Editorial —

The new economic policy announced by the Prime Minister on 7th February is, in part, a realistic recognition of the difficult political position in which the Government finds itself and, in part, a response to the mood of doubt and restraint which has overtaken the economy.

There is no question that, until the December elections, the Government was proceeding with an undue measure of caution. The August Budget, which should have contained elements of expansion, was, in spite of what the Government claimed, little more than a stay-put budget. At the time the I.P.A. expressed the view that the Budget was over-cautious and, in its general conception, unimaginative. We suggested that it should have included some reduction in income tax, that more attention should have been given to the revival of confidence, particularly among the business community, and that the Government should have been prepared to contemplate a quite sizeable budget deficit. After setting its face against measures of this kind six or more months ago, the Government, disturbed by the slow recovery of the economy and the December elections, has embraced a strategy which, on the face of it, appears highly adventurous.

The February measures should bring about some recovery of business and consumer confidence. Nevertheless, while employment is now beginning to pick up, there could yet be some disappointment on this score. Throughout the last decade,
Australia had one of the lowest levels of unemployment of any country in the world. It may not be easy to attain these standards in the future. Right through the 1950's, expansion and employment received a powerful stimulus from the vital motor vehicle industry, from the war-created housing backlog, from a wide range of attractive and functional household appliances and, later, from television. The market in some of these strategically important sectors of industry now seems to have attained a condition of "semi-saturation," where it may not provide anything approaching the same stimulus to the economy as in the past. If this is so, the economy could be confronting a deep-rooted structural problem which may not prove susceptible to orthodox measures of fiscal and monetary expansion. The United States has been facing just this problem for some years now, and the administration, in spite of energetic measures, has not been markedly successful in reducing the unemployment percentage to an acceptable figure.

There are other reasons why the unemployment problem may prove to be obstinate and why a business revival may not be quickly attained. During the boom many businesses took an over-optimistic view of future markets. This led to the exceptionally rapid installation of capital facilities and productive equipment and, in some fields, to over-capacity. The pick-up in new capital investment may thus be delayed. Also, during the boom debts by both businessmen and consumers were recklessly accumulated and there is naturally some reluctance at the moment to incur new obligations.

All this should not be taken to imply, however, that the Government's programme of 7th February carries with it no danger of inflation. It seems almost certain to throw strong pressure on the market for skilled labour and process workers. The present unemployed are, after all, very largely unskilled; indeed, in many industries and trades there is said to be a shortage of skilled workers already. This situation could very easily set in motion the old familiar cycle of rising wages for skilled workers leading to rising prices and thus to rising wages for the unskilled. This sequence of events may not occur, but it would be idle to pretend that the danger does not exist. The Ameri-
can economy has shown that inflation and unemployment can sometimes go hand in hand.

It is all very well to say that should the economy be threatened with inflationary pressure of this kind as a result of the new policy, the Government can take quick action to offset it. But such action, as we have seen in the past, is almost universally unpopular, and it must be doubted whether the Government's political position is strong enough to permit it to apply sudden measures of restraint without at the same time digging its own grave.

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The initial thrust imparted to the economy, as a result of the Government's measures, should be considerable. As a result of the income tax provision, the public will find itself with an additional £30 million spending money between 1st March and 30th June. Presumably, State and local governments will spend another £25 million, over and above their existing expenditures, in the same period. And, in addition to these major measures of stimulation, there is the 7½% cut in sales tax on motor vehicles, the increase in unemployment benefits, the encouragements to greater spending in the housing field, and the special 20% investment allowance on money spent on new plant and equipment. The last-mentioned installment of policy will bring Australia into line with principles now well entrenched in most of the Western countries and, although it must be expected to throw additional pressure on the all-important "import bill," is generally to be strongly commended.

However, whether the stimulus that the Government has given to the economy in its policy of 7th February will gain momentum and lead to a broadly-based revival of confidence and spending, only time will show. There are stubborn elements of a structural character present in the economy — namely the condition of relatively satisfied demand throughout the durable consumer goods' field, and the over-expansion of capacity in certain industrial sectors—which cannot be lightly discounted.
Introduced into a situation of under-spending, but with latent demand and confidence easily evoked, the Government’s policy might have had a startling effect—like putting a match to dry grass. But in a psychological climate marked by extreme wariness and a deeply ingrained caution, the impact could be dampened. Surprisingly, and perhaps significantly, stock exchange values have so far generally failed to respond to the Government’s stimulus. It is not inconceivable that should the promising discovery at Moonie prove to be an event of major historic importance, it could do more in promoting a resurgence of confidence and spending than the Government’s measures of 7th February, far-reaching though they may appear to be.
Unemployment — Vital Information Missing

The number of persons registered for employment with the Commonwealth Employment Service on 2nd February reached 131,000*. Unemployment of this magnitude has understandably disturbed a community long accustomed to over-full employment.

Nevertheless, the figure of 131,000 should not be taken as a true “measure” of the extent of the human problem involved in the present unemployment. In this regard, the make-up of the figure is all-important. Unfortunately, we do not know nearly as much of its composition as we should know; but we do know something. For a start, it includes a large proportion of teenagers — possibly about 40,000 — that is nearly one-third of the total. Many of these have just left school and for a number of reasons, are not immediately absorbed in the labour force. Not until the end of February are all examination results known, holidays over and, most important, employers in a position to fully assess their junior labour requirements.

The figures of registered unemployed are also influenced by people seeking temporary or part-time employment. Among applicants for temporary employment are students on long vacation, seasonal workers for fruit and vegetable harvesting and canning, and, in Queensland, meat and sugar workers. Applicants for intermittent employment are high during the summer months and include, among others, married women and elderly people.

The actual number on unemployment benefit at 2nd February was 56,000 (44,000 males and 12,000 females) or less than half the number registered for employment. This means that 47,000 males and 28,000 females were not receiving unemployment relief. The nature of the benefit automatically

*Since going to press, unemployment has fallen to 112,000, as at 2nd March.
excludes a large number of those not in work — juniors under 16, persons in receipt of the age pension and, broadly, married couples where one partner is still working. And a number, of course, do not register for benefits through ignorance or pride or in the belief that their unemployment is only temporary. There is a waiting period of seven days for which no benefit is payable.

These facts are mentioned, because there is a general tendency to assume that the 131,000 people registered for work, are all cases of "desperate need". This is far from the truth. The figures of unemployment have such far-reaching implication — both in regard to economic policy and to political attitudes — that much more should be done to evaluate their true significance. It would be interesting to know for instance, how many of the 131,000 who are not employed are:

(a) Skilled and unskilled workers — male and female.
(b) Short-term and casual workers — male and female.
(c) School-leavers — male and female.
(d) Elderly retired people — male and female.
(e) Migrants and non-migrants.
(f) Married men.
   "    women.
Single men.
   "    women.
Males under 21 years.
Females under 21 years.
(g) Duration of unemployment —
   Unemployed for 6 weeks or under.
      "  for 6-15 weeks.
      "  for over 15 weeks.

In particular, the duration of unemployment is of special importance. If most unemployment is short-lived, then, the degree of individual hardship is lessened. Recent experience in the United States — where statistics of the duration of unemployment are compiled — shows that two-thirds of the unemployed are out of work for less than 15 weeks.

The public are entitled to expect more detailed information from the Department of Labour and National Service along the lines indicated above. Most of the detail would already be shown on the job registration cards filed with the Commonwealth Employment Service by applicants for work.
The 1930's and the 1950's

There is an old adage about "count your blessings". It used to be proffered as an admonition to people who were in the habit of moaning and groaning about their lot in life. It is significant that one doesn’t hear it very often these days. This could be either because there are less habitual moaners and groaners, or because there is less to moan and groan about. It seems far more likely to be the latter. Certainly, in the sphere of economics, in the material things of life, there has been, in the last two decades, an improvement bordering on the miraculous.

It is worthwhile attempting to get this great leap forward into some kind of historical perspective. Without such a perspective, our economic, social and political thinking and attitudes are likely to be ill-adjusted to present-day realities, because, in a period of such extraordinarily rapid change, they will tend to lag far behind the tremendous developments that have taken place. Indeed there are obvious signs that this is occurring — particularly in the arena of political policies.

Those of us who lived and worked in the Australia of the 1930's have participated in what, without exaggeration, could be described as an economic and social revolution, although, perhaps, few of us realize it.

Let us ask ourselves this question: How does the performance of the economy of the 1950's compare with its performance in the 1930's? What gains have been achieved and what are the magnitudes of these gains?

The first, and perhaps most important, lies in the reduction of unemployment to nearly negligible proportions — not, admittedly, negligible to those comparatively few people who from time to time have suffered from it, but negligible from the overall national view-point. This can be most strikingly illustrated by listing the percentage of wage-earners who were unemployed in the ten years before the war and in the ten years of the 1950's.
Admittedly the 1930's covered the period of the Great Depression, in one year of which unemployment rose to 29%. But throughout the decade it only once fell below 9%. In the 1950's, unemployment never rose above 2%.

In the 1930's unemployment was, understandably, the focus of economic thinking and of political controversy. Today, the focus has shifted to the problem of achieving the most rapid rate of economic expansion, of growth and development.

The second great gain, which becomes obvious from no more than a glance at the figures, lies in the near-elimination of the old-time business cycle. Not only is the average level of unemployment incomparably lower, but the fluctuations in employment from year to year are, by comparison, insignificant. If the line of variation in the 1930's appears like a picture of great peaks and deep valleys, that of the 1950's is one of barely perceptible undulations. In the 1950's unemployment might be said to have fluctuated by little more than decimal points around an average of not much over 1%. While some may be tempted to attribute this improvement, at least partly, to the belief that variations in export income from year to year (which have always had such a strong impact on the level of internal economic activity) were very much greater in the 1930's than in the 1950's, they would do so without justification. Notwithstanding large fluctuations in overseas income in the 1950's, we were on the whole successful in maintaining a high level of internal spending and activity and thus of employment.
The third great gain, and from many points of view the most significant, is the far higher average standard of living of today compared with the average standard before the war and, associated with this, the much more rapid improvement in living standards over the ten years of the 1950's compared with the 1930 decade. In the 1950's real wages of male factory employees rose by about 30%; the corresponding gain in the '30's was 5%.

At the end of the 1950's, the standard of living averaged over the whole community was about 50% higher than at the end of the 1930's. Many detailed facts could be cited in support of the overall measurement. For instance, for every 100 Australians:

Twenty years ago, there were                  Today, there are

     8 cars                      20 cars
     10 telephones               22 telephones
     17 radios                   60 radios

In addition, a high proportion of Australians today possess goods which were virtually non-existent in the 1930's—TV sets for example (about 20 for every 100 Australians living in the cities); automatic washing machines; motor mowers; refrigerators; all sorts of electrical household devices—“pop-up” toasters, food mixers, floor polishers and many others.

Not only does the Australian of the 1950's possess many more goods than in the 1930's, he has more leisure time in which to enjoy them. Standard hours of work have fallen from 44 to 40; paid annual holidays have greatly increased; long service leave has been widely introduced.

He works under conditions which have advanced spectacularly—the range and quality of factory amenities have improved out of recognition.

He is able to save more. Even when allowance has been made for price changes, savings bank deposits in the 1950's increased at the rate of about £6 per person per year; in the 1930's the comparable rate of increase was £2 per person per year. By the end of the 1950's, three out of every four homes were owned or being purchased by their occupants. In the
1930's the proportion was less than 1 in 2. As evidence of spending power expanding well beyond the necessities of food, clothing and shelter, the per head consumption of beer and tobacco at the end of the 1950's was over double what it was just before the war.

All in all we have achieved a degree of affluence which twenty years ago would have been difficult to visualise.

The fourth improvement lies in the fact that in the 1950's we have not only enjoyed a far higher average living standard than in the 1930's, but our standard of living is infinitely more secure. The high standard of one year may from time to time be trimmed at the fringes, but it is not likely to disappear the next year. This, of course, arises mainly from the untold benefits of full employment and the virtual disappearance of the threat of unemployment. But, in addition to this, people today are afforded much stronger protection against unavoidable loss or reduction in the power to earn income because of old age, sickness, or unemployment. This has been brought about mainly by an increase in government expenditures on cash social service payments on pensions, sickness and health and unemployment benefits, from £5 per head of population at the end of the 1930's to £35 per head (or £12 per head in comparable prices) at the end of the 1950's. But, in addition to benefits of this kind provided by governments, there has been a tremendous expansion of superannuation and other schemes by private enterprise to protect employees against loss of earning capacity. About one-third of all male employees in industry are now covered by retirement benefits. Whereas, in the earlier period, the concept of a minimum or "floor" standard of life applied only to those in employment through the institution of "the basic wage," in the later period it has been extended to embrace all those who, for any reason, are not in employment.

The fifth great advance is to be found in the incomparably faster rate of economic expansion, of growth and development and population increase, in the 1950's than in the 1930's. Today we are running; in the '30's we were walking. In the earlier decade, real Gross National Product, the total
output of goods and services, rose by 20%; in the 1950's it soared by 50%. The much greater rate of progress of the recent decade is attributable, firstly, to a yearly increase in population averaging nearly 2½% as against 1% for the 1930's. The 2½% rate of increase was comprised roughly of 1½% natural increase and 1% immigration. In the 1930's there was practically no addition through immigration. The second factor contributing to the much greater rate of growth of the later period was an average yearly gain of nearly 2% in production per person employed, compared with a yearly gain of less than 1% in the decade of the '30's.

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These are the bare statistical facts of an economic transformation. Impressive as they are, they cannot nearly tell the full story. For many of the changes for the better cannot be portrayed in cold figures. These are the intangible, though not necessarily less important, psychological gains of confidence, of hope, in expectations for the future, in opportunities for self-advancement (far more widely spread today than twenty years ago) and of more stable and, one would hope, much better relationships in industry. Our attitude toward standards of living is for instance, entirely different. Today, a big proportion of people take it almost for granted that each year will produce some improvement in their standard. In the 1930's there were no "great expectations" of this kind; most workers regarded themselves as fortunate to be in, what was commonly called, a steady job at good wages.

The businessman's position, too, has improved beyond recognition. The recessions of today are no more than gentle rain-storms compared with the great destructive cloud-bursts of the '30's. The businessman of the 1950's has enjoyed a degree of security which would have been the envy of his predecessor of twenty years ago. Bankruptcy seems, indeed, to have become almost an archaic word in the business dictionary. But, more important, in the modern economy the businessman has been able to plan ahead, to expand his business with assurance. He knows that the total market is growing, and that he can get his share of it provided he is efficient. He knows that
enterprise will bring its just reward, whereas in the 1930's he was haunted always by the fear that his best-laid plans could be wrecked by an uncontrolled, and apparently uncontrollable, economic blizzard.

Thus, Australia in the 1950's was a "land of opportunity" for both labour and capital in a way that was never true of earlier periods — certainly not of the 1930's. Moreover, the widening of the scholarship system in schools and universities, allied with full employment, gives the younger people the chance to develop and use their talents to an extent which was not possible in the 1930's, when even the best academic qualifications provided no certain assurance of a well-paid position in a world of many more workers than jobs. All these are tremendous gains. In the '30's a fairly high level of unemployment, and the strong competition for jobs to which it gave rise, was accepted almost as part of an immutable natural order — harsh indeed, but, like the weather, uncontrollable. The full employment economy of the 1950's would have been inconceivable to the people of the earlier generation. It never even entered into their scheme of things.

But, beyond all this, our experience of the 1950's has given us an entirely new conception of the Australian nation and its future. The near-stagnation of the 1930's did not encourage us to entertain any soaring hopes or high ambitions. We were certainly far from the stage we have reached today, when we have begun to think about Australia as one of the great industrial countries of the world. Except in reference to Northern Australia, the word "development" was not heard very frequently in economic discussions; today, it, or its synonym "growth," is the most-used word in the jargon of economics.

For those of us who lived through the pre-war decade, the magnitude of these changes in outlook and attitudes is hard to grasp. The things the new generation tend to take for granted, remain a source of wonder to their predecessors.
WHAT, finally, has brought about the economic "breakthrough" between the 1930's and the 1950's? Many things! We can mention no more than a few.

First, and paradoxically, the war! For out of misery and destruction were born powerful, indeed irresistible, new forces—a determination to make the world a better place to live in, to overcome want and manifest economic justices, to improve living standards, to open up new frontiers of opportunity and hope.

Certainly the spectacular leap forward in science and technology and their myriad commercial and industrial adaptations—the "gadgets"; the new materials in plastics and synthetics; the improved techniques in production, the "automated plant"; the giant earth-moving machinery; the "geiger counter" and the discoveries of new mineral wealth; "trace" elements and the more scientific utilization of the soil; myxomatosis and the decimation of the rabbit population; these and a host of other things we owe to the scientist, the engineer and technician. Certainly, too, more enlightened, more competent business management working in improved co-operation and making better use of the human resources of industry, which are themselves more skilled and probably more intelligent. Sensing the tremendous opportunities of an expanding economy and of the modern jet-age technology, business has not failed to grasp them. Those, who at the end of the war, heralded the end of the great days of private enterprise, have been refuted by events.

In many ways the most significant of all—the new techniques of overall economic direction. Today, in common with all advanced countries, we live in a managed economy. This means that the economy is deliberately controlled and directed by the central government in order to achieve certain objectives regarded by the community to be desirable—full employment is one; rapid development is another. In the 1930's, the economy was virtually "unmanaged". Government interference with the economic mechanism was generally regarded with suspicion and government control something to be avoided. Only in the kind of desperate crisis engendered by the World Depression around 1930 was there any general acceptance of the need for direct participation by governments
to influence the level of economic activity. Moreover, in those
days, there were no clearly defined and broadly accepted ob-
jectives of economic policy, such as full employment and social
security. It is true that most people wanted to see employment
as high as possible or, to put it another way, unemployment as
low as possible, but this was regarded as something which, to
an extent, was beyond the control of governments or of any-
one else in the economy. It was believed to depend on factors
such as export prices and seasons which we could do nothing
much about. There was no clearly stated aim of full employ-
ment or of any deliberate policy to achieve full employment.
Although to some, the phrase a "managed economy" is an
anathema, it must be conceded that in terms of broad results it
has worked marvellously well. Mistakes have been made —
some serious — but human beings are fallible. Nevertheless,
the managed economy has given rise to problems of its own.
It has yet to solve inflation which gives unearned increment,
often in magnitude considerable, to a few and imposes hard-
ships and discomforts on many more. Will a solution be
achieved in the 1960's?

Another, and perhaps more important problem, arises
from the concentration of power and authority in the hands of
the central government and its senior advisers. How can plan-
ning be made democratic planning? Can democratic planning
be efficient? These are questions to which we will continue to
seek the answers.

And, finally, behind the success of the managed economy
lies the great advance in economic knowledge set in motion by
Keynes. It was after all the economist who gave concrete ex-
pression to the expectations of people everywhere for a better
way of life than the '30's were providing, and it was the
economist who pointed the way to its realisation. And yet,
ironically, many of his bitterest critics are among those who
have benefited most from his work.
Irresponsible Economics

IT is time something was said about the savage attacks, bordering on crass irresponsibility, which have been made upon the Government's economic policies.

Whatever mistakes have been made over the last two years — and mistakes there have been — it must be conceded that, in the recent past, the economy has enjoyed, perhaps for the first time, since the war, the twin advantage of a stable price level combined with some underlying strength in the balance of payments. Inflation has been arrested and the external payments position is in comparatively good shape. The price, in terms of unemployment, retarded development, and a reduced tempo of business activity, has been heavy — much heavier than the community has been prepared to pay; from every quarter, the Government has been urged to take far-reaching measures to revive the economy.

Some of the critics have not been content to assail the Government's policies over the last two years in ridiculously extravagant terms; they ask us to believe that the Government's record in economic policy-making over the whole of the 1950 decade has been lamentable in the extreme. The growth rate, we are told, has been negligible, development and migration have lagged, and the economy has stumbled from crisis to so-called crisis.

This is quite contrary to the facts, since there can be no question that the 1950's was one of the greatest — possibly the greatest — period of progress, prosperity and development in Australia's history and that it compared more than favourably with the record of practically any other country in the world.

IN light of the experience of the last two years, there are good reasons for thinking that the objectives of removing inflationary boom pressures from the economy and of restoring
equilibrium to the balance of payments could have been achieved by less painful methods than those that have been followed. In retrospect, it is now clear that the Government made several quite serious miscalculations.

The results which have flowed from the various measures introduced by the Government — going back to the abandonment of import restrictions early in 1960 — have been greatly different from those that the administration itself expected. The rise in imports which followed the removal of import controls was much greater and more prolonged than was believed likely. Moreover, instead of producing the anti-inflationary effects which most economists had anticipated, it seemed rather to give rise to an excessive surge of confidence which played no small part in the dangerous speculative and spending boom that developed later in the same year.

The policies pursued by the Government to control and curb the boom of late 1960 and early 1961 also proved to contain serious elements of miscalculation. Prior to November 1960, the action taken was much too mild and tentative. But, in its November measures, the Government literally hit the economy with a sledge-hammer. These measures had far more severe and more lasting effects than were expected. Where the miscalculation mainly occurred was in the impact of the November policy on business and consumer confidence—what the great Keynes, with his flair for the picturesque, was accustomed to call "animal spirits". In words that might almost be applied to our experience in the latter half of 1961, Keynes wrote:

"If animal spirits are dimmed and spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, enterprise will fade and die — though fears of loss may have a basis no more reasonable than profits had before."

The measures did more than break the boom. They produced a mood of depression in business circles which has proved much more persistent than the Government reckoned upon. From the attitude of exuberant and aggressive over-confidence of 12 months ago, the mood of the economy in recent months has been restrained, wary, on the defensive. It is this intangible, but highly important factor with which the Government had to contend in framing its measures of 7th
February. The mildly expansionary Budget of last August proved to be much too weak a stimulant to revive the flagging spirits and to dispel the caution of business and the spending public. This was, indeed, the third miscalculation.

But nothing is easier than to be wise after the event, and in recent months the critics have excelled themselves in using the Government’s errors to flog the policy-makers with almost unexampled savagery.

Last December we were told by one influential source that “a dramatic new approach to the economic problems of the country is needed”. This new approach seemed to envisage the resumption of a break-neck pace of economic expansion and of full (is it not really over-full?) employment at the earliest possible moment. It suggested that these objectives should take precedence over currency stability and balance-of-payments equilibrium. This is inflammable nonsense. If the prescription were followed, we would, in short time, find ourselves in precisely the same position as that which confronted us in the latter half of 1960—namely, soaring prices and costs internally and a dangerously rapid depletion of our external balances. Nothing could be more calculated to produce the “stop and go” type of policy which the same critics are so insistently in laying at the Government’s door and which they so indignantly deplore.

The whole basis of this criticism rests on an utterly false assumption—namely, that there is a conflict between stability of costs and prices and in overseas payments on the one hand, and full employment and the optimum rate of economic growth on the other. The truth is precisely the opposite. The rate of expansion will, in the end, be most rapid and full employment will have the best prospects of realisation under conditions of price and balance-of-payments stability. This sort of reasoning seems to smack of the ugly old fallacy that “inflation doesn’t matter”.

It is true, of course, that inflationary policies will, for a time, produce a greater rate of economic expansion than policies aimed at maintaining stability of prices and balance-of-payments equilibrium. It is indeed this very fact that makes
inflation such a seductive jade. The essential thing to grasp is that inflation is itself the instrument of "forced" development. It is the means by which an increased proportion of the resources available to the community are pre-empted for the purposes of expansion. It achieves this by suppressing living standards (through the impact of price rises on incomes) and by dissipating reserves accumulated as a result of past overseas trading and financial transactions.

In order to buttress their arguments, the "expansion at all costs" school of thought, are accustomed to make reference to truly absurd comparisons of the rate of growth in Australia compared with rates of growth in other countries, notably France, Western Germany, Italy and Japan. If their comparisons have any validity, then the rate of expansion in Australia in the decade of the 1950's, which most of us believed to be so commendable, indeed spectacular, was little short of deplorable. But does anyone — do the critics themselves — really believe that?

Has it not occurred to them that there may be special reasons, for instance, why the rate of growth in Japan, which is said to have averaged 9.1% a year over the decade, is so startlingly different from Australia's which averaged 4.3% or the United Kingdom's which averaged only 2.5%? Or do they suggest that Australia with different economic policies could have achieved a growth rate more than double that actually attained during the decade? It would be interesting to know what these policies would have been.

At the start of the 1950's the Japanese and the European economies, devastated by the war, were still at a low ebb, in relation to Australia, United States and even the United Kingdom. According to a study by the United Nations, per capita national production in United States in 1949 was $1453. This compared with Australia $679, U.K. $773, France $482, West Germany $320, Italy $235 and Japan $100. Building up from a very much lower point, Japan has been able to record greater percentage productivity increases than Australia, but, in absolute terms, we are still far ahead. Even assuming that Japanese productivity (per head) has doubled in the last decade, compared with, say, a 30% increase for Australia, the relative position would now be Japan $200, Australia $883.
Furthermore, it is an established statistical fact that the rate of growth diminishes with the degree of economic sophistication reached by a country. In under-industrialised countries, embarking on ambitious programmes of development, extraordinary rates of growth are sometimes achieved. It is the old story of the man who is already running fast finding it difficult to increase his speed, as against the man who has been running slowly and who has great scope for speeding up.

In the high income countries, a far greater proportion of national resources is devoted to the service industries — distribution, finance, entertainment and so on — where productivity improves very slowly. In low income countries, economic growth tends to be concentrated in key basic industries where startling productivity gains are often to be had through mechanisation and technological progress. This helps to explain, for instance, why the growth rate in the United States, which averaged 3.3% over the 1950 decade, is so much less than that of Italy at 5.7%. Are we to deduce that the economy of the United States is much less dynamic and progressive than the Italian?

It is more than time that we ceased the current naive practice of drawing far-reaching conclusions about rates of growth in different countries from simple comparisons of gross national product. International economic comparisons based on statistical measurements, as any economist should know, have always been notoriously unreliable and misleading. Those concerned with overall rates of growth are no exception and should be viewed with a strong degree of scepticism, as should the economics of those who draw such fantastic deductions from them.
The word "planning," after a long vacation of ten or more years, is again being heard frequently in economic circles in Australia. In this number of "Review," an article by Professor H. W. Arndt of the Australian National University suggests that urgent consideration be given to the adoption of a four-year national economic plan for Australia.

Several things have contributed to this re-awakening of interest in national economic planning. Perhaps the most important is the spectacular progress achieved in recent years by the French economy in which planning is a prominent feature. The French procedure is described in Professor Arndt's article. And, just recently, the British Government seems to have taken a leaf out of France's book by establishing a National Economic Development Council comprising leading industrialists and trade unionists and government representatives, supported by a full-time staff of economic and statistical experts. The purpose of this Council seems to be to prod the British economy into a more lively rate of growth, to avoid cost inflation and to strengthen the balance of payments. The first task of the N.E.D.C. is said to be to work out a long-range plan for economic expansion and, as with the French system of planning, to set growth targets for the economy as a whole and for the basic industries at least.

Interest in economic circles in Australia in national planning of this kind has also been stimulated by the belief that a different approach to economic policy may be needed to ensure a steady and rapid rate of growth in the more difficult economic conditions which are likely to confront us in the 1960's.
Many people are suspicious of the word “planning” in its national connotation. It is associated in their minds with increased government intervention in industry, with socialistic control of private enterprise, and with the extension of bureaucratic powers. Its close connection in the past with socialism is likely to lead many businessmen to oppose it out of hand. The last time that “planning” was in the air — in the years around the end of the war — free enterprise was fighting for its life against an advancing socialistic tide which threatened to engulf it. It is hardly surprising that there exists a strong predisposition in business circles against anything that savours of national economic planning.

It is not without significance, however, that the original initiative for the new developments in planning in Britain appears to have come from the Federation of British Industries. Admittedly, what may be good for Britain is not necessarily good for Australia, whose economy, notwithstanding the great advances in manufacturing, still rests on a foundation of primary production. Nevertheless, it would be wrong to dismiss the overseas developments in economic planning without any attempt to assess their advantages (or disadvantages) and their possible relevance to the present circumstances in which the Australian economy finds itself.

It has been argued, mainly from French experience, that the advantage of setting 4-year national targets of growth for the economy as a whole, and of output for the main industries (based upon carefully worked-out projections of demand) is that the very process of establishing targets goes a long way to ensuring that the targets will, in fact, be attained. Industries will base their plans for expansion on the official projections of demand in the confidence that all other industries will tend to do likewise. An important advantage claimed for national planning is thus the added certainty and confidence which it gives to business expectations. All this, of course, assumes that the national target for the economy as a whole and the targets for individual industries are set at realistic levels and are not foolishly over-optimistic — that is, they are targets which the national planners and industrial leaders feel to be capable of
achievement, given energy and enterprise. The purpose of economic planning is thus to secure a faster rate of economic expansion by encouraging industry and the economy to strive for an ambitious—but not over-ambitious—standard of performance.

A second advantage of planning—and this time looking at it mainly from the standpoint of business—is that it could make for a closer association, and thus understanding, between government and industrial leaders in the tasks of national policy-making. The targets are agreed upon and plans made only after full consultation between representatives of government and industry. The process is one of co-operation. In recent years, leaders of business have complained that government has been too remote from industry, that it has not sufficiently consulted industry in forming its plans, and that it has quite frequently shown itself unaware of the problems which business is facing. The procedures necessary in national economic planning might help to overcome this "remoteness" and to increase the influence of business in policy formation. Planning could thus conceivably confer benefits both on business and on the community as a whole. On the other hand, it cannot be denied that it has its drawbacks and dangers.

Even though planning might commence on an entirely non-coercive basis, there is always the fear that it could lead bit by bit to an extension of governmental control and bureaucratic direction of industry. This fear is not without some foundation. A government which officially adopts certain plans of development for the economy would be strongly tempted to resort to measures of control in order to bring the plans to fruition. It might feel that broad fiscal and monetary policies were insufficient for this purpose and that they would need to be supplemented by direct controls over industry and even over consumer spending of the kind to which we became accustomed during the war.

It is only right to say that coercive planning of this kind would be most unlikely to receive the support of industry, or, for that matter, of quite a large section of the community. Nor are there grounds for believing that it would be in the
national interest. Indeed, it could very likely defeat the basic objectives of national planning itself—namely, the acceleration of the rate of growth of the economy, the more rapid improvement of living standards and the maintenance of economic stability.

We should be careful not to get this idea of national economic planning entirely out of its proper perspective. There are some hopes—as yet they can be little more than hopes—that planning would prove a valuable adjunct to present accepted methods of guiding and controlling the economy. But planning is not a magic wand which will wave away all our difficulties. Even in France, it is difficult to assess the extent of the contribution made by planning to the spectacular progress of recent times; many other influences have also been at work.

* * * * *

SOME people seem to be thinking these days in terms of an "ideal" economic world, in which there are no fluctuations in employment; in which prices never rise (or, presumably, fall); in which there are never any shortages or bottlenecks slowing down production or development; in which no serious difficulties ever arise with the balance of payments; in which the annual national rate of growth never varies from 4, 5 or 7 per cent or whatever target is set; in which every industry expands (or contracts) at precisely the right rate—whatever that is; in which wages and profits never get out of line with productivity which always rises rapidly and by precisely the same amount each year; and in which (in Australia) the annual migrant intake never varies from a set figure. In other words they visualise an economy in which the sun is always brightly shining, or, to change the metaphor, whose health is always robust and nothing ever occurs to disturb the even tenor of its ways. All this, we are told, is ours so long as we accept the magic talisman of "economic planning".

This has a strangely familiar ring. We were told almost precisely the same things in the years round the end of the war when "planning" almost assumed the emotional appeal of a new religion.
If we ever reach the stage when all this has been accomplished, will we be satisfied with what we have; or, are we likely to find the world a frightfully dull place? But, fortunately for us perhaps, planning or any other economic medicine can never produce these things, for the conception of a flawless economic utopia bears no relationship to the realities of human existence.

This is not to condemn planning. It is just to cut it down to size.

The developments in national economic planning abroad are certain to have some impact on Australian thinking. The important thing at the moment is that these developments, and their possible relevance to Australia, should be examined dispassionately and free of prejudice both by those disposed to advocate “planning for planning’s sake” and by those inclined to view planning with suspicion mixed with hostility.
A Four Year National Economic Plan For Australia
by
Professor H. W. ARNDT

Professor Arndt recently returned from Europe, where he spent 12 months in the Research Division of the U.N. Economic Commission. There he studied the problems of economic growth in Europe during the 1950's. He writes, therefore, with recent first-hand experience of the European scene.

Professor Arndt, who was born in Germany, came to Australia in 1946. He taught at the Sydney University until 1950 and for some years now has been engaged in university work at Canberra. He is recognised as one of Australia's leading university economists.

The events of the past year mark a watershed in Australia's post-war economic development. They have demonstrated the inadequacy of an excessively short-term approach to national economic policy. They have also given reasons to fear that this approach to national economic policy may have much more serious consequences in the coming than in the past decade.

From the end of the war until 1960, the tempo of economic growth in Australia was sustained not merely by the official immigration policy and by a healthy but unreasoning faith in "Australia unlimited" but also by an accumulation of obvious investment opportunities, in housing and non-residential building, in the motor car and other consumer durable industries and consumer credit,
in oil refining and, at least in the early post-war years of high prices, in rural industries. The depth and duration of the current recession, which appears quite out of proportion to the restraint applied by the anti-inflationary measures of November, 1960, may well reflect the end of this phase of exceptional investment opportunities. Confidence in a high rate of development cannot be maintained by an ambitious immigration policy alone, if only because the supply of migrants will dry up if Australia's rate of growth lags greatly behind that of Europe. A new stimulus to long-term expectations may be needed if Australia is not to lapse into relative economic stagnation.

Considerations such as these are leading more and more thoughtful Australians to look to the example of western countries such as France and the Netherlands which have in recent years experimented with new forms of national economic planning. I welcome the opportunity I have been given by the Editor of the "Review" to stimulate discussion of this idea.

In the 1930's "planning" came to be associated with the notion of a centrally controlled economy. To supporters of private enterprise, "planning" became a dirty word. The considerable appeal of the French system, even to opponents of socialism, lies in its seemingly non-coercive character.

Readers of the "Review" will be familiar with the main features of the French technique which has recently attracted much attention in the United Kingdom and even in Australia. Its essence is a coherent national 4-year investment plan for modernisation and development based on econometric projections of demand. The efficacy of the "mystique de plan", which probably deserves some of the credit for France's notable growth performance over the past decade, is generally attributed to two factors. One is the stimulus to industry that comes simply from having clear targets set and from the confidence, inspired by the coherence of the plan as a whole, that capacity installed now will be needed four years hence. The other is the systematic promotion of technical progress, through emphasis on scientific research and training and interchange of know-how, which is part of the plan.

The adoption of such a plan as a major part and framework of national economic policy might make a decisive difference to the business and economic climate in Australia.

The first very great advantage of such planning would be that it would compel us to undertake a systematic national stocktaking, to examine where we can reasonably aim to go. A good deal of "planning" goes on all the time in Australia, investigations into conditions and prospects of individual industries, market research by firms and groups of firms, research on particular problems, housing, social security, soil conservation, transport, development projects. But it is all in bits and pieces,

without any attempt to see how it hangs together. Each investigation loses in value through ignorance of essential background knowledge potentially available in all the others. The task of drawing up a national plan would compel us systematically and coherently to measure what we want against the resources at our disposal. In itself this endeavour would imply rationalisation of much economic and technological research now under way. It would point up gaps, e.g. in basic mineral and other natural resource surveys, in economic statistics (especially input-output data) and in technological available research and survey resources.

The process of co-operative design and public discussion of the plan, and its publication, might well make a dramatic psychological impact. The mere announcement of a Government decision to prepare a national development plan would bespeak a new start, evidence of forward-looking leadership. As business and trade union representatives are drawn into the process of collecting data, appraising drafts, hammering out the design in increasing detail in collaboration with government officials, as features of the plan are scrutinised in public discussion, public thinking will automatically be given a much greater emphasis on longer-term growth, getting away a little from the present interminable preoccupation with short-term and distributional issues. That alone may be half the battle.

The plan, in its final form, would consist primarily of a coherent set of output and fixed investment targets for sectors and major industries over a four-year period (possibly against the background of a much more roughly sketched 10-year plan). The targets would be set, realistically but moderately ambitiously, in the light of projections of demand and assessment of available resources of labour, investible funds (domestic saving and capital inflow), basic materials and equipment (both home produced and imported). The vital point is that the resource requirements (inputs of materials and equipment) of all sectors together would give a firm foundation for the demand projections of a good many individual industries; while the aggregative magnitudes implied in the plan would provide some basis for forecasting levels of demand in other broad categories, in particular of consumption and public authority expenditure. I believe there is quite primitive psychological value in target setting. Even in an easy-going democratic society, and without the propaganda drives for plan-fulfilment and over-fulfilment of the communist countries, challenge may call forth response. Over and above this general effect, the plan would, through its very coherence, give business in many (though not all) industries a much greater degree of confidence in the soundness of investment decisions than they can possibly have at present. They would be able to plan for expansion at the rate implied in the plan knowing that, if everybody else did the same, their expectations would be unlikely to be disappointed.

Again, the atmosphere and practice of co-operation engendered by the planning process might give a stimulus to technical progress. This is not primarily a question of advances at the frontiers of
scientific and technical knowledge — though here, too, planning might help to indicate priorities both in research and training. *It is primarily a matter of raising the average level of technique in an industry closer to that of the most advanced firms.* Planning might help to overcome the three main obstacles to this process: ignorance of the technical potentialities for increasing productivity, restrictions on free access to know-how through business secrecy, and insufficient confidence in the future to induce the requisite investment in modern equipment.

*Finally, while no overall economic plan relieves us of any of the specific problems of policy for economic growth which confront us, it may create a more auspicious economic climate for attempts to tackle them.* Let me give a few examples. For years we have talked about the need for a more rational examination of public works priorities and for a co-ordinated approach to transport; planning would not provide any detailed answers in either field but it might make us get on with the job of looking for them. Much the same applies to the problem of determining the country’s requirements, and of investing resources in the development, of scientific and industrial research, on the one hand, and mineral, water and other natural resources, on the other. No overall plan can tell us whether it is worth putting large volumes of capital and effort into development schemes in Northern Australia; but it might give increasing experience in cost-benefit analysis which alone provides a rational approach to this type of problem. We would still need a policy to discourage and control restrictive practices but, for reasons which I shall mention in a moment, some of them may become easier to handle. Within a longer-term plan of development, all our short-term problems of monetary and fiscal policy would remain, but if planning has the effect of underpinning long-term expectations it might, in this way alone, render the economy less susceptible to short-term fluctuations. Last but not least, if planning is successful in giving a fillip to growth of productivity, even wage policy may become a less intractable problem; the approach recently outlined by Professors Downing and Isaac would be a good deal more promising in such an atmosphere.

This, in substance, seems to me the case for planning. What about the case against?

*It has been argued that, particularly in a country as dependent on foreign trade as Australia, it is impossible to plan ahead with any degree of certainty. I do not regard this as a weighty objection. Of course, there will be areas for which no confidence-inspiring projections will be feasible. One is the whole range of minor consumer goods and service industries for which the French plan does not, and need not, lay down detailed targets. At most, these would be helped by reasonably plausible projections of aggregate consumer demand. The export*
sector presents a more serious problem, but not necessarily more serious for Australia than for France. The difficulties in planning for uncertain world markets have been stressed as their major headache by the French planners. But these difficulties are, if anything, less acute for a country which depends predominantly on exports of primary products than for one which, like France, exports mainly manufactures. For, even allowing for the uncertainty of the seasons (the importance of which has been much reduced by technical advances in primary production) it is much easier to set output targets for the relatively small number of basic primary products than for the myriads of products of manufacturing industries. Australia's chief difficulty would be to guess at the future of the terms of trade, but this is relevant to projections of aggregate income and imports, rather than to the setting of output targets for rural industries.

In any case, the difficulties arising from instability and uncertainty of export markets are familiar and must be tackled, plan or no plan. The range of remedies open to us now — adequate international reserves (backed in case of need by import licensing), price support or buffer stock schemes, market research, export drives and trade agreements — will be no less available within a plan framework. It seems irrational to forgo the advantages of planning for the larger part of the economy because planning meets with difficulties in one sector.

A much more serious objection is that, even where projections are in principle practicable, they will not inspire confidence unless the plan is realised, and that the plan will not in fact be realised unless it is enforced.

This seems to me an overwhelming argument against the kind of "consultative planning" now under discussion in the United Kingdom. If the process of planning is not treated as economic policy-making (rather than mere "advising"), it will be largely wasted effort. If those who now, under Cabinet, have the last say in economic policy-making, the top Treasury officials, are regarded as unsuited to the task of long-term planning, the remedy is to reform the Treasury, not to hand the task of planning to an outside Bureau with mere advisory functions. Some of the advantages of planning could be secured by research institutes to provide more and better information about the economy, by formal or informal machinery for more consultation between government and business, and by commissions and committees to give informed advice on policy. But all these together would miss two crucial points: a coherent overall perspective incorporated in a major act of government policy.

I have a much more open mind about the need for enforcement of the plan once it is adopted as government policy. It is true that the French system involves rather more control than has generally been appreciated by foreign observers. In particular, French banks and specialised financial institutions have traditionally been a much more important source

of finance and have therefore exerted much more influence on the directions of business investment than Australian or British banks. One has the impression that the now largely nationalised French banking system plays a not insignificant role in implementing the investment plan by discriminating in the supply of finance in favour of the plan. The argument that an investment plan cannot be realised without some such controls over business investment cannot be lightly dismissed. One answer may be that much would be gained even if the plan were not completely fulfilled in every sector of the economy.

A third major objection of considerable weight is that business co-operation in national planning would be incompatible with competition. The answer of the French planners to this argument is summarised in a report on a recent Anglo-French conference on planning:

"It seems clear from the descriptions of the way the Industrial Commissions work that one result of the Plan has been to build up close and friendly relations between former rivals. Indeed it is part of the logic of the Plan that the field of possible future developments should in some sense be shared in an orderly manner. Thus whilst formal ententes between firms are frowned on by the law, understandings between firms seem in fact often to be arrived at through working together on the Plan. The danger may then be that firms which agree to share new markets may also refrain from struggling too hard to alter their share of existing markets, and that price competition may become extremely gentlemanly. To this M. Massé and the other French representatives had two replies. First, it could be argued that ententes between firms are not new and would happen even if there were no Plan: if they are going to happen anyhow, it is better that they should happen in the context of economic growth, and within range of the planning authorities. Second, it could be argued that a little competition is good, but that too much of it is bad: if it leads to excess capacity this is a waste of resources, even if it reduces prices." 4

Finally, it is arguable whether or not planning would demand changes of attitude in the political arena too great to be hoped for in Australia. Whichever party government took the initiative, Labour or Liberal-Country, would not the Opposition damn the whole idea and urge the interest groups behind it to refuse co-operation? Could the ACTU be persuaded to co-operate in drawing up the plan, in industrial committees sitting round the table with management, government, consumer and other representatives? Is effective planning possible in the Australian constitutional system in which the powers of the central government are so much more seriously limited than in France? Would the whole process of organisation and agreement through discussion not involve more give and take than the habits of Australian politics permit?

Two more specific questions may be raised in this connection. What happens to the plan in the event of a real change of Government, rather than the minor reshuffles before and the no-change system since de Gaulle? And how would a four year plan fit in with our triennial Parliaments? These are real difficulties. It is only a partial answer to the first to point out that the major policy issues of longer-term planning would relate to

4. PEP, Planning, 14/8/61, pp. 231 f.
questions of resource allocation which have not hitherto been at the centre of party political controversy in this country and that there has in practice been a considerable measure of continuity of economic policy even in change-overs between Labour and anti-Labour Governments. The second difficulty could not readily be solved by adapting the period of the plan to the life of Parliament; for three years are too short a planning period, while six years are rather long and in any case no answer to the political aspect. Part of the answer is no doubt a degree of flexibility which permits annual review and revision of the plan. This is desirable in any case to counter one of the most serious dangers of planning—undue rigidity in economic policy, aggravated by the reluctance of planners to admit mistakes.

DISCUSSION of the pros and cons of national economic planning in Australia must turn on the three major objections I have considered: the extent of the need for controls, the dangers of monopoly, and the compatibility of such planning with the Australian political and constitutional system. I am inclined to think that the adoption of an overall investment and development plan would be worth while even without more extensive controls of investment than are at present being exercised. I am largely persuaded by the French answer to the monopoly objection. And I find it hard to believe that the political and constitutional difficulties could not be overcome. But I am open to conviction on all three points.

Obviously, how far we are prepared to go in extending controls, if they should prove necessary, or in adapting our constitution and political habits to the needs of planning, depends in part on how badly we want growth. We would all no doubt be prepared to make greater concessions on these points if the alternative proved to be stagnation than if the object were merely to reach a still higher rate of growth than in the past. It is because I am rather concerned about the danger of stagnation that I regard serious examination of the planning proposal as an urgent national task.
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