Youth and Age

The election of a 43-years-old man to the leadership of the most powerful nation in the world is, in a sense, a triumph for youth everywhere.

Senator Kennedy has come to the White House at a time of crisis in world history, when the decisions to be made are fateful and the responsibilities consequently even more onerous than in a normal period. That the youngest man ever elected to the great office of President of the United States should be entrusted with these responsibilities assumes particular significance.

Senator Kennedy belongs to the world of sputniks and space, of nuclear fission and "the cold war", of growth economics and economic welfare, of national self-determination and racial equality. These are, for the most part, new and somewhat strange concepts to those who came to maturity in the 'thirties. The President is barely old enough to remember the years of unemployment and depression, or the tail-end of the era of the dominance of capital and of the white peoples, of colonialism and empires. He belongs to the new world of almost terrifyingly rapid change, when everything is in a state of perpetual flux, and when almost every morning brings startling, and often world-shaking, news.

It has been said, with some reason, that this kind of world is one with which the qualities of youth are peculiarly fitted to cope. Whereas age tends to be set in its ways and attitudes,
Youth is adaptable and flexible. Youth desires and welcomes change. Age prefers stability; it has a leaning to things as they are; it can hardly help regretting the passing of the “golden age” of its own youth. Youth is bold and enterprising with a taste for risk and adventure. Age is cautious and canny; it prefers to feel its way bit by bit; it has no desire to take a leap into the unknown. Youth is the time of radicalism; age of conservatism. Youth is hopeful; age is sceptical. Youth is impatient; age patient. Youth tends to intolerance; age to tolerance; it takes human nature as it is and does not hope for miracles of improvement. Youth is idealistic; age realistic. Youth wants movement; it provides the motivating force, the dynamic of society, the reforming zeal. Youth is the accelerator; age the brake.

In all this, the balance sheet of assets and liabilities seems to leave youth with a greater stock of capital. But age has one great asset which cannot be omitted from the computation — the solid reserve of accumulated experience. This is something that can’t be bought or learnt from books.

Experience can be acquired only by living; generally it takes time. “You have to live life to know it.” While it is true that some men pack more living into ten years than others do in forty or fifty, by and large, the older man holds the advantage, by the very fact of being older. Wisdom, mature judgment, worldly knowledge, these things come as a rule only from experience and are found more often in the old than in the young.

The conflict between youth and age is, in a sense, an unreal conflict. The qualities of both are necessary to a proper balance. One is as necessary as the other to a proper functioning of the world; just as a right and left hand are necessary to the most effective discharge of the body’s functions.

On the other hand, it cannot be denied that there is often an underlying conflict of purpose and ambition between the old and the young. It is a perennial complaint of youth that the older men do not move out of the way quickly enough and make room for the younger men to take their part in the direction of high affairs. The complaint is that youth has to wait too long for the big prizes; thus ambition
is stultified and enterprise killed. There is a "room at the top" but it is occupied mainly by the aged.

The complaint is natural enough. Impatience is a characteristic of the young; it is, in many ways, a desirable one. The ambitious, imaginative lad leaving school already begins to visualise himself as an industrial tycoon, a distinguished Q.C., or a great surgeon. He knows he must wait to achieve his ambitions, but he doesn't want to wait too long. But he may have to wait too long, if the highways to success are cluttered up with those who obstinately refuse to make way. The young man drives a fast car; but his speed is of little use to him if the roads are jam-packed with out-of-date, leisurely models selfishly oblivious of the uproar in their rear.

How can this conflict, which seems to be inherent in society, be resolved? No general rules can be laid down. For youth and age are not entirely determined by the number of years spent on the earth. One of the most pathetic objects in the world is the young man who is old at thirty. He is by no means a rarity. We meet up with him every day. He is the man who has become set in his ways, conservative in his attitudes, suspicious of experiment and experience and new ideas. He is man the conformist. The closed mind is not the exclusive possession of the elderly.

For the truth is that youth and age are really states of mind. There are the old young and the young old. Indeed there is no more delightful and heartening object in the world than the man old in years but young in spirit, who has preserved something of the freshness of youth and has retained a capacity for adaptation, an eager interest in novelty and newness. His body may be weakened by the long march of time, but his mind is full of vigor. He is the man who has retained his faith in humanity, and who, by his own personal achievement, in turn, inspires faith in humanity.

Many men have done great work after 60 — some their greatest. Winston Churchill is a clear example. Gladstone was a vigorous Prime Minister at 80; on the other hand the younger Pitt held the same office at 24. Bernard Shaw retained his intellectual brilliance and the impishness of youth to the end; Sir Isaac Isaacs became the first Australian Governor
General at 75. Robert McNamara, the new president of one of the largest industrial organisations in the world, the Ford Motor Company, is a mere 44. The point is obvious. You don’t have to be young to lead; nor do you have to be old. But the young need to be old in the head, and the old, young in heart.

Since the young have to live in the world of the future, it is surely indisputable that they should have a good say in its making. On the other hand, the older man who is tasting the fruits of a success, often long-awaited, can hardly be expected to relinquish them gladly. Some compromise is necessary. Age and youth have qualities which, in a sense, are compensatory and complimentary. A blending of both is desirable; the patience and caution of age are as necessary as the dash and spirit of youth to a decent ordering of affairs.

The leaders of the great nations of the world in the recent past have been, almost without exception, elderly men. It is therefore good to see an unusually young man now assuming the highest office in the most powerful nation of all. He will help to restore the balance at the summit. How he acquits himself cannot fail to have repercussions on the composition of age and youth in the direction of affairs everywhere, at all levels, in all manner of pursuits.

Perhaps the modern world has been leaning too heavily on age for its leadership. If so, a resounding blow has now been struck for the claims of youth.
The New Economic Policy

On Tuesday, 15th November, the Federal Treasurer announced in Parliament a number of new economic policy measures. Although Government action on the economic situation had been expected for some time, the measures went further and covered a wider territory than most people had anticipated.

The facts that the Government and the Treasurer had to face were, first, that inflation (in spite of counter measures taken earlier in the year) was still very much alive and, second, that overseas reserves were running down at a rate which could fairly be described as alarming. If, in this situation, the Government had stood idly by and had done nothing, it would have been guilty of grave negligence. The Government was therefore undoubtedly right to act. It could not afford to gamble on the remote possibility that, in the months ahead, inflation would stop of its own accord, or that the balance of payments would right itself by reason of a spectacular drop in imports.

The crucial issue before the economy centres upon the balance of payments. The persistence of internal inflation, of course, seriously aggravates this problem, but it is not by any means the root cause. It has been widely forecast that, over this financial year, Australia’s overseas reserves could run down by something of the order of £200 million. This would mean that the reserves at 30th June next would total around £300 million.

What is the significance for the economy of this deterioration of our overseas financial strength?

In straight simple terms it means that in the present financial year Australia will be living far beyond its resources — £200 million beyond, if the forecasts prove accurate. It is as if an individual, faced with a reduction in his income, decided to maintain and even increase his expenditure by drawing down his savings by something like half. There is no particular objection to his doing so — although it might be wiser not to — provided he can expect his income to pick up again next year. But the proviso is all-important. If his income does not recover, then in order to maintain his standard of living he will be forced to use up the remainder of his savings. Since to do that would leave him virtually defence-
less in the event of further misfortunes, he would probably choose to cut his spending and thus his standard of living. In other words, he can live far beyond his income for one year; he can hardly do it for two, that is, unless he is prepared to throw all financial prudence and caution to the winds.

As an illustration of Australia’s position, this picture is not greatly over-drawn. Unless there is a very big recovery in Australia’s export earnings in 1961/2, either expenditure on imports would have to be greatly reduced (below the level of 1960/61 imports) or we would face the prospect of another large drain on our overseas funds. The latter course would be a gigantic gamble, which no prudent Government would feel justified in undertaking.

In past months it has been frequently stated that our reserve position is strong. The Treasurer repeated these assurances in his speech introducing the new measures. He drew attention to the fact that “we still hold more than £400 million in gold and foreign exchange of our own, and have behind this drawing rights with the International Monetary Fund totalling more than £200 million”. However, the amount of reserves we hold at any particular time is not nearly so significant as the direction in which we are moving. It is the prospective run-down of around £200 million in this financial year as indicative of a disturbing trend in our international payments that must be regarded with high concern. This trend is doubly serious because of the extent to which the overseas payments position has become dependent on a very large annual injection of capital from abroad — capital inflow is running at nearly £250 million a year. For the present, it is supremely important to the economy that capital inflow should continue at a high level. Overseas countries are more likely to assess the soundness of our economy from the standpoint of the trend in our overseas payments rather than from that of the amount of reserves in hand at any particular point of time.

Our front-line reserves by the end of June next could be uncomfortably close to the point where we could not countenance any further withdrawals, and from then on we would be compelled to restrict our spending on imports to our receipts from current export income and capital inflow. The real problem before Australia is that we must live within our
resources, and these resources include production for our own use, the imports we can afford from our export earnings, and the resources which other countries make available to us through their loans or investments in Australia. In simple, if hackneyed terms, the purpose of the Government’s measures is to cut the Australian coat according to the cloth available.

How effective will the measures be? What can be said of the steps that the Government has seen fit to take?

RATHER than re-impose direct controls over imports, the Government has chosen to persist with its policy of curbing internal spending, especially spending which tends to accentuate the demand for imports.

The measures are primarily monetary in nature; they are designed, in the main, to make money harder to get and to make people pay more for it. Credit is to be made especially difficult for importers, for hire purchase transactions, and for speculative activities in land and shares. In addition, special attention has been directed at the motor industry, which is a large importer of components and fuel and a large consumer of steel, by raising the sales tax on cars from 30% to 40%. Other action is designed to make companies pay more for their investment moneys and to channel a greater proportion of savings into Government securities.

The measures applying to bank lending are in line with what many expected, but the remainder came as something of a surprise and even a shock. To the extent that these other measures were necessary to buttress and make fully effective the policy of tighter money through the banks, they can be justified. But many will think that they have gone further than was necessary at the present stage. They could give rise to a strong feeling that in trying to reduce excessive spending in the economy the Government has concentrated on curbing private expenditure, but has regarded its own expenditure as sacrosanct. Indeed, there is a justified fear that the sum total of the new policy could in due course lead to some increase in government spending. The measures that the Government has introduced would seem to have a dash of the Galbraithian medicine. They point to some diversion of resources from the private to the public sector of the economy. At what level, it might fairly be asked, does Government spending
itself become excessive and a contributory cause of inflation?

An unfortunate feature of restrictions of the kind the Government has found necessary to introduce is that, unavoidably, they mean some retreat from liberal, free-enterprise principles. For instance, the directives regarding the investment of life insurance and pension funds necessarily detract from the discretion of those in control of these moneys to invest them in a manner which they believe best preserves the interests of their policy-holders and members. Again, when severe restraints are applied to the raising of new money by businesses, these restraints inevitably favour the “status quo” in business and operate to the disadvantage of the newcomer and new forms of enterprise.

This is not to say that, in the present circumstances, restrictions of some kind could have been avoided, but it is a pity that the situation was permitted to develop to the extent that such far-reaching controls had to be applied. We must face up to the fact that forced national expansion — that is, development pressed to the very limit of our resources, and beyond — inevitably entails increasing doses of the medicine of government controls, distasteful though it may be.

Some people see ahead only a vista of Stygian gloom as a result of the Government’s new policy measures and have painted an exaggeratedly fearful picture of the impact of the measures on internal business activity and employment. This is dangerous talk — just as dangerous as the opposite kind of talk, the purport of which is to persuade people that there is nothing whatever wrong with the economy.

The new policy is not a policy for economic depression. In any circumstances, it is hard to believe the Government would let unemployment develop to any serious extent — and even harder still to believe that it would do so in an election year. That there will be some falling away from the present level of over-full employment, or at least the curtailment of overtime, there can be little doubt. Otherwise the Government’s measures would fail in their purposes, one of which is to curb the present over-exuberant boom level of activity. The situation in which the Government’s new policy was introduced was one in which the labour market was considerably tighter than it had been for many years.
It was a situation of over-full employment and over-full employment is just a synonym for inflation. A central objective of the new programme is surely to check inflation.

The major doubts about the new measures must arise from how far the weapons of monetary policy and tax manipulation are appropriate for the kind of problems facing the economy. The Government has consistently clung to these weapons to deal with the difficulties that have arisen from time to time. So far it could not be claimed that they have proved to be outstandingly effective. There could be some confusion in the thinking of Government advisers as to what is cause and what is effect in the present situation. How far, for instance, is the speculative activity in shares and land a consequence of inflation rather than a cause? How far is the boom in the motor industry effect rather than cause of excessive spending? Is it not true that life assurance companies and pension funds have swung away from their traditional pattern of investment in gilt-edged securities toward equities and high interest-bearing investments in order to obtain for their policy-holders and members the best possible return for their savings in an inflationary environment?

It may be questioned whether action directed at the outcrops of inflation really gets to grips with the underlying causes. You don’t destroy a tree by lopping off the branches but only by action directed at its roots. Indeed a pruning operation can often encourage vigorous new growths in other and sometimes startling directions, particularly if the roots are well watered and fertilised.

The Government is placing its main reliance on the fiscal and monetary weapon as it has done in the past. This is an appropriate instrument for easing back a too exuberant economy, or for stimulating a slack one, where that economy is, by and large, in a state of not unreasonable balance. But if its difficulties arise from more deep-seated causes than just a temporary excess or deficiency of spending, in other words if its difficulties are inherent in the fundamental structure of the economy, then these weapons may prove to be inadequate and fall far short of what is required to effect a cure.

These doubts arise particularly in regard to the external payments position. Through the measures it is now applying
to reduce total spending, the Government hopes that this will be reflected in a reduction in imports. To quote from the Treasurer's speech: "To safeguard our overseas funds position we must reduce the excessive internal demands which are the main reasons for imports continuing to run high". But will the reduced spending on imports be anything like sufficient to restore the external balance? A year from now there will be roughly another 250,000 people in the economy and another 100,000 addition to the labour force. This fact must inevitably, of itself, set up additional demands for imports, but will it make any noticeable contribution to the export income necessary to satisfy these demands? Put in simple terms, the reduction in total spending which the Government aims to achieve now must be offset in a comparatively short time by the very fact of forced national expansion.

The doubtful practicability of achieving a really substantial reduction in imports by monetary and fiscal measures designed to repress internal spending can be illustrated by a hypothetical exercise. The exercise is over-simplified, but serves the purpose:

Under free importation, the level of Australian imports (C.I.F.) would appear to be close to one-fifth of total domestic expenditure. To reduce expenditure on imports by, say, £100 million could conceivably require a cut-back in domestic expenditure of something like several times this amount. At the present level of incomes it requires an expenditure of about £1700 a year for every person employed. A cut of some hundreds of millions of pounds in total expenditure would clearly have serious effects on employment. This is obviously something that no government could willingly contemplate and illustrates the difficulty of achieving a balance in external transactions by measures of internal dis-inflation alone. The above rough, hypothetical calculation assumes the maintenance of incomes at present levels, but, in practice, a compression of total internal expenditure would fall partly on the level of individual incomes and not wholly on the level of employment — for instance, overtime and over-award payments, and profits, would certainly be reduced.

No government would, or could, carry dis-inflation to these extremes. The contribution which internal monetary and budgetary restraints can make to external balance is thus
almost certainly much more limited than some people appear to think. These measures can touch the fringes of the problem; they are hardly likely to strike decisively at the problem itself.

Perhaps only time will show which of these two views of the problems which beset the Australian economy is the correct one.

In the meantime the Government, by its adherence to the monetary weapon, is taking a gamble. The gamble may be justified, but if it is to come off, there will have to be a marked increase in export income before very long. Moreover, the improvement would have to have the character of permanency, otherwise the basic problem would remain. In his speech, the Treasurer indicated that the Government had under active examination some major projects which could provide access to new sources of large-scale exports. From the longer term aspect, this statement is probably more vital and important than anything else in the Treasurer's speech. It is this that we need (i.e. increased sources of exports) if the economy is to be re-established on sound foundations and if national development is not to be severely reduced.

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There is another point that invites comment:

There has never been an occasion since the war — or, for that matter, at any time — when a government, which has felt compelled to bring down economic measures of an "emergency" character, has not been hotly criticised. That is the nature of politics and, indeed, of democracy. But this time, the Government has been subjected to widespread attacks which over-step the bounds of responsible comment.

Whether one agrees or disagrees with the new policy, some of the criticism, coming from the sources it does, has a strangely ungrateful ring. On the detail of the measures, all of which intimately affect the conduct of business, businessmen are certainly entitled to say what they think. But there has been a tendency to go far beyond technical criticism of the individual measures, and to indulge in wild, generalised attacks on the Government's whole record in economic policy. This is, to put it at its best, ungenerous. For, whatever one might say about this record — and some sections of the community may have just cause for complaint — both business and labour have never had it so good. In the last ten years, business has expanded and prospered to a degree that cannot
be paralleled in Australian history and the living standards of the wage-earner have improved dramatically. Indeed, it could be said that over the decade the Government has shown itself prepared to take considerable risks in order to maintain conditions that encourage rapid industrial and business expansion. Now, at a time when the risks are not paying off so well, and restraints have become necessary, there has been a tendency to assail the Government in immoderate and extravagant terms.

Whatever one may think about the efficacy of the new economic programme, only people who fondly imagine that an economy can sustain itself indefinitely in near-boom conditions on a basis of "blown-up" confidence would dispute the need for government action in present circumstances. Confidence is something one should be wary of saying too much about. It is a dangerous practice to protest too much; otherwise people are likely to smell a rat, even where none exists. Australians are not so faint-hearted that they need to have their confidence bolstered at every tick of the clock by windy exhortation and reckless assertion.

There are different kinds of confidence. There is blind confidence, the sort that refuses to take account of the facts, indeed that deliberately turns its back on them and that leads people into foolhardy, unreasoning actions that they usually live to regret. This confidence is a weak kind of thing because it is a form of self-deceit. It has no real roots; it is likely to topple over and turn to panic at the first puff of a strong breeze.

But there is another and better brand of confidence. It does not derive its strength from egotism, or self-assertion, or by endless repetition of the "what a fine fellow am I" theme. Its strength comes from its willingness to look the facts straight in the eye: it takes the bad with the good; it is not carried away by the good, nor is it easily dismayed by the bad. It is a firm confidence, with strong roots, and it takes a mighty big storm to blow it away.

This kind of confidence is not averse to taking risks, but the risks are calculated and the consequences carefully appraised. It is the sort of confidence that leads to intelligent action, because it has a basis of realism. It is the kind of confidence we want.
A Striking Advance!

ONE of the greatest changes in industry over the post-war period has been the striking advance in the standard of life of the wage-earner. This advance cannot be assessed by increases in wages alone, although these have been considerable. The wage-earner today receives a large number of additional benefits — both monetary and non-monetary — many of which he did not receive at all 15 or so years ago; others, that he may have received were generally substantially smaller than they are today.

An article in the last "Review" suggested that average standards of living over the whole community had risen by something like 15% between the late 1940's and the late 1950's. But the standards of the wage-earner have undoubtedly risen by much more than this. For instance, in terms of real purchasing power, average earnings of male factory employees (operatives) have increased by almost 30% since 1948/9 and those of females by over 30%.*

Increased Leisure

But increased wages are only part of the story. A host of other things have to be brought into account. The progressive reduction of working time is one of the most notable. With the introduction of the 40-hour week in July, 1947, by the New South Wales Government, and six months later by the Commonwealth Arbitration Court, the leisure time of most employees was increased by 4 hours a week. The 40-hour week has also meant for many workers higher earnings through overtime; and, for some, the opportunity to take on a second job.

Paid annual leave is another post-war achievement. Even as late as 1935, no major Federal award, apart from special cases, contained annual leave provisions. But in November, 1945, the Federal Court decided that employees should be allowed fourteen days annual leave on full pay. Similar pro-

* Average annual earnings for "all other" employees, i.e., excluding managerial, clerical staff etc., as published in the Secondary Industries Production Bulletin and reduced to "real" terms by the Consumer Price Index.
visions were also made by law in all State legislatures, either prior to or shortly after the federal award. A high proportion of employees now get 3 weeks' annual leave. Industrial awards generally provided for about 10 paid public holidays in pre-war days. In Victoria, this year, many employees will get up to 13 gazetted holidays.

Long-service leave first appeared in 1951. The New South Wales Government introduced legislation granting long-service leave to employees covered by State awards. Although it has yet to be introduced generally in Federal awards — the case is currently being decided by the Commonwealth Arbitration Commission — all State awards now provide for thirteen weeks' long-service leave after twenty years' service and, in some instances, pro rata leave after ten years' service.

Additional Benefits

Among other improved conditions and benefits resulting from awards by industrial tribunals or by legislation passed by State Governments, are provisions, varying from industry to industry, relating to sick leave, allowances for travelling to and from work, tool allowances, clothes allowances, wet-weather pay, tea-breaks and so on.

Worker's compensation benefits (arising from accident or illness) have been considerably extended in recent years. Amendments to the Victorian and New South Wales Acts passed in 1953 are said to have brought the level of benefits in these States to among the most generous in the world. In New South Wales, for example, a totally disabled person is now entitled to 75% of his previous weekly earnings plus dependants' allowances. In the event of death, the equivalent of up to 4 years' earnings must be paid to his dependants. Compared with the earlier legislation (which in the case of Victoria has a history dating back to 1914) the class of persons entitled to benefit, the scope of employment, the type of injuries covered under the law, have all been greatly widened. Moreover, the legislation itself seems to be much more liberally interpreted nowadays. Worker's compensation claims in Victoria have trebled in the last 6 years, rising from £3 million in 1952/3 to over £9 million in 1958/9. Claims outstanding in 1958/9 amounted to a further £10 million.
Apart from supplementary benefits of this kind enforced by law, are those now granted by employers, partly because of a wider conception of managements' responsibilities in the field of industrial relations, and partly because of the need to retain and attract labour in an era marked by full and over-full employment.

Among the benefits voluntarily provided by employers are the widespread establishment of pension funds; the institution of canteens and medical centres in a big proportion of factories, offices and shops; welfare schemes; financial assistance in the housing of employees in localised industries; bonuses and over-award payments. These are just a few examples that come readily to mind of the improvement in conditions of employment. These conditions, although of course, varying from industry to industry and from business to business, are nevertheless widespread.

Pension and Superannuation Benefits

One of the most significant developments is the spread of private pension and superannuation schemes. Annual contributions by employers for these purposes have grown from £3 million before the war to £38 million today. A survey by the Commonwealth Statistician disclosed that superannuation funds, separately constituted by employers, had assets amounting to £168 million in June, 1956. They probably exceed £200 million today. In addition to the privately-run pension schemes, there is the large number of plans organised and administered by the life insurance companies on behalf of private employers. Quite a substantial part of the great growth in the assets of these companies must be attributed to plans of this kind. The Statistician's 1956 survey showed that 60% of all employers' contributions to employee pension plans were paid into privately-operated superannuation funds; the remaining 40% went into those operated by the life insurance societies.

This survey revealed a number of other interesting facts. It showed that of large businesses (i.e. those with over 250 employees) 92% had pension arrangements; 64% of medium-sized businesses and 28% of small businesses also had plans. 90% of the medium and small-sized businesses had installed
their pension plans since 1940. Of the pension funds run by large businesses, 53% had been established since 1940, and of those funds operated on behalf of large private employers by life insurance companies, 84% had commenced since 1940.

In 1956, a total of 400,000 employees were covered under pension plans. This represented about one-third of all adult male employees in private industry.

Over-award and Overtime Payments

In the under-employed economy before the war, few employees received more than the bare minimum provided for in industrial awards. Use of junior and temporary employees was also apparently widespread, resulting in a lower average level of wages. Thus in 1938/9 when the average nominal wage for adult males was £243 a year and for females £133, average earnings for male factory employees (operatives) were only £219 and £100 for females. In 1959/60 the average award level of wages for adult males was £894 per annum and £629 for adult females; but average factory earnings in 1959/60 were £1050 for males and £620 for females.

By contrast with pre-war days when there was little overtime and, indeed, a great deal of short time, today a third of all factories are working an average of 7½ hours overtime. Over the whole of secondary industry, working time averages about 42½ hours.

The average adult male factory wage of about £21 a week seems to be made up approximately as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Basic wage</td>
<td>14</td>
</tr>
<tr>
<td>&quot;Margins&quot; etc.</td>
<td>3.5</td>
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<tr>
<td>Overtime</td>
<td>1.5</td>
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<tr>
<td>Bonuses, incentive and over-award payments</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21.0</strong></td>
</tr>
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In today's economy of more jobs than men, employees expect to receive at least some payment not prescribed for in their award. The extent of over-award payments, naturally, varies with the tightness of the labour market, as employers
are forced to compete with one another to obtain labour.

Wages of Women and Juveniles

In discussions of employee earnings, attention is most frequently concentrated on the wage of the head of the family. But in these days wives and other members of the household also often contribute substantially to the joint family income.

Married women now contribute almost 40% of the female labour force of Australia, compared with only 10% in 1937. Of all married women, nearly one in five now goes to work. In the latest year for which statistics are available — 1956/7 — 883,000 females earned a taxable wage and salary income (plus any other income of less than £100). About half received less than the female basic wage (for a full year's work) suggesting a high proportion of juniors and married "part-timers" in the female labour force.

Female wage rates have risen more sharply than male rates since pre-war largely because the female basic wage is now fixed at 75% of the male wage, compared with 54% in 1939. With increased agitation for equal pay this trend may continue. New South Wales has already passed legislation providing for equal pay for women where they are performing work of the same or a like nature, and of equal value, with that of a man. Equality is to be finally reached in 1963 by progressive annual adjustments of the female wage. It is not possible at this stage to estimate how many will be affected or even which groups of women workers. Tribunals are obliged to take all the relevant factors into account, particularly whether females are doing the same amount of work as males under the same conditions. This suggests that occupations which hitherto have been exclusively or predominantly filled by females are not entitled to equal pay.

Compared with the dearth of juniors throughout the 1940's and 1950's, the teen-age labour force is now coming in to its own again. At the 30th June, 1959, there were 439,000 males aged 15 to 20, of whom about 90% would go to work, and 420,000 females of whom about 70% would be working. Within the next five or six years the 15 to 20 age-group will increase by more than a third — to 1,200,000. The propor-
tion of juniors in the factory labour force should therefore rise appreciably from its present low level of 20% of females and 10% of males. (Pre-war 50% of all female factory employees and 25% of all males were under 21). With full employment, and the shortage of juniors arising from the lower birth rate and the much higher proportion now seeking secondary and higher education, junior wage rates have increased much more than average since pre-war. For example, juniors in banks and the public service now start on salaries five times the salary of their counterparts before the war, whereas the average level of salaries in these occupations is about 3½ times pre-war. In the manual trades the rise in the earnings of juniors has possibly been even sharper. Apprentices now start on a wage equal to 40% of the basic wage; pre-war they started on 20% of the basic wage.

**Overseas Comparison**

Not only are Australian employees much better off than pre-war, they also appear to be better off than wage-earners in other countries, with the exception of North America.

The Tariff Board in its 1960 Annual Report states that over a wide range of industries (including heavy industry, glass, light engineering, chemicals, electrical equipment, textiles and footwear) Australian wage earnings are from 20% to 60% higher than those in the United Kingdom.

International wage comparisons are very tricky because of differences in methods of wage payment and also in computation of the basic statistics. Australian minimum or award wage rates are much higher than minimum rates in most European countries, but this is only part of the story. In addition, there are premiums for overtime, shift and holiday work, bonuses and gratuities, incentive rates, payments in kind, hours paid for but not worked, compulsory and voluntary social service contributions (or payroll taxes) and other benefits to employees. These items represent a much larger proportion of total labour costs in most European countries than in Australia.

A study by the International Labour Office suggests that current labour costs in major European countries are approximately as follows:—
Total Labour Costs per Hour Worked, in Australian Currency (males and females)

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost per Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Germany</td>
<td>8/3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7/9</td>
</tr>
<tr>
<td>France</td>
<td>7/-</td>
</tr>
<tr>
<td>Italy</td>
<td>5/10</td>
</tr>
</tbody>
</table>

Source: Based on a study in the I.L.O. Labour Review, December, 1957, brought up to date by earnings data in the September, 1960, Statistical Supplement to the I.L.O. Labour Review.

It is impossible to quote comparable hourly labour costs for Australia, as the figures are not available to make such a computation. However, there is evidence to suggest that labour costs per employee-hour worked in Australia are at least 10/-.

Of course the value of wages to the worker depends on how much they will buy. Figures of wage earnings are not conclusive in this regard. However, the fact that Australian wages are substantially higher in real purchasing power than in most other countries is substantiated by a recent United Nations study of per capita “real income” (i.e., after allowing for the cost of living and not artificial exchange rate differences). Here are the figures for 1956-1958 converted to Australian currency:—

<table>
<thead>
<tr>
<th>Country</th>
<th>£'s (Australian) per head</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>920</td>
</tr>
<tr>
<td>Canada</td>
<td>650</td>
</tr>
<tr>
<td>Switzerland</td>
<td>560</td>
</tr>
<tr>
<td>Australia, Sweden, New Zealand</td>
<td>510</td>
</tr>
<tr>
<td>France, U.K.</td>
<td>420</td>
</tr>
<tr>
<td>U.S.S.R., Argentina</td>
<td>250</td>
</tr>
<tr>
<td>Italy</td>
<td>160</td>
</tr>
<tr>
<td>Japan</td>
<td>110</td>
</tr>
</tbody>
</table>

Note: The United Nations do not give a precise figure for each country, but a range of upper and lower limits differing by $100. We have taken the mid-point in each case.
When everything is taken into account it is clear that the standards of life of those who depend for their living on wages has been transformed over the post-war period. This represents a great and desirable social advance. It has come about so rapidly that political and industrial attitudes have been caught almost unawares and have not fully adapted themselves to what could be described, almost without exaggeration, as a revolution in the status of the wage-earner. The roots of it all are to be found in the bold conceptions of full employment and social security which were the immediate products of World War II.

Today, by and large, jobs compete for workers and not workers for jobs. But it is not just expediency, not just political parties striving to attract votes, nor employers vying to attract workers which lie behind the change. An improved and widespread social consciousness, the recognition that every man is, of right, entitled to a fair opportunity and to a decent standard of comfort, has been the underlying motivating force. All has been made possible, of course, by advancing technology and productivity, vastly improved economic techniques and a more equal distribution of the national product.

The significant thing is that this transformation has come about within the framework of the free enterprise system, and by the intelligent direction and adaptation of the system to modern needs. Moreover the end is by no means in sight. But it should always be borne in mind that attempts to improve standards of life, whether of the wage-earning or any other sections of the community, faster than the resources of the nation can sustain, in other words, faster than the necessarily gradual upward trend in national productivity, must eventually run the economy into serious difficulties.
Address by the President

Mr. F. E. Lampe, M.B.E.

17th Annual Meeting of the I.P.A.

26th October, 1960

UNDER a combination of free enterprise and government guidance of the economy, Australia has become one of the most prosperous nations in the world. Standards of living are high and improving — our own investigations suggest that they are something like 15% better than 10 years ago. There is practically no unemployment. Housing standards and the labour-saving equipment in the home have improved out of recognition. Working conditions are first-class. Few, if any, countries enjoy more leisure time. In few, if any, countries is population increasing more rapidly or industrial development proceeding at a faster pace. Australia is one of the favoured countries of the world. We have much for which to be grateful and much of which to be proud.

The conditions that prevail in the Australia of 1960 are not those in which extremist ideas are likely to get a very wide or enthusiastic hearing. But they are conditions which easily give rise to apathy and inertia and indifference. These are the enemies that are ever-present and they are more likely to afflict a people basking in the warm sun of material prosperity than those who live in colder economic climates.

For the best part of 20 years now, the I.P.A. has carried on a fight against economic ignorance, untruths, and apathy. Over this period we have been successful in widening the field of our influence. This has been achieved by careful planning, by enthusiasm for a cause which we believe to be a worthy one, by a sincere, objective approach, and with the help and understanding of our subscribers who have provided us with generous support. We have conducted a continuing war against economic ignorance. The greatest foolishness now would be to slacken our efforts. On the contrary, we want to expand, and to build upon what we have already done, to widen our impact, to extend our influence.

Economic education is a task that can never be complete. It is always an unfinished business, a continuing process. You
can never afford to let up. There is, for one thing, always a new generation coming forward. New young people, the people who will provide the work and brains and business leadership of the future, need to be assisted and guided, and warned against economic fallacy and falsehood. For another thing, times and conditions change and old truths have to be restated in a new context.

I can remember well one of the great men of the earlier years of the I.P.A., a man of vast political and industrial experience, Sir Walter Massy-Greene, speaking at the first Annual Meeting of the Institute, held in this room. He emphasised that the inculcation of economic understanding was a slow gradual process, like water dripping on a stone. The basic truths had to be hammered out and repeated again and again. The good results from the I.P.A.'s work can seldom if ever be of the spectacular kind. What we are seeking is a better-informed and a better-educated community, in the economic sense, a community which is able to distinguish more readily between what is true and what is false in economic matters. Such a community is much more likely to support sound policies and to reject unsound, extremist, notions than one which is ill-informed, ignorant of the facts, and with a deep-rooted prejudice against free enterprise.

I said that, at the moment, Australia is basking in the sun of great material prosperity. But what if a cloud should come across the sun? That is not altogether inconceivable. We would find that some of the ideas and institutions in which we believe would soon come under hard criticism and political attack. We need always to be prepared for eventualities of this kind and the best preparation we can make is to continue the work we are doing with no lapse of energy or enthusiasm.

Let me take an example. In the years after the war industrial relations in Australia were at a low ebb. Everywhere there were signs of unrest and discontent; there was much bitterness and suspicion between management and men; industrial stoppages and even calamitous national strikes were widespread. That situation has fortunately changed vastly for the better. It has been improved, I believe, partly by the conscientious attention many employers and managements have given to the problems of industrial goodwill and understanding. But it would be wrong to claim that as the only reason
for the improvement. Material prosperity, better living standards, and even hire-purchase obligations have also made a major contribution to industrial stability and the maintenance of industrial peace.

But, if for any reason economic conditions should change temporarily for the worse, the strength of the foundations that have been laid over the last 10 years for industrial stability and understanding, would be severely tested. That is why, I believe, we should persist untiringly in our efforts to strengthen and consolidate those foundations.

More than just the welfare of free enterprise and the preservation of industrial peace are involved in this. Democracy is today confronting a grave and great challenge from a system based not on free choice, but on centralised direction and control in which the individual does what he is told to do.

As a free people we have to meet the challenge. We have to show that our free economy and our democracy works better than the controlled economy of an economic dictatorship. But for the proper working of our system, we must fall back finally on the intelligence and commonsense of the ordinary person. That, indeed, is, in essence, our democratic faith. To give effect to it, the ordinary person must have ready access to the facts, the knowledge and the information on which he can base his decisions and his attitudes. Of course, this applies over the whole field of our national life, but it is perhaps nowhere more important than in the field with which we are concerned, that is, the field of industry and economics. We look to responsible, well-informed individuals — responsible businessmen, responsible trade union leaders and responsible workers — to make the right decisions.

This is really at the heart of the whole process of information and education in which the I.P.A. engages. For, in the final analysis, in a democracy, it is the thought and action, the values and ideals, of individual citizens, that determine the way of life of the community.

The dividends to be obtained from this educational work, therefore, both from the point of view of the national welfare and business prosperity, are considerable. They are the dividends of industrial understanding and goodwill, of high productivity, progressively improving standards of living and a better life for all.
Democracy
Development
and
Devaluation

By
GRAHAM HUTTON

Graham Hutton is a leading British economist. He is a writer, broadcaster, and a director on the boards of several companies. A few years ago he achieved well-earned prominence for his work on productivity.

Recently he has turned his attention to inflation and his book "Inflation and Society" (published a few months ago) was described by "The Economist" as "an absolutely first-rate analysis", "a contribution to political wisdom", "a tough job superbly done".

The article published here was written by Graham Hutton for "The I.P.A. Review" at our request. It is, as "The Economist" said of his book, "urgently recommended reading".

THE whole wide world is developing its population, economic resources and standards of living as never before. That means it is demanding fresh savings, fresh capital for investment in new productive apparatus of all kinds: communications, public buildings, ships and port facilities, factories and their equipment, machine tools, homes, schools, hospitals, vehicles, everything durable which goes to create repeated consumption. It demands all these new savings simultaneously all over the globe for the first time in history, on both sides of the Iron —but by now rusting—Curtain; which also means that its rapidly multiplying people somehow have to forego some consumption, or save, before the resources they thus forego can get turned by existing management, labour, materials and capital equipment into all the new forms of capital demanded.
The more capital apparatus there is per human being, the higher the human beings can push their standards of consumption or standards of living. The mechanical, capitalistic slaves of the lamp are themselves multiplying as never before, and faster even than the human beings; and it is these brain-children of men, these mechanical slaves, which increasingly turn out more goods and more leisure for human beings, thus saving, lengthening, and making fuller human lives. To this extent there is not an atom of difference between the capitalism of America and that of Russia. Both systems depend on the rate of creation of new capital apparatus per human being. The Russians still have a very long way to go until they can match the amount of productive equipment per human being enjoyed by Americans; which means they must go a long way till the Russian worker's, old pensioner's, and ordinary consumer's standards of consumption and leisure provided by capital match those of Americans.

The differences between totalitarian States on both sides of the Curtain and the democracies on our side of it emerge in the controls of human beings by other human beings. This is perhaps most clearly visible in two economic fields: production and consumption. In production under a totalitarian system, what is produced, where, how, by whom, at what cost, and at what selling price, are decreed by State agencies; and the human beings, whether as workers or managers, have to fit the State's plans. In consumption also, what workers or managers or elderly pensioners can consume is laid down by State agencies decreeing salary and wage and other incomes, the goods and services available for sale, the prices they bear, and so on. Thus under totalitarianism the refusal to allow free markets for goods, services, labour, etc., results in authoritarian controls over every economic action, and so over the minute details of individual lives. It becomes a rigid system, allowing alterations or variations only as the State's agencies allow of such modifications in their plans.

Accordingly it is easy for such a system to secure savings to make additions to capital apparatus per human being. They have only to plan less consumption goods and services, or reduce money and real incomes (consumption), and the "savings" automatically emerge as the country's economic resources—materials, labour, capital equipment and capacity—now available to make more capital per person. Alternatively they can just as easily make their people bear greater defence burdens, since armaments are a quickly-depreciating form of capital, but a form only usable in unproductive ways. So totalitarian system can make its people forge ahead in the stakes for economic development almost as fast as the State's agents can force them to do so; and the fact that a lot of the new capital thus forcibly "saved" from current consumption is used to make armaments is not very important, since if we all disarmed overnight that capital equipment could almost overnight be switched to making nice civilian consumers' goods. It is the capital and the rate you make it that counts.

The dangers run by totalitarian States therefore occur when their peoples no longer obey, or "go slow", or prove unable to perform anything "according to plan". Apart from bad political and administrative judgment—and the Russians admit to both—the social organisation of a totalitarian State holds together well, if rigidly and ill-adaptively, because every relationship is regulated by force. The nation is a nation at war, or in a state of siege, all the time.

Consider now a modern democracy, already industrialised or in process of industrialising. What is produced,
who does it, who gets it, at what costs and prices, who consumes how much of this or that—all of these things are settled in more or less free competition markets. So it is too with management and workpeople: differential incomes emerge from the natural "higgling of the market" (as Adam Smith called it two centuries ago) for the various brands of skill or expertness, according to length of training, demand for services, etc. Disposal of these incomes by consumption or saving (e.g., insurance) is also left to the citizens themselves for the most part.

The only big—and growing—exception to this freedom in a democracy is the amount of incomes forcibly taken by the State in taxes or contributions to compulsory State welfare schemes. Looked at in one way you could say that Britain was now one-third "totalitarian" (since one-third of all income goes to the State or its agencies compulsorily), America was now one-fifth to one-quarter totalitarian, Australia and New Zealand about the same as America and not quite as totalitarian as Britain, and Norway and Sweden more totalitarian than any other democracy.

But when it comes to economic growth, industrial development and the rate of formation of new productive capital per person, no democracy compels personal saving or savings by companies. Such savings out of currently disposable incomes of persons and companies (i.e., the two-thirds or other major fractions of total income left to income-receivers by the State) depend, like consumption, on myriads of decisions by persons and companies: how much it is worth saving and investing in new productive capacity in some concern or other, how much it is more worthwhile to spend on current consumption, how much has to go for necessaries of life anyway, how much it seems advisable to lock savings up or to keep them idle and liquid for a time, and so on. The only exception to all this in a democracy—the only way in which the State or its agencies force savings from its people—is by deliberately producing a Budget surplus (more revenue from taxes than the State spends) or by producing net profits out of State-run services and industries (which can generally only be done if they are monopolies providing necessities, like Post Offices, and even then seldom). Otherwise all abstention from current spending on consumption, all economy in expenditure to make larger profits, all incentives to better and higher productivity through management's or workpeople's levels of real income net of taxes, all decisions to invest for returns in the future—these decisions depend in democracies upon individual citizens' reactions to such things as the levels of taxes, the chances of improving income in the future, the rate at which the currency is losing value through inflation (or sometimes, as between the wars, gaining it through deflation), the risk of wars, the prevailing rates of return on investment (saving) and what they look like becoming in future, and so on.

Since governments of democracies seldom, if ever (though the U.S.A. has just done so), produce a net over-all Budget surplus from tax revenues, or a net profit out of all State undertakings, the degree of net "forced saving" in a democracy is so small that you can legitimately say saving and investment are still free. This means that the rate of investment, and therefore the rate of economic development, is the result of free decisions freely reached. So it is, but we must add that such decisions—and such rates—are powerfully determined by what democratic governments do. And what they do to levels and kinds of taxes, the steps upward in "progressive" taxation of incomes, estate duties, profit taxes, even the ways of collecting taxes (such as compulsory deduction of taxes from pay envelopes), powerfully affect people's and
firms' decisions whether to spend more on current consumption (or current expenditure of firms) or whether to save (i.e., allow more profits to appear). Accordingly State action plays the greatest single role in determining rates of saving and investment in democracies, though the State itself may not force much, if any, savings directly out of its people. And by far the greatest influences on saving and investment are exercised by democratic governments through their greatly increased powers over public funds (their greatly increased revenues from contributions and taxes), over public investment of a good part of such revenues (in armaments, schools, hospitals, houses, atomic energy, aircraft, railways, highways, etc.), and finally over the supply of money and credit in the banking system.

It is worth pondering a few facts at this point. Since war ended over a decade and a half ago, the biggest inflation in so short a period ever recorded has occurred in the democratic half of the world. It has not occurred on the other side of the Iron Curtain, where compulsion by the State has controlled everything from gross incomes, incomes disposable (net of tax), subscriptions to loans (saving by persons and business entities), and differentials of incomes, to the total of goods and services available for sale or for rationed consumption. The totalitarians clock up a striking rate of industrialisation and growth—in all lines but consumption—without inflation, simply because they can forcibly suppress any manifestations of it. They can lop off its head whenever it shows one. They can expand the output (and imports) of consumers' goods—as they have been doing more recently—and thus offset the inflationary potential of "money chasing goods"; or they can cut down incomes (by taxes, forced loans, reduced wages, revaluation of the rouble, etc.) and leave the available supplies of consumers' goods where they were, or even reduce them too.

Democratic governments in this decade and a half have done neither the one thing nor the other. They have allowed inflation of the supply of money and credit to drive the cost of living—and therefore incomes, profits, etc.—up at such a rate that the leading currencies in the free half of the world have lost purchasing power at unprecedented rates. Sterling has lost nearly half of its purchasing-power since the war ended, and the rate of such loss was as fast under Conservatives up to 1958 as it was under Socialists. The Scandinavian currencies have lost their value as fast as sterling; the French franc even faster. The German mark, stabilised under Dr. Erhard in 1948, has not lost value at anything like that pace, since, though it has lost value and looks like losing more. The U.S. dollar has not—like sterling, francs, kronor, marks—had to be devalued since 1933; but it has lost value since 1945 at a rate which alarms Americans, and it, too, looks like losing more. If you take the purchasing-power of the principal democracies' currencies in 1939 and today, you find that the dollar and Swiss franc have conserved most of it; then sterling and Scandinavian currencies; and the collapsed or re-established currencies like German marks and French francs come bottom of the list.

Yet all these democratic States demand higher rates of saving and investment, faster rates of creation of new capital apparatus per person, and higher productivity, not only to stand up to the systems beyond the Iron Curtain but also to be able to win the cold war in which both sides of that Curtain bid for the allegiance of less-industrialised countries. Such less-industrialised countries now demand, simultaneously with the rest of us, higher standards of consumption, higher rates of creation of capital equip-
ment per person, faster rates of development and growth of economic resources, plus—into the bargain—bigger loans from other countries and other people's savings for investment in their territories. They are not enamoured of democratic procedures. Most of them, new to independence as sovereign States, have already cast democracy, and a lot of other voluntary and co-operative disciplines, overboard.

This, then, is the real confrontation between totalitarianism and democracy across our contemporary world. This is the issue over which the war between the two sides need never become hot, because it can be fought out coldly with a good chance that the totalitarians will win it. This is where the democracies have failed and look like going on failing. They are either not totalitarian enough; or they are not prepared to be democratic and bold enough to make a free economy and private enterprise work sufficiently productively to make savings and investments at a rate fast enough to meet all demands on their economic systems, from abroad and at home. Instead, they all lapse into varying, but too rapid, rates of inflation, with all its attendant frictions, instabilities, inefficiencies, and wastes.

No wonder the totalitarian system has such big, if superficial, attractions for the nascent nationalism and personal ambition of the leaders of so many less-developed new nations. The social, political and economic muddle of democracies—known among economists by the delightful term “mixed economies”—is plain and public, aired for all to hear and see. None of the even worse social, political and economic stresses, tensions, inefficiencies and other wastes among the totalitarians is allowed to merge into public scrutiny. And so it is with the master muddle of all: inflation, which causes most of the others. It is masked, and its manifestations are suppressed by force as part of the plan, on the other side of the Iron Curtain. We on this side rub shoulders with it every day, walk and breathe it, foster and encourage it, refuse to do anything to counter it or force our governments to counter it, and generally and even internationally among our democratic governments prefer to allow it to continue as the easiest way of dealing with so many simultaneous demands upon our governments and political parties. Yet we wonder why they cannot reduce our taxes, why they continually face such grievous problems, and why they cannot put up performances in one field after another to catch the admiration of the still-uncommitted less-developed nations on our own side of the Curtain.

The big social and political revolution among democracies this century has been the recognition that the State—i.e., the government elected by adult suffrage—is responsible for abolishing poverty, maintaining full employment of men and machines, securing the most rapid growth in output and standards of living, and guaranteeing minimum standards of insurance against sickness, accident and old age. Since democratic governments are elected from contending parties, no party leader wants to appear in the role of shooting Father Christmas. Consequently every natural free grouping of interests in a democracy—from a trade union to an Employers' federation, from farmers to old age pensioners—has come to look on the State as a hedgehog looks on a sleeping cow: as a natural source of nutrition.

No one has continued, as our ancestors continued, to think of the State as primarily charged with the duty of maintaining the value of the currency, or the safety of the citizens' lives and property, or as the upholder (rather than mere manufacturer) of law. In a world full of economic paradoxes, perhaps the most
pathetic is that the citizens of a democracy demand that the State should do much more for each or all, but should not raise taxes. Accordingly in democracies, political activity has become more and more a matter of promising voters more benefits without letting them feel they had to make more contributions somehow or other. Since the State controls one-third or a quarter of all economic activity, it has many ways of covering up the real costs of its hand-outs to the various lobbies and pressure-groups: subsidies, tariffs, quotas, compulsory contributions deducted at source of income, loans, guarantees, etc. But by far the most difficult action of the State to track down and to explain to the ordinary citizen is also the easiest way for the State to get finance in a situation of full employment of all resources: namely, inflation.

Inflation is as old as, and has always proved dangerous to, civilisation. When a State inflates to provide a government with immediate funds, the citizenry only feel the immediate benefits of more money and credit in circulation. Money demand goes up; so do orders and profits and wages in money terms. Although the government buys what it needs, or pays out what it has to, and gets the first purchases (at the existing prices), with the new funds, the rest of the citizenry—in firms, on farms, or on their own—do not feel the effects of inflation until the pressure of new money on lagging supplies and resources drives their prices up. Naturally, receivers of fixed incomes—pensioners, lenders to governments or firms at fixed rates of interest (bonds), mortgagees, owners of insurance policies falling due in the future, landlords who have leased property to tenants at fixed rents—find the price level, their cost of living moving up, but their yields buying less. This is a group most hit by inflation, since inflation always benefits debtors and disadvantages creditors.

Accordingly in a period of uninterrupted inflation, there will hardly be any rush to lend, least of all at fixed interest. All any saver or investor will consider is buying an equity—a share—in any business, which will tend to yield him a rising return as inflation drives up selling prices and the sales and returns of all businesses. Thus inflation militates against saving, except in businesses. Consequently it works against democratic governments, which are trying to meet all their citizens' demands on them as well as demands by citizens of other countries (e.g., for repayments of debt, or for new loans for development). Since even insurance companies in an inflation put more of their annual income from premiums into equities, property, and everything other than government and other bonds at fixed rates of interest, democratic governments which inflate make their own bed more and more prickly. They find it harder and harder to sell their bonds—their I.O.U's to repay after a term of years a purely nominal sum on the face of the bond, at a purely fixed rate of interest in the meantime—but they continuously have former issues of bonds falling due for repayment. Two things then happen; and when they coincide, the writing is on the wall for an inflating government.

First, the total of government bonds, the National Debt, becomes "monetised"; i.e., since it is harder to get people and firms to buy new issues of government bonds, the government is driven to redeem the old issues falling due by the proceeds of shorter and shorter term I.O.U's (like Treasury bills), valid for months instead of years, and therefore equivalent in the banking system to "liquid funds" or money. (Hence the term "monetised" of a National Debt composed mainly of short term government paper). Secondly, however, since the entire debt cannot become monetised all at once, the prime rate of interest—
that on government medium and long term bonds—moves up and up, to tempt savers and investors to take up the new paper. Thus for those who can read such signals, any democratic government's difficulties in converting old bonds falling due for repayment, or its reliance on more and more short term financing, or its obvious reliance on higher interest rates, spell overstraining of its resources. In developing democracies all resources tend these days to be overstrained by full employment policies, loans of equipment made for abroad, ambitious industrial and welfare and health and educational and communications and housing and other programmes, and perhaps in addition an import of foreign capital to establish undertakings within the country. The government's own finances are thus the best thermometer for measuring the economic temperature of the democracy concerned. After all, the government is only a political party or coalition thereof. It has to be re-elected in a democracy by votes liable to desert it if it does not please as many voters as possible in their various groupings of economic interests. So it always tends to find the resources it needs to fulfil everybody's desires not (as is more orthodox and safe) out of more taxes or more borrowings at higher and higher rates of fixed interest, but out of more and more short term borrowings within the banking system, i.e., out of an expansion of credit, from which it always gets the first cut.

This democratic kind of inflation—easy to run, hard to explain, harder to halt—is more dangerous to democracy than to totalitarian States. As I said, the latter can control things and persons by force, and so avoid inflation altogether, but even if they inflate—as they sometimes do deliberately—they can stop the inflation from having its normal natural social effects, also by force. But a democracy cannot do so without undoing itself. Thus when inflation plunges pensioners into increasing penury, political pressures have to rescue them; or landlords have to be allowed eventually (since no one loves a landlord) to raise rents, otherwise no new buildings would be raised by private enterprise; or trade unions, eyeing inflationary profits, successfully press on employers wage demands in advance of any increased productivity, so that costs and prices rise further and faster and the government has to inflate further and faster to get what it needs. And so the inflation feeds itself, forcing governments in democracies into seven-league-boots for further inflationary strides.

The more this goes on, the worse get the strains, stresses and tensions in the democracy. Pensioners and young people in training (both of them dependents on workers) are set against the workers who have to contribute more (in taxes or contributions) for dependants' benefits. Receivers of income at fixed interest rates are set against all trade unionists, employers, and others who can push up their money incomes to match the inflation. Farmers and a few industrialists hit by foreign trade are set against those who are advantaged, in money terms, by inflation. In international affairs, the particular country's currency becomes suspect as its price level rises faster than others'; so imports from abroad, at fixed exchange rates, tend to outstrip its exports; then its balance of payments goes haywire, and eventually devaluation becomes inevitable. Yet if inflation then goes ahead once more, as was the case in France until two years ago, the currency—and all trade done in it—becomes so suspect that the risks of yet another inflation in future are guarded against by building a risk-premium into all prices for that country's produce. Similarly on the home front, the longer inflation goes on, the more investors, bankers, employers, trade union leaders and con-
tractors with the government concerned expect prices to rise within the next few months; so another risk-premium against inflation gets built into domestic costs and prices too.

When all of this begins to occur simultaneously the end of that currency's valuation is in sight. But the social and political and economic harm has been done. Instead of a unitary, co-operative, tightly-dovetailed, high productive democracy pulling together to raise productivity and economic growth at the fastest pace, you get a society torn asunder internally, dogged by recurrent fiscal and financial crises, lopsided in its industrial growth, wasting its limited resources on many lines aimed merely at circumventing the effects of inflation, and limping along in the rear of others more sanely and soundly managed.

In the democracies of the West we have all democratically preferred inflation, over-full employment and over-stretched resources, to the admittedly difficult problems of raising the revenues we need by taxation or by borrowings at medium and long term at natural (and therefore high) rates of interest. If we had chosen the sound hard road, our voters would have seen the real costs of all the things they demanded our States should do for them. They, and their political groupings or pressure lobbies, would have had to defend their demands in public too. That would have been healthier. All of us would have seen what more housing on public funds, more highways, more State welfare or pensions or education, more defences or more subsidies to this or that vested interest would cost. We would therefore also have seen where taxes on all of us would have to rise or could be reduced; what ought to be done first with the revenues and borrowings available at existing rates of interest; and what could next be done on higher taxes, or on borrowings at higher rates of interest. In that way we should have found out the proper order of industrial and other development, at the proper costs; what would pay for itself in so many years to come, and what would only pay in more years still, and at what rates.

Inflation has smothered all these costings up, confused them and the voters, presented its bill to us eventually as a devaluation of the currency in higher prices, and finally as an official devaluation of it in terms of all other currencies. Worse still, inflation has distorted and devalued the democratic process itself, by leading governments into more and more detailed legislation, trying to cover up its effects on the society: legislation about prices, wages and wage controls, controls over trade unions and employers, rationing of materials, controls over lending and borrowing, etc. In the end, it undoes democracy, representative government, and freedom of labour and enterprise. No wonder that in nearly all our Western democracies these last fifteen years it has become progressively harder, with the inflation, to discover differences of policy between political parties which once used to be thought of as fundamentally opposed: Federal and Labour, Republican and Democrat, Conservative and Socialist. The common addiction of all democratic governments to the primrose way of inflationary finance has bewildered the voters. It has certainly bewildered the nominally opposing political parties and their leaders.

Inflation is a more rapid flow of money and credit than of goods and services to spend it on. So if you expand the outflow of goods and services faster, you counter inflation. But however warranted our democratic boasts about our freedom and morale, we should not boast about our citizens' awareness of economic issues; their realisation in their various groupings and vested interests as voters that everything raising productive
efficiency enables economic development at home and abroad to accelerate for the good of all. Inflation is the political coward's way of confessing that the citizens cannot be trusted to see this and draw the implications for themselves. It is the fearful way of admitting that management and trade unions in a democracy will not co-operate to raise productivity fast enough to meet all the needs of the economy for new savings and investment. It is the unjust way of forcing so-called "savings" in a so-called free economy and a so-called democracy from the citizens least able to bear it: the elderly, the young, those who trusted in government bonds long ago, and all on fixed incomes. It is a confession that democracy is not sure of itself, or whither it is going.

One thing seems clear in the world as it now is. The democratic West will not be able to measure up to the political and economic challenges flung in its teeth by its own citizens, those of less developed lands, and those of totalitarian countries, until our governments singly and together make their primary aim the establishment of sane and sound monetary systems and currency values. On these are built all decisions about the future. And the biggest challenge to the democracies at present is: Back to democracy, or on to . . . what?

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