little expectation”, says Hoover, “that the problems of planning, organizing and directing a collectivist economic system would be made easier by a greater concern for the public interest as self-interest declines among workers, since there is no evidence that it does decline.”

This is one of the critical questions of the modern world. Hoover’s book examines it in some detail. Hoover does not think that the greater role now played by governments in the economies of the Western democracies has yet meant any serious detraction from individual freedom. “Neither the development of the corporate organization of the modern economy, together with the counter-vailing power of labour unions, nor the great increase in the role of the state in controlling the economy, nor even the piecemeal nationalization of industry has yet resulted in a demonstrably serious net diminution of personal liberty. . . .”

He does, however, make two important qualifications to this summing-up. In the first place he has little doubt that there must come a point where increasing government intervention in economic affairs would become a threat to personal freedom, and he writes: “It seems inevitable that substantially complete statization of the economy would result in a critical diminution of liberty.”

In the second place he says that most people draw an important distinction between “personal liberties” and “business liberties,” and he argues that most of the government controls in the modern capitalistic state are concerned with limiting the latter rather than the former. He would say that when governments control prices or wages, or impose import quotas as in Australia, or production quotas as in some fields of agriculture in the United States, the majority of people apparently feel no loss of their personal freedoms of the kind protected by constitutional guarantees such as freedom of the press, freedom of speech, freedom of religion, and the such-like.
It is however, difficult, as the author admits, to know how far this distinction between personal and business liberties can be upheld. Any trader whose livelihood was threatened by a restriction on the amount he can import, would certainly feel a distinct loss of personal freedom. On the other hand it could be argued that the eventual loss of freedom would be far greater if an unimpeded flow of imports resulted in an economic crisis which compelled the government to introduce harsh emergency measures affecting great numbers of people. Taxation, perhaps, provides a good illustration of the matter at issue. Clearly if taxes are pushed so high that people are unable to keep for their personal use a reasonable proportion of their earnings, there will be a widespread sense of loss of freedom. And this would apply even though the taxes were used to increase the volume of “collective goods” such as education, roads, and hospitals from which everyone might be expected to derive some benefit. The issue would therefore seem to be one of degree and there would come a point where too great a limitation by government of “business liberties” would become an encroachment on “personal liberties”. However, Hoover’s view would no doubt be that even if this point has been reached in many of the Western economies, it has not yet been passed.

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WHAT are the ultimate prospects for the survival of individual liberty? Is the modified form of capitalism operating in most Western countries today likely to be supplanted eventually by some kind of collectivist economic system where the state predominates and the individual is subordinate?

Hoover’s reply to these questions is reassuring, even if not wholly so.

The most important fact about latter-day capitalism is that it is delivering the goods! The economic lot of the majority, particularly of the lower income groups, has improved enormously, and continues to do so. This is so obvious as to need no elaboration. “So long as these conditions continue”, writes Hoover, “there appears little reason to expect a bitter and determined demand from the masses of the population for the overthrow by either revolutionary or parliamentary means of a system, the benefits of which are so obvious and widespread.”

A contented people becomes, if not suspicious, at least unenthusiastic about radical reforms. The traditional aim of socialism to replace the private ownership of industry by public ownership commands today little popular support. Moreover, even among socialists themselves, there has been disillusionment with nationalization of industry, particularly where it has been extensively tried as in the United Kingdom. Hoover writes, “. . . there currently is almost no country of the West where there is a socialist party seriously and actively advocating a programme for the further nationalization of the economic system.” Socialist parties, he says, have become essentially “welfare state” parties pushing for higher wages, shorter hours, fringe benefits for workers, higher social security payments, limitations upon profits and the such-like.

Under today’s conditions there seems little danger to the survival of modern capitalism from any sudden change of the popular will, or even from the accession to power of social-
First, it is clear that modern capitalism cannot function effectively without quite a large amount of government planning and control. The maintenance of full employment; the continuing battle against inflation on the one hand and recession on the other; protection against financial insecurities arising from old age and sickness; the widening field of community services; the conservation and development of national resources; these are responsibilities common to all modern governments. In all countries government expenditures have come to occupy a large proportion of total national expenditures — in many countries around 25% or even more. Even in the United States, total per capita expenditure by local, state and national governments is nine times as great as it was forty years ago, after allowance for changes in the purchasing power of money. Moreover, the demands on government, even by businessmen themselves, seem to constantly increase.

While much of this expansion of government functions has been necessary and beneficial, taken too far it could become a serious threat to individual liberty. As Hoover says: "It is the cumulative and partly unavoidable expansion of the area of state power, rather than any revolutionary change by ballots or bullets, that is likely to determine the fate of liberty in the countries of the West which still maintain a modified form of capitalism. . . . The maintenance of personal liberty will turn upon whether or not these extensions of the powers of the state can be restricted to those which are truly necessary."

A second danger to individual liberty and to the continuance of free enterprise, as we know it today, would arise from the advent of a serious economic depression. This would lead to widespread demands for radical reform; governments would have no alternative but to introduce crisis measures affecting a great part of the economy; the powers and functions of government would inevitably be extended. Hoover makes the interesting but debatable point that an economic depression today would probably deal an even more serious blow at the institutions of modern capitalism than in the past. He suggests that the people, having now become accustomed to full employment and a high standard of living, would be likely to react violently in the event of any substantial worsening of either.

A third danger to modern capitalism, says Hoover, arises from the fact that it has not yet been able to command the support of a large proportion of the intelligentsia, whose attitude remains, if not hostile, at least negative. While this lack of support continues, the system, in Hoover's opinion, will be vulnerable to eventual replacement, through parliamentary or revolutionary means, by another system.

Many intellectuals, says Hoover, tend to think of the interests of the public and the capitalist as fundamentally in conflict, the capitalist being interested in the highest price he can get for goods and services out of the consuming public. From this position, it is easy to take the next step of thinking of the "state" as representing "the public". The intellectual consequently tends to sympathise with any action by the state which limits the power and income of capital. He does not recognise
that there could be an even greater conflict of interest between the public and the management of a nationalized industry not subject to the normal controls which the consumer can exert through the market place. "Most intellectuals", writes Hoover, "not only will accept increased intervention and control by the state when a strong case can be made for it, but also will tolerate almost any piece-meal extension of the area of state power out of a feeling that the public interest is being served."

Many intellectuals, naturally enough, think of themselves as critics. But having exercised their function of criticism, they frequently stop short of putting forward any workable alternative to the system or institutions which they criticise.

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It is true that all these things—the enlargement of government functions (often in response to well-intentioned popular demand); the possibility of economic depression; and the lack of enthusiasm among the intelligentsia — represent a danger to personal liberty and to the survival of the Western economic system in substantially its present form.

Perhaps, however, the danger may be not so great as Hoover gives the impression of thinking. There is, after all, a deeply ingrained love of personal liberty in the hearts and minds of most democratic peoples. Indeed it is because of the value they place upon freedom that they are democratic. History shows that they tend to react violently whenever they feel that their personal freedoms are endangered. The peoples of the democracies possess, too, a hard core of practical commonsense which makes them resistant to wild-cat schemes and to untried theories. This was clearly shown in the Great Depression in Britain and Australia. This commonsense has come to their rescue in the past; it could do so again in the future even in face of a serious economic crisis.

Moreover, one suspects that the intellectual, whatever he might say in his lighter moments, is, deep-down, not so critical of postwar capitalism as he was of prewar capitalism. For one thing he has much less to criticise. The main targets of his opposition have been removed—unemployment, insecurity, poverty, manifest inequality of possessions and income and opportunity. Moreover, he has come to appreciate that the heads of large business enterprises are usually hard-working, decent people, inspired not infrequently as much by motives of public interest as by private gain. If the intellectual still tends to be over-critical of certain aspects of the present-day economic system, this may not be a bad thing, and could be a source of inner strength. After all, he possesses the right to be critical because of the institution of freedom; in the final reckoning, the intellectual, more than many, might be expected to leap to the defence of freedom, if it were seriously threatened, or if he saw it being whittled away.
By common consent transport presents one of Australia's greatest national problems because of the staggeringly large proportion it comprises of total costs. There have been numerous investigations of its dimensions but these have served only to reveal that there is no ready solution. The essence of the matter lies in finance and in present-day Australia there are numerous competing claims on financial resources, many as urgent as transport.

By modern world standards, Australia's transport system is far from good. Roads are pathetically inadequate and railway services inferior. Suburban buses, especially in Melbourne, would receive few bouquets from those who have to travel by them. This is not a reflection on those responsible for the administration of these services, but is indicative, rather, of the limited capital available for purposes of modernization. Australia’s performance in the carriage of goods by sea and in loading and unloading on the wharves compares poorly with many other countries. Only in air transport can we lay claim to world standards. But even here, airport facilities are inadequate for the new jet age, and passenger lounges provide few of the comforts regarded as essential in advanced overseas countries.

However, while the position is serious enough, recent statistical comparisons with other countries have painted an unduly gloomy picture.

From time to time figures have been quoted from a survey made by the Department of Shipping and Transport showing that Australia's expenditure on transport services represents almost 30% of total market expenditure. Comparisons have then been made with figures for overseas countries giving transport costs at only about 10% of total costs. If the comparison were valid, we would indeed be in trouble. However, the basis of the Australian figures is, fortunately, different from that used overseas. The Australian estimates cover all transport expenditure, including expenditure on private motoring and also purchases of capital equipment. The overseas statistics, on the other hand, usually relate only to the current operating costs of government and private transport undertakings such as the railways and road hauliers. They exclude capital expenditure, private motoring, and the transport costs of farms and businesses conducting their own transport operations.

The Royal Commission on the Canadian Economy in 1956 reported that total expenditure on transport constituted 27% of gross national product — an almost identical percentage to the Australian. The two countries are in many respects similar. Both have long average hauls and widely dispersed centres of population. Both are developing rapidly. The Canadian study placed costs of transport provided by transport undertakings (public and private) at 8% of G.N.P. and all other transport costs, including private motoring, urban and farm work, at 19% of G.N.P. The former percentage is very close to the figures published for a number of European countries in "The United Nations' Economic Survey of Europe, 1956". The Department of Shipping and Transport believes that on a comparable basis the Australian percentage would not be greatly out of line with overseas figures.
Nevertheless, the amount spent on transport constitutes a very large proportion of all national spending — on the carriage of goods alone (as distinct from passenger transport) it approaches £1,000 million a year or somewhere around 3/- in each £ of sales.

Next to manufacturing, transport is Australia’s greatest industry in terms of employment. About 380,000 are directly employed in shipping, the railways, airways and in road transport. A further 280,000 are engaged in the manufacture, maintenance and supply of goods and facilities for the transport industry. Transportation, directly or indirectly, provides one in every six jobs.

Since labour constitutes the major cost factor — as high as 70% in shipping and stevedoring and in the railways — the wage-price spiral has dealt transport a severer blow than any other sector of the economy. Shipping has suffered most. Seamen are paid on a 40-hour week basis compared with 56 hours before the war and their actual annual earnings are now eight times the 1939 level. Watersiders’ hourly earnings are four times pre-war. As handling rates of general cargo in tons per gang-hour are only half those pre-war, despite larger gangs and better equipment, stevedoring costs are at least eight times pre-war levels. The freight rate for general cargo from Melbourne to Sydney has risen from £1 per ton in 1939 to £7/6/- per ton today. The 1957/8 Annual Report of the Tariff Board showed that it cost 31% more to carry sawn timber from Cairns to Sydney than from Malaya to Sydney. Operating for the most part on fine or non-existent profit margins, the transport industry is forced to pass on wage increases in higher freights and fares, or, in many government undertakings, incur still larger losses which the taxpayer has to foot. These constant increases are of great concern not only to the Australian consumer but also to the producer striving to compete with overseas industries.

For many reasons rapid increases in productivity in the transport industries are difficult to achieve. This does not mean that there is no scope for them, but traditional patterns of thought are apparently more inflexible than in, say, secondary industry. Advances in technology, science and in managerial methods, seem to have had a much stronger impact in manufacturing. The sparkling modern manufacturing plants springing up on every hand contrast strangely with the decrepit, run-down appearance of many of the transport services. The transport industries, with the exception of road transport, also suffer from the severe disability that, by their nature, they tend to be monopolistic. Moreover, a good part of transport is under the control of governmental authorities. Transport is therefore much more exposed to political influences than other industries; these influences are usually not conducive to high standards of efficiency.

Heavy capital expenditure is one of the main answers to the problem of better productivity but finance is often not to be had. The industry is already a chronic consumer of new capital. About a third of all new investment each year goes into transport. Studies by the Department of Shipping and Transport indicate the book value of our national assets in railways, roads, motor vehicles, ports, harbours, ships, aircraft and the like, to be about equal to the whole of Australia’s national
income in 1957/8, i.e. £4,700 million. In a young country with a small population it could be wasteful to scrap capital assets running into tens of millions even though more up-to-date, efficient methods of transport may be feasible. Also, the introduction of a new form of transport usually involves a huge outlay on capital assets for which money may not be readily available.

This is one of the issues which arise in the perennial debate between trams and an alternative such as trolley buses. Even though the latter are doubtless superior, a change over would mean writing-off the existing investment in trams and tram-lines while creating a large new demand for capital. Again, operating costs of diesel locomotives are only about a third of that of the old steam locomotives but the latter cannot be scrapped entirely because of the capital costs entailed.

In the scramble by all sectors of the economy for more capital, transport must take its place in the queue. Jet fleets for airlines must be weighed against uniform rail gauges and modern sleeping-cars for interstate trains; the benefits of ring-roads and free-ways must be balanced against those which would accrue from an underground railway.

A first-rate example of this conflict is the problem being faced by Melbourne at the moment of relieving traffic congestion in the city and nearby suburbs. It is not just a matter of finding the most efficient means of moving people from place to place. The social and economic implications of the various alternatives have to be considered in relation to the scarcity of funds available. The costs of expensive rail facilities, such as new undergrounds, have to be assessed against the advantages to be derived from a similar expenditure on roads to secure better access to the city by car and to provide adequate parking facilities.

Some experts believe that the railways offer the greatest scope for moving city passenger traffic smoothly and rapidly. But can more people be forced to travel by rail, no matter how efficient, if they prefer to use a private motor car, and are prepared to accept the extra cost and congestion of doing so? One school of thought would contend that the £30 million for the underground ought to go instead towards early implementation of the plans of the Melbourne and Metropolitan Board of Works for a ring-road, free-ways, by-passes, and wider arterial roads. Traffic bottle-necks arising from inadequate city and suburban roads are expensive from the point of view of the nation's economy. It has been calculated that delays due to traffic congestion are costing the Australian community about £200 million a year.

While, in the long term, there may be no conflict between the objectives of better road facilities and an underground railway, in the short run, because of lack of loan funds, some choice has to be made. If the allocation of funds between various forms of transport were to be decided by the ballot box, it is possible that roads for the private motorist might eventually win out.

Thus, the crux of the problem consists in allocating priorities within the transport field itself and between transport and all the other urgent needs of the community such as housing, schools, hospitals, sewerage and other facilities.

Roads provide a vivid example of the difficulties confronting Australia. The magnitude of the roads' problem
almost staggers the imagination. There are now ten motor vehicles per mile of formed road, compared with less than four in 1939. But, despite this fact, we are currently spending only 2% of national income on roads, compared with 3% before the war.

One expert says we should be spending about £400 million on a national road system. This would link the capital cities by the most direct route, and would also involve an improved coast road from Adelaide to Cairns. Total length would be 17,500 miles or about 3% of all Australian road mileage. A survey by the Transport Advisory Council shows that, at a minimum, it will take about £1,100 million to bring our roads up to desired standards and to cope with the problem of growing traffic over the next five years or so.

Although roads are not primarily its responsibility, the Commonwealth Government has been finding increasingly large sums towards the financing of road works by State and local government bodies. Over the next five years the Commonwealth has agreed to provide £250 million for roads, an increase of £100 million on the preceding five years. With this additional Commonwealth aid for State roads, it is expected that road expenditures will rise from over £110 million in 1958/9 to £160 million by 1963/4. But, even then, there will still be a long way to go before it can be said that Australia's road position is anything like satisfactory. The Federal Treasury estimates that with the new grants, total expenditures on roads will still only amount to £720 million during the next five years. This compares with the £1,100 million estimated by the Transport Advisory Council as the expenditure necessary to keep pace with the fast-growing road traffic.

It is clear that there is no easy or spectacular solution to Australia's transport problems. How rapidly improvement can be achieved depends largely on the resources which it will be practicable to devote to this important purpose. This is one of the dilemmas posed by economic development on the grand scale.

Substantial benefits to the Australian standard of living would arise if it were possible to materially reduce costs throughout the transport services. Could not this objective be made the basis of a fresh attack on transport efficiency by the managements and unions concerned, particularly in weak spots such as the public transport services and shipping? These essential services seem to be constantly beset with industrial disruption by militant union elements. Socialists have argued in the past that the national interest can be given precedence over sectional interests only when key sectors of the economy are under direct government ownership and control. But experience in transport has proved this not to be so. Transport services are mostly government owned and controlled. Union leaders in a position to expedite improved efficiency have yet to show that the national interest comes uppermost in their minds. This is one of the ironies of socialist enterprises supposedly operating in the public interest.

We may be able to look forward to a steady improvement of the facilities available, but for many years ahead there are certain to be serious transport deficiencies which will add to costs, occasion inconvenience and arouse the wrath of those most directly concerned.
The Political Climate

WHAT kind of political climate does business have to contend with in Australia? How does it compare with other countries? Is it favourable or is it unfavourable to business enterprise and expansion? These are questions of some importance. They affect not only the attitude of overseas investors, but also the confidence in the future felt by Australian businessmen themselves. While the immediate political situation of Australia, naturally, frequently enters into business discussions, the long-term picture is seldom analysed in any fundamental sense. The "weather" rather than the "climate" is invariably the subject considered.

The first thing to be clear about is what the term "political climate", in this context, means. The political climate embraces not only the policies and attitudes of the major political parties and groups; but also the predominant attitudes and beliefs of the Australian people themselves. Indeed these attitudes and beliefs are, in the end, more important than the current policies of political parties. For, in the final summing up, political policies will largely reflect the basic ideas of the people; moreover, these basic ideas will set the boundaries within which any political party can act—at least when it occupies the Treasury benches. If it goes outside these boundaries, the retribution of the people is likely to be sure and swift, and if the party does not quickly modify its views it may soon find itself out of office. This is one of the reasons why parties, which, when in opposition, sometimes give voice to the most extreme views, rapidly become very much more responsible and moderate when they control the reins of government.

When one thinks about the political climate of a country in relation to business, the first question that comes to mind is whether the political leanings of the country incline toward socialism or toward free enterprise. In these days, there is of course, no such thing as pure private enterprise, untainted by socialism. Even in the United States where private enterprise is said to reign supreme, there are quite large elements of a socialistic character. The United States possesses many of the features of the Welfare State; the rural industries, as to prices and production, are under tight government control; and, of all things, there is a tax on "capital gains", a measure
which has no parallel either in high-tax ed Britain or in Aus-

tria.

What, then, of the political climate in Australia? Is it
predominantly free enterprise or predominantly socialist? At
the moment, it is undoubtedly the former. One would naturally
point, first of all, to the obvious fact that we have had a
government at Canberra for just on a decade whose sympathies
lie with free enterprise; and then to the present manifest
weaknesses of the Labor opposition and its lack of electoral
success in recent years. There are, no doubt, reasons for that
beyond the mere fact of its socialist platform. But for the
time being it is clear that, with the sun shining so brightly
on the Australian economy and with prosperity abounding,
Australians have little interest in socialism; indeed they have
a positive distrust of anything that savours too strongly of
socialism.

One would, however, need to go deeper than the facts
of the current political scene to support a claim that Australia
is firmly wedded to free enterprise as the basis of its
economic organisation. That support can be found, at least
partly, in the Australian character. The Australian, by and
large, is not very politically-minded. He is not easily carried
away by political catch-cries and causes. He has a severely
pragmatic, even sceptical, approach to politics. It is hard to
get him to take a vigorous part in political activities or political
organisations. He likes, for the most part, to be left alone.
In most things he is conservative even to a fault. In a world
in which it is becoming increasingly difficult not to be
conformist, he is, in some senses, strongly individualist. He
loves to disagree. There is a trait of “cussedness” in his
make-up which can at times be infuriating. It is not easy
to get him “steamed up” over sweeping reformist programmes.
There is too strong a grain of scepticism in him for that. He
prefers the bird in the hand to the two that might—or might
not—be in the bush. At the same time he has a deep sympathy
for the under-dog—a sentiment which at times can spill over
into an almost maudlin sentimentality. This leads him to
support measures which may not always be in the national
interest, and it is to this side of him that socialist ideas make
their strongest appeal. Even so, he usually seems to stop short
of lending final support to radical, unorthodox programmes
and to untested theories.
If Australia were ever to make a strong leap in a socialist direction, it would surely have done so on two occasions in the past thirty years. One was in the Great Depression of the early nineteen thirties. Another was in the years around the end of World War II.

In the Great Depression, the temptation to lend support to sweeping reforms, unorthodox measures and new doctrines, must have been terrific. A quarter of the working population were unemployed; suffering was widespread; hopelessness was in the air. But the Australian people rejected ideas that, for those days, were unfamiliar and extreme and considered dangerous; they clung to the route mapped out for them by the economic experts. The Labor Party was swept from office; some of the leading figures deserted the ranks. There could be no more powerful demonstration of the political caution and distrust of the unfamiliar that resides in the collective will of a democratic people. Of course, it could be argued that the measures actually adopted were radical enough—reduced wages, the writing-down of debts and the rest. But the need had to be demonstrated by the compelling argument and reason of some of the best intellects in the land.

The other occasion was in the years around 1944 to 1947, toward the end of World War II and the period of post-war reconstruction. If ever there were an opportunity for socialism, or at least a large instalment of socialism, to be introduced into Australia, that was the time. In 1943 the Curtin Government had been returned with a triumphantly large majority—all the more triumphant because it was quite unexpected by Labor’s opponents, who were ill-prepared both in organisation and in policy for the prevailing political feeling. There was at that time a tremendous and understandable surge of idealism, the kind of surge you would expect to get during a shattering world conflict. There was a widespread determination that there would be no going back to “the old order”. Some of this idealism was admirable, but much of it was, to say the least, starry-eyed. So strong was the national demand for sweeping reforms that some respected figures were encouraged to put their names to proposals, which, if implemented, would have brought about a social revolution, and converted Australia into a truly socialist
state. The prevailing mood in intellectual circles was anti-business and anti-the-profit-and-loss economy. Anyone so bold at many public gatherings as to throw doubts on the prevailing socialist ideas was likely to find himself shouted down.

This was the situation then: throughout the country and particularly among the intelligentsia there was a strong and insistent demand for widespread reforms. The phrase "post-war reconstruction", to many people meant reconstruction along socialist lines; "the new order", in many minds, meant a socialist or near-socialist order. In secure control of the national government was a party with an avowed socialist platform. The opposition groups were in disarray and the political forces supporting private enterprise were faced with the stupendous task of building from the ground up and of evolving a political philosophy suited to the needs of the times. Strong, militant elements were in control of the key unions and the attitude throughout union circles was demanding and uncompromising. Everywhere there was the desire for change. Everything was ripe for a great move toward socialism.

But what happened? Changes there were, certainly; but, for the most part, they were changes as strongly endorsed by the opponents as by the supporters of socialism. We had full employment policies and social welfare policies—the latter on a massive scale. But of truly socialist measures there were little, apart from a tendency to hang on to the wartime apparatus of government controls and to heavy taxation for longer than was strictly necessary.

Commonsense, caution and wiser counsels eventually prevailed against the introduction of extremist measures. As the months and years slipped by, the unsound basis and impracticability of many of the more radical notions of government control and economic planning were uncovered, and uncovered, moreover, not so much by the front-line protagonists of private enterprise, as by the sober, dispassionate thought of some of the world's leading economists and intellectuals. The socialist fervour which had flourished in the hot-house atmosphere of conference and lecture rooms began to wilt in the cold, hard light of the world of reality and fact. It was, of course, true that a more or less desperate attempt was made in 1947 to nationalise the private trading banks; but, apart from its unconstitutional character, the public were clearly opposed to it and the Labor Government, by this abortive
effort at nationalisation, sowed the seeds of its eventual collapse in 1949.

These two episodes in our political history, the Great Depression and the period of post-war reconstruction, are highly significant. They suggest, strongly, that the average Australian is rather conservative in political matters; that he is averse to taking leaps in the dark; and that he prefers the devil he knows to the devil he doesn’t know.

Politically, then, the overwhelming majority of Australians are for private enterprise. This does not mean that they necessarily support free enterprise in a positive, enthusiastic sense; they are not likely to jump on the hustings and proclaim to all the world the virtues of free enterprise. Rather their support is of a negative, indifferent variety. They support free enterprise because it is what they are familiar with. They support free enterprise because they are distrustful of its alternative. They certainly have little or no interest in projects of nationalisation. The more realistic elements of the Labor Party know this very well. Indeed it must be suspected that they themselves are really most unenthusiastic about the nationalisation of industry. But the ties of tradition and sentiment are strong—stronger, apparently, than the demands of electoral horse-sense—and the socialisation programme continues to be obstinately retained in the Labor Party platform. Mr. John Douglas Pringle, former editor of “The Sydney Morning Herald”, summed it all up rather well in his book “Australian Accent”. He wrote: “The Labor Party is nailed to a socialist plank in which it does not really believe, which is virtually impossible for it to put into effect, and which is of far more value to its electoral opponents than to itself.”

The political climate in which business operates in Australia is a free enterprise climate in the sense that it is anti-nationalisation. This does not mean that with many Australians free enterprise is a kind of first article of faith as it seems to be with many Americans. The support for free enterprise in Australia, except perhaps among its most fervent advocates, has little of the semi-religious intensity it sometimes assumes in the United States. It arises more from a distaste for political extremism in any shape or form, a liking for the
familiar, a distrust of theoretical, untested ideas, and from the well-known Australian aversion to authority.

The negative attitude toward free enterprise in Australia, by comparison with the United States, shows up rather well in the matter of business profits. Generally speaking, profits in the United States tend to be substantially higher than in Australia. In the United States even the workers frequently take pride in a good profit performance by their company; profits are regarded as a mark of achievement and an index of high efficiency. This is generally not the case in Australia. Profits are accepted here, sometimes rather grudgingly, almost as an unpleasant necessity, and without any widespread appreciation of their economic significance or industrial importance. The Australian attitude should not be over-stated. Probably, it is less critical of profits than it used to be. Slowly, almost imperceptibly, the economic meaning of profit is beginning to take root in the Australian mind. In recent years, union officials have even been heard to criticise the efficiency of management in companies making poor profits.

One of the most important ways in which the political climate affects business is through the level of taxation. Heavy taxation has been common to all democratic countries since the war and Australia is no exception. But the present burden of taxation in Australia is not so much the product of socialistic ideas, not so much the consequence of the Welfare State, as it is of the policies of rapid economic expansion and development which Australia is pursuing and which are supported by practically all shades of political opinion. Taxation provides a very large part of the finance needed for the massive government spending on public projects of all kinds which are needed to support development. The policy of rapid development is, of course, very much in the interests of business and is, for the most part, strongly upheld by business. Paradoxically, then, we have a situation in which the high level of taxation in Australia is made imperative by policies which are supported by businessmen and which are in the interests of business.

There is another important respect in which the political climate of business in Australia differs from that of the United States. In Australia, the trade unions form the backbone and provide the financial sinews of one of the two major political
parties. In the United States the unions have so far refrained from direct political organisation. Thus, in Australia, the trade unions represent both an industrial and political movement. In the United States the trade unions, while their sympathies in the main appear to be with the Democratic Party as the party usually associated in the popular mind with progressivism and reform, pursue the interests of their members primarily through industrial action.

Their direct association with a political party is one of the reasons why Australian trade unions are disinclined to co-operate positively with employers on matters concerned with industrial efficiency and administration. The Australian unions like to keep their independence and their hands free to indulge in political action. They appear to feel that co-operation with employers, on national matters particularly, could prove an embarrassment to the unrestrained pursuit of political objectives.

A significant example of this reluctance to co-operate with employers was the withdrawal of the trade union representatives from the Ministry of Labour Advisory Council in 1958. The establishment of this Council in 1956 was hailed as a great step forward in Australian industrial relations. Not only did it enlist the direct advice and assistance of the unions on matters such as increased productivity—a field in which the unions in the past had exhibited little desire to co-operate—it established a new advance in the field of employer-union co-operation on a national level.

Unfortunately it was short-lived. With a Federal election pending, some union leaders decided that participation in the Council would tie the trade union movement too closely with Government policy and would tend to inhibit the A.C.T.U. from campaigning actively against the Government. Another reason behind the withdrawal arose from the short-sighted view that the work of the Council brought no direct material benefits to trade unionists.

Sometimes it is said that Australia is a bureaucratically ridden country. Indeed, business is a strong and persistent critic of the steady year-by-year growth in the number of public servants, particularly in the Commonwealth sphere of responsibility. This kind of criticism is not, however, peculiar to Australia and the attitude of many Australian businessmen...
toward Canberra is probably paralleled by the attitude of American business toward Washington and of British businessmen toward Whitehall.

It is true that the peculiar character of Canberra and its physical and mental remoteness from the centres of industry provide an ideal breeding-ground for bureaucratic and somewhat theoretical tendencies. There are dangers inherent in this situation which need to be constantly watched. Australia today is, of course, a closely planned and regulated economy, but the controls are, on the whole, the product not so much of political ideologies as of economic necessity, and are supported by all parties. In this respect Australia is little different from any other industrialised, democratic country. The central aim of all modern governments is to maintain full employment with reasonable stability in the price level internally and in the balance-of-payments externally. Moreover, both full employment and economic stability provide an economic climate favourable to business enterprise. But full employment and economic stability cannot be had without a degree of government direction of the economy, and without the necessity, at times, of detailed government control. Import licensing is a first-class illustration.

There may be many things about present policies in Australia that business does not like and indeed some which it would consider as opposed to free enterprise principles. Nevertheless there can be little doubt that business has flourished under the modern planned and controlled economy and that business opportunities have abounded. New businesses have sprung up like the grass in spring. Old businesses have expanded like a fat boy at a party. Profits have been consistently good and sometimes spectacular. Share prices have reached undreamt-of heights. Shrewd overseas investors have shown no reluctance to pour capital into the Australian economy.

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Australia is in many ways essentially a middle-class nation with middle-class standards and values and tastes. With the spectacular rise in prosperity of the labour section, this is even more true today than it has been in the past. The middle-class are traditionally conservative, cautious, conformist.
Politically they are unadventurous and invariably play safe. They have achieved a certain level of prosperity and comfort and they do not want to risk losing it.

The "new middle-class", with their T.V. sets, washing machines and sometimes motor cars, are likely to assume some of the same characteristics; they are certainly not likely to be greatly interested in a socialist political platform that has its roots in the poverty, inequality and chronic unemployment of a vanished industrial era.

The "white-collar" sections of the middle-class are not politically powerful in the direct sense because they are not organised in an effective striking force; but they exert great power indirectly because, being in the centre, they can choose on which end of the political see-saw to throw their weight. Socialist ideas have little appeal for them and private business can count on their support, provided it treats them well. They would vote against the political parties supporting business only if they became bitter and dissatisfied with their lot. But their vote would not be one for socialism, but a kind of reprisal against private business. They are a strong force for balance and practical commonsense in the Australian political scene.

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The political climate in Australia is generally highly favourable to business—in spite of heavy taxation and a remarkable amount of government control, more favourable today than ever before. Economic stability and full employment have brought great benefits to business. Policies of economic expansion and large-scale immigration, supported in the main by all political parties, are providing unprecedented opportunities for business enterprise. The threat of socialism has receded. Differences of political viewpoint are less divergent and less violent than they have been for many years. The innate political conservatism of the Australian people provides some kind of guarantee that, in the years ahead, the political climate is not likely to "freeze up" on adequate opportunities for business enterprise.

This, of course, is the position at the moment; it is unwise to prognosticate about the distant future. In politics, as in economics, one should always be prepared for the unexpected.
French Economic Recovery

By

RAYMOND ARON

"The road is hard, but it is beautiful", said General De Gaulle a year ago. "The end is difficult but it is great. Allons!"

Under De Gaulle, France has gone forward with a series of economic reforms, almost as radical as the political. The reforms are having startling results. At the moment, the French economy is probably stronger than at any time for three decades. The new economic policy is described in this article written specially for "Review".

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Aron is that rare combination of scholar and journalist commentator on the current economic and political scene. Observers have compared him with Walter Lippman of the United States in an endeavour to "fix" his position in present-day France.

Over the last five years, Australia's exports to France have averaged nearly £70 million a year (Imports £12 million). France has been Australia's third largest customer.

In spite of the wars in Indo-China and in Algeria, in spite of lack of government stability, and in spite of inflation, the French economy has made remarkable progress in every field since the end of the second world war in 1945.

Industrial production has increased by more than 50% since 1952. Key industries, such as the chemical industry, have actually doubled their production. In 1938, the French automobile industry produced some 230,000 vehicles; in 1959, more than 1,100,000 vehicles will leave the French factories. These are remarkable results, indeed, particularly in view of the fact that the overall labour force in France has not yet started to increase. (This increase will, in fact, only be felt a few years from now when the stronger post-war birth-rate will show its effect on the labour market). Even industrial manpower has increased only slowly, much more slowly, at any rate, than industrial productivity. Labour productivity in industry, in 1955, 1956 and 1957, increased by some 7% per year. (In the coal mines, for instance, the average output per miner in the pit increased from 1.229 tons in 1938 to 1.660 tons in 1956).

In agriculture, progress is not as spectacular. Still, the improvement has been substantial. Although
agriculture loses some 50,000 labourers every year, the index of agricultural production (end products) has increased by 20-25% since the pre-war period. Output per acre has risen by more than 30% for wheat, and by more than 25% for barley. Average meat production exceeds that of pre-war years by about 50%.

Finally, the decrease in the birth-rate which threatened a population decline similar to that experienced by other outstanding civilizations in earlier periods of human history, has stopped; in fact, the movement has been reversed. This, in its long-term implications, may well be the "French Miracle" of today. Instead of 734,000 children born in 1931, and 612,000 in 1938, there were 840,000 in 1946 and 804,000 in 1956. The annual excess of births over deaths, ranges between 250,000 and 300,000. Improvement in public health is continuous. Before the second world war, there were 66.4 cases of infant mortality for every 1,000 new-born infants; in 1956, this rate had dropped to 31.6 (against 25 in Great Britain, 42 in Western Germany and 51 in Italy).

Abroad, France has frequently been described as the sick man of Europe. Partly this was due to the frequent changes in government — in fact, public opinion abroad may have had a tendency to over-rate the seriousness of this lack of stability. The other reasons were the constant increase of prices on the domestic market and the deficit in France's balance of payments.

It is true that from 1945 to 1953, France had had only two short periods of stability, the first one in 1949 to 1950 (terminated by the effects of the Korean war) and the second in 1952 to 1955. During the second, very favourable period, expansion, although it meant a 10% increase in the index of industrial production in 1955, did not lead to any rise in domestic prices, nor to any shortage of foreign currency. On the other hand, during the reconstruction period from 1945 to 1949, from the summer of 1950 to the spring of 1952, and from the winter of 1956 to the summer of 1958, there were both serious inflation and a deficit in the external balance of payments.

When General de Gaulle resumed the reins of government in France, the essential task he had to tackle in the economic field was the rehabilitation of the internal and external finances of the country. (1) This task was accomplished in two stages: a preparatory stage from June, 1957 to December, 1958, and the implementation of a general policy, synchronised with the 1959 budget, which was issued by government decree during the last days of 1958.

Inflation

In the United Kingdom and the United States, lengthy discussions have taken place, and a lot has been

(1) The Poincare government in 1926 successfully faced a similar task as far as the external finances of France were concerned. The combined figures for gold and foreign currency holdings in 1925 showed France in difficult straits. Poincare succeeded in achieving a rather sensational reversal of capital flow, and even before the 5:1 devaluation of the French franc in 1928 pegged French currency at a new level, the French Treasury was well on its way to achieve what was then one of the world's soundest positions, as far as gold, foreign currency and other holdings abroad were concerned. Statistics show, for these three items combined, the following figures:

- December, 1926, 1,480 million dollars.
- December, 1927, 1,640 million dollars.
- December, 1928, 2,580 million dollars.
- December, 1929, 2,700 million dollars.
- December, 1930, 3,190 million dollars.
- December, 1931, 3,560 million dollars.

It should be kept in mind that these are American dollars before the 1933 devaluation of that currency.

Another interesting feature of the Poincare experience is indicated by the changes in the bank discount rate. This is shown as having been in, July, 1925 6%, July, 1926 7%, December 1926 54%, February 1927 51%, February 1928 45%, February 1929 43%, February 1930 41%, February 1931 39%, February 1932 37%, February 1933 35%, February 1934 33%, February 1935 31%, in January, 1925. After this it was progressively reduced until it reached 31% in January, 1928.
written, on the various forms of inflation in modern society, particularly in the United States. Many questions were raised. In the absence of excess demand, can inflation be caused by the impact of a rise in cost, where workers obtain wage increases that are not justified by increased productivity, where employers translate the increased production cost into a higher sales price and where the consumer is unable to resist?

The case of France did not raise any complicated questions or problems. The 1956 to 1957 inflation was strictly of the conventional type. The deficit in public finances was such that real savings were insufficient to cover the gap between public expenditure and fiscal revenue. At the same time, industrial expansion proceeded at such a rapid pace that the narrow labour market felt an acute shortage of labour; to recruit the workers they needed, and particularly skilled workers, employers did not hesitate to bid up wages. In turn, a too rapid increase in nominal salaries intensified the effects of the deficit. In 1956, the government, in addition, made the mistake of trying to achieve the impossible; they wanted to maintain stability of retail prices and of money wages. The result was, over a period of just one year, a deficit in the external balance of payments of over 1,000 million dollars. In fact, at the end of 1957, France had practically reached the bottom of the till as far as foreign currency reserve coverage was concerned and had to borrow slightly over 500 million dollars from the United States and from the funds of the O.E.E.C.

The Impasse

Yet, it must be said that the last government of the Fourth Republic had taken energetic measures — but too late. The 1958 budget was a severe one and the “Impasse” (2) was clearly below 600 thousand million francs.

In terms of the budget in Great Britain this (French) budget showed a favourable balance since part of the capital investment programme was financed from fiscal sources. (The British budget of 1958, expressed in French terminology, would have had an impasse of approximately 900,000,000 or, 1.15 billion French francs).

In addition to this severe budget, the authorities had also strengthened the measures restricting credit, by fixing an overall volume, which could not be exceeded at any cost. Previously, the banks only had to pay a higher discount rate when they exceeded their rediscount ceiling.

First Measures by de Gaulle

After a temporary disruption caused by the political crises of May and June 1958, the policy initiated at the end of 1957 over-lapped, in its effects, the first steps taken by General de Gaulle’s government and the psychological repercussions of stabilisation of France’s government.

The rise in prices showed a tendency to stop on its own account. The Pinay loan brought more than 150 million dollars of gold back into the currency stabilisation fund. Capital ceased to flow out of France, and there was even a beginning of

(2) In French budget terminology, “Impasse” (literally translated, dead-lock or dead end) is the theoretical deficit, taking into account on the debit side, funds earmarked for government investment. Although the figure is a theoretical one and actual long-term public investment may vary, it is generally considered that the budget is “balanced” when this gap (the Impasse) does not exceed 600 thousand million francs, or 1,200 million dollars, at the present rate.

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a flow of capital back into the country.

Finally, foreign trade was balanced during the last quarter of 1958: exports (f.o.b.) covered more than 90% of the imports (c.i.f.). (Imports 136 and 133 thousand million francs — Exports 128 and 131 thousand million francs).

It was at that point that the 1959 budget was promulgated. It marked a decisive choice of a clearly defined policy.

The New Policy

The new government policy used as its basis the report made by the Committee of Experts, presided over by Mr. Jacques Rueff. Still, it gave rise to diverging, if not contradictory, comments from various quarters. Some people saw it as a political doctrine, inspired by the principles of economic liberalism; while others laid more stress on the specific economic position of France and the obligations arising from that position.

Reasons

Let us indicate first the circumstantial reasons for the strategy adopted by the de Gaulle government, and then the long-term significance of this strategy.

As we have seen above, the French balance of trade at the end of 1958 was almost in equilibrium, prices on the domestic market were practically stabilised — but, at the same time, expansion had come to a standstill. Thus, taking an index of 100 for 1952 as a basis, the index of industrial production in the building trade was 160 in January, 1958, rose to a maximum of 168 in May and fell back to 159 in December. The trend is practically the same, if you correct the index by eliminating normal seasonal variations: 155 in January, 158 in April and 152 in December. In other words, for the year 1958: high level of production — no expansion.

First Decision: Expansion or Consolidation?

The first decision had to be taken: either the new budget would give priority to resumed expansion or the main emphasis would be on an attempt to consolidate the first results obtained in the fields of domestic prices and the balance of payments.

This question was subject to very lively controversy. Yet, those who were informed about all the elements of the situation could not have any doubt about what had to be done; the primary objective had to be to achieve a favourable balance of payments and to restore the reserves of the currency stabilisation fund. The policy recommended by the Committee of Experts and applied by Mr. Pinay under the direction of General de Gaulle and Mr. Michel Debré, aimed first of all at giving France the means to meet commitments abroad, and hence, to enjoy full and complete independence.

Once this premise is accepted, the logic of the policy can easily be grasped. To achieve a balance in external trade, the primary condition is the absence of inflation on the domestic market. In turn, the primary requisite in the struggle against inflation is to keep the impasse (see footnote 2) within such limits that the gap can be bridged by the real savings of the public without having to fall back on indefinite loans or advances made by the Bank of France.

This was the principle underlying the policy. At the same time, the
experts found that the administrative forecasts for government expenditure and revenue indicated a gap of approximately 1.2 billion francs. They unanimously felt that this gap had to be narrowed down to half that amount, that is, 600 thousand million francs. To achieve this end, they recommended 300 thousand million francs in supplementary taxes and a cut in government expenditure of the order of 300 thousand million francs.

Cuts in Government Expenditure

The significance of the breakdown of the 300 thousand million francs of new taxes is more social than economic; hence, we can limit ourselves to a consideration of the breakdown of the reductions in government expenditure.

There was no possibility of immediate important savings of interest on the public debt, nor of civilian expenditures (the population increase makes additional expenditure for education a must), nor on military expenditure because of the events in Algeria, nor even on building expenditure, as the housing shortage is far from solved.

Finally, there remained only three items in the budget where cuts could be envisaged: capital investment, State intervention into the economy (subsidies etc.), and social expenditure. Experts estimated that the appropriations for capital works had to be maintained at all costs, since they were the guarantee of future economic development. They proposed certain reforms in the legislation covering social benefits and recommended that the loans earmarked for economic intervention by the State be reduced.

This latter recommendation referred mainly to subsidies, some of which were intended to cover the deficit of a nationalised public service (French railroads), others to depress the price of certain consumer goods.

In their main outline, these recommendations were accepted by the government.

Eliminating Subsidies

The savings on the amounts earmarked for economic intervention were suggested partly for reasons of expediency: expenses had to be cut. But they were also in line with a basic economic concept: subsidies which decrease the price of goods below their real market price are always an unfortunate solution. If assistance is to be given to the underprivileged groups of the population, measures affecting incomes directly are better than a subsidy which favours the rich and the poor equally.

On the other hand, the elimination of the subsidies resulted in a rise of certain prices (transport and freight rates, coal, some food staples). Against this, the exchange rate, although it was not directly endangered, left no operational margin. The rise in prices, inevitably resulting from the elimination of 160 thousand million francs' worth of subsidies, provided an additional reason for a devaluation of the franc — and for proceeding with such a devaluation at a moment when the currency was not under direct pressure.

Devaluation

This devaluation was to have a dual aim. First to establish an exchange rate which, unlike the previous rates of the franc, would show promise of being a permanent one. Second, to promote exports and to reduce imports, in accordance with the conventional mechanism of devaluation.
Of course, devaluation did mean a risk of a new rise in prices on the domestic market. These prices had only just been stabilised. Would the new budgetary and financial measures unleash the movement again? The experts kept this peril in mind, when they invited the government to do two things: 1. to open the French borders as widely as possible to foreign goods and, 2. to do away with all contracts, public or private, that involved the indexing of one commodity or service on another, as such contracts would, in their application, have unavoidably led to a generalised rise in prices.

Accepting these recommendations, the French government pushed the percentage of liberalisation of external trade to 90% and it has been pushed even higher since then. And the only indexing maintained was that of the State-guaranteed minimum wages of workers and employees. The latter remained linked to the price indices of a government-established list of consumer goods and services.

The Government Plan

These, then, seem to be the four principal instalments of the government plan — a cut in government spending, elimination of government subsidies, devaluation, and trade liberalisation. They are linked logically, one to another, and, together, form a coherent entity.

Doctrine or Expediency

At the same time, this enables us to answer the question of whether the plan is based on doctrine or on expediency.

The report of the Committee of Experts is the exposé of a strategy of rehabilitation. It is not a theory of inflation or a doctrine of economic liberalism. The experts simplify, or even ignore, the technical problems to concentrate on recommendations that are politically feasible. For instance, when they write that 600 thousand million francs are the maximum "impasse" that can be covered with certainty, without causing inflation, the experts expressed themselves as if they were addressing laymen. In reality, the volume of the impasse unlikely to cause inflation in a given national economy, depends on various circumstances, such as the available means of production, the state of the labour market, etc. The very notion of "real savings of the public" which make it possible to finance this deficit (the impasse), without inflation, is poorly defined from a scientific viewpoint.

The subordination of the whole policy to the external balance of payments was also linked to the specific situation of France. Not only had France lost all her foreign currency reserves, with the exception of the gold stock of the Bank of France — 590 million dollars — but she had debts abroad which exceeded the total amount of gold and dollars held by the French authorities.

While obligations for re-payment were below 200 million dollars in 1959, they were supposed to go up to 500 million dollars each, for 1960 and 1961.

Gold in Private Hands

At the same time, however, the French, as individual citizens, owned gold and dollars in various forms. Nobody knows exactly how much gold is in private hands, but the estimates vary between 3,000 and 4,000 tons, in other words, between 3,000 and 4,000 million dollars. An additional few thousand million
dollars are estimated to be in private hands in the form of foreign holdings, and accounts owned by French citizens and deposited in foreign banks.

In the circumstances, it is easy to understand that the reversal of capital flow was one of the primary aims of government policy. Let the French, as private citizens, place at the disposal of France, as a country, just a part of their foreign currency reserves, and the elements of the problem of the balance of payments may undergo a sudden change — and a very drastic one, at that.

The European Common Market

Economic rehabilitation and liberalisation achieved by this new policy tend to align France's position with that of her neighbours and partners in the European Common Market. If France had been compelled to prolong the suspension of trade liberalisation which the foreign currency crises had forced her to declare, how could she have applied the Treaty of Rome and reduced customs' duties by the 10% stipulated by that Treaty?

The countries of Western Europe did not apply the same degree of liberality in their commercial policy, judging by the percentage of goods freed of the quota system and by the level of Customs' duties. On the basis of either of the two criteria, Western Germany shows the strongest degree of trade liberalisation. France, on the other hand, has not suddenly passed to the top of the list; she has only joined the bulk of the other countries.

In the same vein, as far as domestic policy is concerned, France has abandoned the unfortunate habits of State intervention into individual sectors of the economy, and administrative subsidies. These devices had resulted in many artificial prices and imposed heavy burdens on France's Treasury. There again, however, the change meant, above all, doing away with a special position occupied by France. All the countries of Western Europe had already returned to a more orthodox economic approach and to the commonsense of true price levels; France has only followed their example.

Three Lessons

What lessons of a general nature can be drawn from the French economic rehabilitation strategy, which has just recently been imitated by Spain?

The first lesson is that the conventional economic and financial techniques continue to keep their validity. The struggle against inflation, the restoration of a valid currency do not call for any special degree of imagination, nor for complicated measures. A severe budget, credit restrictions, a well-pegged currency exchange rate, liberalisation of international trade, the latter with a view to depressing domestic prices — all these are well-known formulas. To use Napoleonic terminology: economic strategy, just as military strategy, is an art, simple in its principles, but in which execution is everything. The difficult part is to have the willpower and the courage to take all the necessary steps simultaneously, to take a rigorous stand on wages, prices, and credit, to the extent that proves indispensable — in spite of inevitable protests, and even in spite of legitimate demands. We might add here, that in the case of France, production, productivity and the standard of living, had made such progress in the preceding years,
that the sacrifices demanded were actually accepted without too lively protests.

The second lesson is not particularly original either. In the Western World, in spite of currency controls, (the effectiveness of such measures has decreased very noticeably), there cannot be an equilibrium in the balance of payments unless the public has faith in the currency involved. Even a currency such as the French franc, which is not widely used for purposes of international payments, is dependent upon the day-to-day assessment of its holders. Currency control is all very well — but exporters delay the return of their foreign currency holdings and importers take their own precautions. Even leaving aside illegal capital exports (and these can amount to quite considerable sums), the attitude of exporters and importers can be sufficient to cause, at least on a short-term basis, differences of several hundred million dollars in the balance of payments.

The third and last lesson is even more self-evident. A modern industrialised country cannot, in the long run, remain isolated from the economic context of the world at large. As a member of the O.E.E.C. and of the European Common Market, France could not indefinitely sacrifice her currency to the concept of expansion, or impose quotas on her imports, while at the same time enjoying the benefits of trade liberalisation. The present economic system of Western Europe does not exclude certain singularities in the economic policy of individual countries, but these specific features, must remain within reasonable proportions. Even Spain has just bowed to this law of the Western World.

Results

What, then, are the results of the new French economic policy?

As we have seen, the first aim was to restore the foreign currency reserves. This aim has been achieved to a satisfactory degree. The reserves on 30th June, 1959 amounted to 1,633 million dollars, in other words, 1,000 million dollars in addition to the stock of gold of the Bank of France. In the meantime, between 400 and 500 million dollars must have been spent for the payment of foreign debts. This means that the capital flow back to France must have been between 1,000 and 1,500 million dollars during the first six months of 1959. Out of this amount, some 500 million dollars may well be the result of the change in attitude of exporters (bringing their capital back more quickly) and importers, who, unlike before, did not feel they had to “cover” themselves. Foreign tourists now buy their francs from the banks and other official sources, Frenchmen have repatriated money that they used to keep in bank accounts in Switzerland or in the United States, and foreign investors have placed money on the Paris Stock Exchange.

As an inevitable result of the devaluation and of the elimination of government subsidies in the budget, prices of manufactured products rose during the first few months of the year. Yet, between December, 1958 and May, 1959, the increases in the retail prices of industrial products amounted to only 5.8%; this figure is below the rate that could have been expected on the basis of direct calculation of the effects of the new measures. The rate of price increase tapered off, as the months went on; 2.5% in January, 1959, 1.6% in February,
.8% in March, .5% in April, and .4% in May. For the economy as a whole, price increases were even less important, since there was a trend towards decreasing food prices. Hence, it can be said that by spring, 1959, prices were stabilised.

Economic activity continued at a high level. The index of industrial production, corrected for seasonal variances and compared to a basis of 100 for 1952, was 159 in May, 1959, against 156 in May, 1958. It is true that there has been no resumption of the expansion witnessed during the last few months. We are far from the 10% rate of progress in industrial production to which French public opinion had become accustomed.

The figures for foreign trade also show considerable improvement. In June, 1959, imports amounted to 165 thousand million francs, against exports totalling 176 thousand million francs. Even if exceptional circumstances are taken into account, such as American steel purchases because of the impending steel strike in the United States, it has been clearly demonstrated that France's economy, when placed in normal conditions, is just as capable as any other country's to finance the purchase of the necessary raw materials out of the country's exports.

The overall picture we have just drawn is an encouraging one. It is not our aim to conceal the dark spots, or to convey an erroneous impression that French recovery is achieved beyond all doubt.

Part of France's agriculture and part of her industry are still in need of modernisation. Although housing construction is now at the rate of some 300,000 lodgings per year, building construction remains too low and too expensive, and the housing shortage will no doubt remain an acute one for years to come.

Stabilisation is still precarious; whether it is a solid one will only be seen under the acid test of resumed expansion. For the time being, the price paid for the halting of inflation and for equilibrium in the balance of payments has not been too heavy, as economic activity has not slowed down to any noticeable degree.

Yet, the necessary economic rehabilitation has had, as its counterpart, the end of economic expansion. When will this expansion resume? And, when it does, will prices remain stabilised and will it be possible to stop wages from progressing more rapidly than productivity?

In spite of the flow of capital back to France, long-term credit remains expensive: lowering of the interest rate will probably be one of the primary conditions for the resumption of a healthy expansion in a stabilised economy.

These are the questions confronting the observers when they try to look into the future.

The keynote, however, is confidence. The period from 1946 to 1958 has demonstrated the capacity for economic and technological progress. The ability to achieve internal and external stability is in the process of being demonstrated. At the same time, the trend is favourable with regard to both the material and the human elements. Thanks to the strengthening of her birthrate, France today has more children below the age of fourteen than Western Germany. Thanks to the Sahara, France in 1961, will have at her disposal 18 to 22 million tons of
crude oil, payable in French francs. By 1965, this figure is supposed to rise to some 50 million tons. On the labour market, manpower is on the increase for the first time in the century. The danger of foreign currency or raw material shortage has been removed.

Thus, *providing France can find a solution to the Algerian problem*, she can look forward to the prospect of unprecedented prosperity. During this second half of the twentieth century, France is assured of an honourable place among the industrial nations of the world.