Editorial —

Tax Scales Need Revision

On a number of occasions over the last 12 months the Commonwealth Treasurer has indicated his wish to reduce the burden of income tax on the middle income ranges. It is clear that the Treasurer regards this as a matter of the first importance.

Several years ago the I.P.A. drew attention to the fact that the steeply progressive rate of tax on incomes at comparatively modest levels was such as to act as a serious deterrent to enterprise and effort. We pointed out that, on an international comparison, the marginal tax in Australia on incomes in the middle range was the toughest of any of the advanced industrial countries, and that the average rate of tax was second only to Sweden.

This situation has been brought about by the effects of inflation over a long period of years without, in the meantime, any compensating revision of the progressive tax scales. Money incomes which would have been regarded as large before the impact of inflation are now only in the medium bracket.
Thus a rate of tax intended to fall with some severity on a top bracket income, is now severely penalising those with incomes in the middle range.

A wide variety of statistics can be used to illustrate what has happened.

Twenty years ago, only 5 per cent of taxpayers earned more than $2,000 a year. Today, two-thirds earn more than $2,000 a year.

About 25 per cent of the community earn above $3,600. At $3,600 the marginal rate of tax (i.e. the tax on each extra dollar of income) is 33 cents in the dollar. An income of $16,000 attracts a marginal tax of 62 cents in the dollar. For middle rank to top executives carrying heavy responsibilities in business, and for those engaged in the professions and public administration, marginal rates of tax range from 53 cents in the dollar at $8,800, to 68 cents at $32,000.

The present rate of progression in the income tax scale has had the effect of shifting the tax burden from both the top and lower incomes onto the middle income groups. The "real" after-tax income of people earning over $50,000 a year has increased by 19 per cent since 1954/5, while that of people on the lowest income levels has risen between 20 and 30 per cent. But the after-tax "real" incomes of the $12,000 to $21,000 group have increased by only 10 per cent, and those of the $25,000 to $45,000 group by 12 per cent.

In 1954/5 a man on $5,000 a year paid $1,112, or just over a fifth in tax. Today, the same man would have to earn double this income merely to keep pace with average wage and salary rises, without allowing anything extra for his greater experience. But now his tax would have grown to $3,488, or over a third of his total income.

At current rates, taxation is hitting middle and upper-middle income earners in Australia more severely than in practically any other country. Here are comparative rates of marginal and average taxation on married men with 2 children under 11, earning between $10,700 and $42,800 a year:
Apart from the steep rate of progression in the income tax structure, the composition of government budgets in Australia is such that the real burden of tax is much heavier for a corresponding amount of tax: a far higher proportion of government expenditure in Australia is devoted to capital projects and a correspondingly lower proportion to consumption (through social service payments) than in other countries.

Because of inflation and higher taxation, many income earners are not being commensurately rewarded for their increased contributions to the community over the past decade, despite the large apparent gains in their money income. The majority of these people, who start off with little capital behind them, find it difficult to greatly improve their financial situation, notwithstanding years of effort in positions demanding high educational qualifications, special skills and heavy responsibilities. The return for enterprise is meagre. Because they are inadequately rewarded for their main work in life, many turn to other avenues to supplement their incomes — notably stock exchange investment and land speculation. In Britain there is an analogy where the huge sums invested in the football pools have been partly attributed to the penal rates of income tax.

An overhaul of the income tax scales, with particular attention to lightening the burden on the middle income ranges is, in our view, an urgent priority. Many hope that this will be done in this year's Budget.

It has been suggested that the present is an inappropriate time to reduce taxes because of the build-up of inflationary pressures in the economy. But, under modern conditions,
fiscal policy has become a very ineffective means of dealing with minor or moderate economic fluctuations. Indeed, a more moderate rate of progression in income tax would have the advantage of helping to quieten the clamour for increased salaries, especially among lower-middle income groups where there is at present so much industrial discontent.

In the existing income tax scale, the rate of progression cuts out at an income of $32,000 where the marginal tax rate is 68 cents in the dollar. To be consistent the principle of progression should be carried right through to the top strata of income, as in the United States and Britain.

We have argued for some time that the level of government spending over-all is now so high as to become an inbuilt inflationary force in itself. An earnest attempt should now be made to brake back the rate of increase in public spending as a whole.

If, after revision of tax rates and strenuous efforts to curb government spending, revenues fall short of what is required, more equitable and less harmful ways of raising money than through the existing personal income tax pattern should be sought.

We have estimated that if income tax were cut by an average 10 per cent on the $6,000 to $30,000 range, the loss of revenue would be of the order of $50 million. A 20 per cent cut would reduce revenues by $100 million. Australia raises a lower proportion of its revenues from indirect taxes on consumption than most other countries. A comparatively small increase in excise duties and sales taxes (estimated to raise between them $1400 million in the current year) would be sufficient to offset the loss in income tax receipts. We believe that the income tax structure should be revised at the earliest possible moment. It must be done eventually because the present income scales are so obviously tipped against enterprise, honest work and skill, the very attributes we should be encouraging. There will always be reasons why the time is never propitious to make large changes in the pattern of government finance, either in the manner of raising or in the manner of spending public moneys.
Is Society Sick?

TODAY's world is not a comfortable world.

Life has become a continuing journey at high speed on a bumpy road. There is excitement, exhilaration, but also discomfort, danger and great uncertainty about the future. The very rapidity of the rate of change on all fronts is disturbing and unsettling.

Perplexity and confusion everywhere abound. Where are we going? What is the purpose of it all? Is there any purpose? On what rock of belief does one rest one's hopes?

Few would now contest the view that human society is undergoing a revolutionary upheaval. We may be experiencing the acute pains preceding and heralding the birth of a new kind of society. Everything is shifting. There is no solid ground, no permanency. Old values and citadels of belief are toppling on every hand. The world changes while we sleep. Cities and communities assume a new face overnight. The accepted truths of today become the fallacies of tomorrow. One has to run very fast or he will find that the contemporary world has left him far behind.

The breath-taking progress of science and technology is transforming man's physical environment. Discovery follows hard on the heels of discovery. Industrial technologies become outmoded almost as soon as they are installed. If the Age of Affluence has not yet arrived, it cannot, in the Western countries, be far round the corner. A high standard of living for all, not so long ago the prerogative of the few, is now a foreseeable goal for the technically advanced societies. Leisure time, once rare and therefore greatly prized, is beginning to loom as something almost to be feared. What shall we do with it when we can have as much as we want? How shall we fill the slowly-moving hours? Will we succumb to a universal, soul-destroying boredom?

A terrifying by-product of the scientific revolution is that the human species has, for the first time, the power to destroy itself. The threat of the virtual extinction of human life over-hangs the world like a monstrous cloud and causes Man to question his own significance.

There is another ominous by-product of the scientific revolution — the imminent explosion in the numbers of humans. This is changing — and if the explosion is not contained, will change drastically — man's view of himself in relation to the world. Already the sheer pressure of numbers in immense urban conglomerations is creating a host of new problems, psychological as well as physical. It is becoming more and more difficult for the individual to live apart, to find a quiet retreat of peace and rest where he can be completely and wholly himself. Will the individual be able to regard himself as uniquely important, with every hair on his head numbered, when he is compelled to live in a huge metropolis of "sky-high" apartment dwellings, or in an endless suburbia of night-marish proportions? Can he retain his sense of significance as an individual person if he is submerged in a sea of countless millions?
The “individual” as such faces a further threat. Big Government, once regarded as incompatible with the democratic way of life, has arrived and is becoming bigger. Educational institutions are now of such giant proportions, classes and lecture rooms so crowded, that individual guidance and tuition is no longer practicable. In response to “the new technology”, the industrial organization, to be effective, is often compelled to become bigger and bigger. The small or medium-sized enterprise gives way to the large corporation, big businesses are swallowed up by still bigger businesses, the large national enterprise becomes absorbed by the huge multi-national corporation. In these vast entities there is an undeniable and difficult-to-avoid tendency to conformity in outlook, behaviour and even dress. In face of commonly accepted standards, it is not easy for the individual person to be himself, to be “different”, to express his own individuality.

Another distinguishing feature of the revolution is the strong challenge to long-established conventional standards, beliefs and institutions. The Chairman of the Board of Trustees of the Ford Foundation, Julius Stratton, said recently, “We find ourselves at a moment of history when every value that men have cherished appears open to challenge; when every fortress of conviction seems to be crumbling; when the traditional codes of conduct and moral accountability have begun to blur”.

The challenges come mainly, but not only, from young people. With some of the young the challenges amount almost to a rejection of the goals and way of life of Western society.

This is a time of the most probing scepticism. Nothing is taken for granted. Everything is questioned. The churches themselves are undergoing a process of intense introspection and of re-examination of long-accepted theological dogmas and traditional beliefs. The disturbances on university campuses everywhere are evidence of dissatisfaction not merely, or mainly, with the universities themselves, but with the world outside and with those who run it.

The thing some of the young seem to dislike most about “the affluent society” is its affluence. They hate the so-called “rat-race” not merely because of the limitations it threatens to impose on their personal freedom, but because they consider its goals unworthy. One might wryly comment that it is easy to consider of little value, and even to despise, those things one already has and is able to take for granted. To previous generations, particularly those of the “great depression” era, the quest for possessions and for material security seemed supremely important. In a world of insecurity a secure job was, in itself, something to be highly prized; it did not greatly matter what the job was. To the young people of today, however, able to pick and choose between numerous positions offering high salaries, a job in itself has little intrinsic worth. What is important is that the job, in the eyes of its occupant, should be worthwhile doing, should have some obvious value for the community. Material security is not highly regarded because it is already, for most, a mundane fact of life.

There is, it is true, a great deal wrong with today’s world; but not everything is wrong. Indeed, modern society may not be as “sick” as many people would have us believe. Youth, with no experience of the past, assesses the present against an ideal of what things ought to be. Age, on the other hand, measures the present by conditions of which it has had first-hand knowledge. Here is to be found the true reason for the “generation gap”.

If one measures the present against the past, and not against a theoretical ideal,
modern Western society appears to have many admirable features. There is, for instance, far more freedom of expression, far more freedom to say what one thinks, than there ever was. There is probably more tolerance by authority of youthful protests and idiosyncrasies of behaviour than, say, thirty or forty years ago. At no previous time has there been greater concern for the less fortunate, more interest in so-called "poverty", a firmer resolve to alleviate suffering and distress. Courts and the police are exhibiting much more concern for defendants than was customary in the past. There is much more emphasis on reform and rehabilitation of criminals and far less on punitive measures. Who can doubt, for instance, that "capital punishment", even for the most heinous of crimes, is on the way out?

An affluent society is able to turn its attention from the mere business of providing all its members with a decent standard of living to the solution of problems of which the non-affluent society was, at best, only vaguely aware, and often even blissfully unaware. Australia, along with other democracies, is concerning itself with civil liberties far more than it ever did. The nation has, belatedly it is true, become conscious that there is an "aboriginal problem", and the determination is widespread that something should be done to correct a situation which does no credit to Australians.

We are placing — perhaps largely because we are able to place — far more importance on education than the pre-war democracies did. We are striving to bring about not only virtual equality of educational opportunity, but also the chance for everyone to become well, even highly, educated. There is broad acceptance of the principle that opportunities for advanced education should depend not on money but upon talent.

In numerous directions the frontiers of true freedom are thus being extended, the opportunities for individual self-expression and self-realisation advanced. Even the great increase in leisure, for instance, means that the individual has much more time in which he is able to choose how he will occupy himself and in which he is beholden to no one.

In industry, too, it is easy to overlook the vast improvements in industrial relations in two decades. The conditions under which people carry out their daily work, in terms of both the physical amenities they enjoy and their status and relationship vis-a-vis those that employ them, have improved out of sight. The hastily snatched sandwich lunch eaten on the pavement has been replaced by the modern industrial cafeteria providing good, nourishing food at cheap prices and the morning and afternoon tea breaks. The big-stick, standover boss belongs to the past. The new breed of bosses depend on getting results not by the threat of the sack, but by leadership and by winning the confidence of their employees.

The sense of "community responsibility" is far more highly developed today than it was only two decades ago. Few men in charge of great enterprises believe that they can conduct their affairs and pursue the profit goal without concern, at every step, with the national welfare and the public good. In today's industrial society, the employer who clings obstinately to old and discredited notions and who would re-assert disciplines based primarily on fear, has become an anachronistic, even pathetic, figure.

Looked at in this way, modern society is perhaps not as "sick" as some people seem to assume. The communications revolution has made people conscious of social evils and deficiencies of which, not so long ago, they would have had little or no knowledge. The things that are wrong excite more interest and have more
news value than the things that are right. Today's urban complexes have, admittedly, a long list of frightening problems with which to cope — air and water pollution, the despoilation of natural beauties, noise, traffic congestion and many others. That these problems exist, however, cannot always be attributed to lack of concern and responsibility in high places, nor to ignorance or apathy among the much-abused, comfortable middle classes; they exist quite largely because of the tremendously rapid rate of change in the world, particularly in science and technology, but also because of the explosion in numbers of human beings. New developments have been too fast to digest. Millions, for instance, have poured overnight into the cities because of the revolution in agricultural methods. The "big city" gives rise to frightening problems, which we are only beginning to recognize and to grapple with.

The educational revolution, too, creates perplexities of its own. An educated man is much more discriminating, less easily satisfied, than his uneducated counterpart. He wants to play a much bigger role in the scheme of things and in establishing the conditions under which he lives. He wants to be something more than just a cog in a production line or a clerk entering figures in a ledger, or even a supervisor of a highly complicated mechanism. The more we educate people the more must we expect their horizons to broaden and their ambitions to be harder to satisfy. The educated person is inevitably going to demand a bigger part in the making of decisions by which he is affected, whether these decisions concern his place of employment, the conduct of his industry or profession, or the way his country is governed. In the words of the popular song, the modern educated society tends to give rise to the paradox of "too many Chiefs and not enough Indians". The ancient Greeks believed that a few thousand people was the manageable maximum for a true participative democracy. The modern democracy must show that it can work smoothly with millions of "activists" taking part.

The greatest menace to today's democracy does not lie in the suppression of human freedoms or of civil rights. Although there is still a long way to go, by any standards of the past these have advanced immeasurably. It lies in the impatience, particularly manifest among a minority of the educated young, to jump all hurdles at once, to transform society overnight. This impatience leads to intolerance of authority, disrespect for experience and, ironically, to the use of undemocratic methods to advance democratic ideals. It is not freedom that seems to be in jeopardy, so much as public order and discipline. If public order is undermined and collapses into a state of anarchy, then freedom and justice will collapse with it. Laws and institutions need change; indeed, they must be in a process of constant change. But worthwhile changes cannot be brought about by violence or by methods which lead to a spreading contempt for the law as such. The responsibility for the avoidance of violence rests not only on the "trigger-happy", those who are over-prone to resort to force or the threat of force to achieve reforms which they believe to be necessary, and which may well be justified; it rests also on established authority. Established authority must stretch tolerance and forbearance to the limit, and avoid provocative responses against those who clamour for change. Above all, it must show an ever-present awareness of social ills and a determination to achieve their correction.

The postwar world, as we know only too well, and to our grievous cost, has been plagued by violence. The frightening upsurge of violence between nations
and also, unhappily, within nations is, indeed, by far the greatest of all problems confronting modern society. When men discard reasoned argument and moral suasion and resort to force to bring about reform, they undermine the foundations of civilised living and destroy the hopes of a better future.
A Visit To Bougainville

by C. D. Kemp, Director,
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THE beautiful, tropical island of Bougainville seems certain to become the scene of one of the great mining operations of the world.

In May, at the invitation of Conzinc Riotinto of Australia, I was privileged to spend three days at the site of the project. I should say that C.R.A. did not ask or expect me to write on the copper project. But the proposed mining enterprise has so many unique and fascinating features — its exceptional scale, the difficulties it is encountering in remote, precipitous, jungle-covered territory, the challenging and all-important need to win the support and co-operation of the local inhabitants — that one is inspired to say something about it.

The trip would have been worthwhile for the exotic beauty of the scenery alone. The island measures up to one's imaginings of a tropical paradise: a magnificent central mountain range rising steeply to peaks of around 9,000 feet, coastal plains densely covered with vivid, luxuriant, tropical growth, beaches and coves of great beauty fringed by palms and coconut trees. There are two active volcanoes whose cones ride high in the heavens.

In a helicopter trip over the area of the proposed mine and down to the coast over the intended location of the port, I doubt whether I have ever seen scenes of such breath-taking majesty and beauty.

Bougainville is some 130 miles in length, with an average width of about 30 miles. It has 60 to 70 thousand indigenous inhabitants. Bougainvillians, practically black in colour, are generally much darker than their neighbours on the Papua-New Guinea mainland. The people live in widely scattered
villages, mainly through agricultural pursuits and fishing, and speak about 20 different languages.

The great majority have been instructed in Christian concepts through the work of missionaries extending over many years. I was amazed to find that there were some 80 missions on the island, predominantly Roman Catholic but also Seventh Day Adventists and the United Church of Methodists and Presbyterians.

The missions appear to be the main source of education for the indigenes. In the Catholic primary schools alone there are over 10,000 students and more than 300 teachers. The missions have clearly played a major part in civilising and helping to open up and develop the country. Indeed, it is hard to imagine that a great modern industrial enterprise, such as the Bougainville copper project, would have been feasible without the foundations laid over probably the best part of 100 years by Christian missionaries.

The companies concerned with the development of the project have overcome almost insuperable difficulties in getting to the stage where, I believe, they are certain to establish a major mining operation. Already CRA and its associate, New Broken Hill Consolidated, have spent nearly $20 million in exploration and in assessing the extent, grade and character of the copper ore body, situated high in the Crown Prince Range.

What decided the companies to investigate the copper prospects on Bougainville?

In 1962 two government geologists engaged in mapping the area reported indications of a widespread copper deposit in the Panguna district. In April, 1964, CRA sent a team of four men to survey the area. To get to the site of the copper, the team cut their way through the jungle and used native tracks. It reported favourably and a major exploration camp was established. Until the road was built the camp was serviced by helicopters operating from the coast. A programme of diamond drilling was launched, the results of which have since been confirmed by bulk sampling made possible by two
major tunnels engineered by a New Guinea subsidiary of the Dillingham Corporation of the United States.

There is a low-grade copper deposit of vast extent, some where around one thousand million tons on present estimates, with a grade approaching 0.47% copper and 0.4 dwts. gold per ton. Economics demands that the ore be mined by open-cut methods, and this will be feasible. Experiments are being con-
ducted in the use of power hoses as a means of removing the volcanic over-burden. It has yet to be finally determined how the copper will be transported to the coast, and investigations are being made into the possibility of using hydraulic “slurry” methods to pump the ore co-concentrate to the coast, where it will be de-watered, dried and stored for shipment.

To bring the mine into production will cost about $300 million. As with the Hamersley iron project, two-thirds of the finance will be provided by borrowings largely from overseas financial institutions operating in the Euro-dollar market. The other third will be raised by equity capital. A fifth of the share capital will be taken up by the New Guinea Admini-
stration on behalf of the people of the Territory. The basis for the loans is an agreement reached by Bougainville Copper (the proposed operating company) with 7 Japanese smelters to supply nearly $1000 million of copper in concentrate form over 15 years, commencing in 1972. On present production plans the balance of the output over the 15 years is expected to exceed one million tons a year. No difficulties are antici-
pated in disposing of this output.

A dramatic pointer to the magnitude of the project is that the scheme contemplates the installation of a copper concen-
trator with a capacity of 80,000 tons of ore a day. Australia’s largest concentrator at present, at Mt. Isa, processes only 8,000 tons of ore.

The enterprise will bring vast economic benefits to the Territory as a whole, and to Bougainville in particular. In addition to the one-fifth share of the profits, there will be other sources of revenue for the Administration. It will receive royalties at the rate of 1 1/4 per cent of the export sales. It will obtain, too, substantial revenues from taxes on the profits of
Bougainville Copper. The possibility of making shares available for the indigenous people of the Territory is also being investigated.

Apart from all this, there would be great additional economic gains for New Guinea. The exports of copper from the mine would at least double the present total exports of the Territory ($143 million in 1967/8) with great benefit to its balance of payments. The establishment of a massive project of this character would be certain to lead to the development of ancillary industries of various kinds, and to further exploration activities. Many of the people of the Territory must stand to reap substantial economic advantages from the expenditures of those employed on the enterprise. Even now it is clear that Rabaul is benefiting from the CRA project. Many of the personnel connected with the mining development must be buying transistors, tape recorders, and other articles, paying hotel bills and expanding the business of Rabaul and other towns in the Territory.

I believe there will be other indirect economic benefits stemming from the mining project. One of these could be a strong impetus toward tourism not only in Bougainville — which has superb natural tourist attractions — but also in the Territory as a whole. This should follow from the development of fast, direct air routes and the provision of modern accommodation.

There are many difficulties to be overcome. One of the immediate problems lies in the comparative remoteness and primitive character of the island of Bougainville, and the lack of communications. Even today it is a long and tiring journey to reach the site of the project. From Port Moresby one travels in a Fokker Friendship for 204 miles across Papua to the town of Lae, then from Lae to Rabaul — another 400 miles. The standard of transport deteriorates the further one goes. From Rabaul to the village of Kieta on the Bougainville coast, transport is by a battered DC3 which puts down at the small island of Buka to the north of Bougainville before proceeding to Kieta — a total distance of about 270 miles.

When the project gets the green light, a first task of the company will be to establish more direct and rapid air com-
munications with the island. This will necessitate the building of an air-strip suitable for the landing and take-off of turbo-prop aircraft.

Another problem consists in the steep mountainous nature of the terrain, with tropical downpours which add up to an average of 240 inches a year. The company has already surmounted a formidable obstacle in constructing an 18-mile road from Aneura Bay on the coast to the mine area at Panguna and Barapinang. Because of the awesomely precipitous character of the country, there were some doubts whether this could be done. Engineers from the Snowy Mountains Authority were consulted and said that a road could be built in 3 months at a cost of $1 million. In the event, the road, which is unsurfaced, took 12 months to complete and cost $1 million. There are endless breath-taking hairpin bends which look highly dangerous, but so far there have apparently been very few accidents. Before full-scale mining operations are commenced, it will be necessary to construct a surfaced road, and surveying is already proceeding with this in mind.

The third, and greatest, problem facing Bougainville Copper concerns its relationship with the indigenous inhabitants. There seems to be a widespread impression that the Bougainvillians are strongly opposed to the operations of the company, and that in order to establish the mine it will have to interfere quite seriously with the traditional land rights of the inhabitants which extend back hundreds of years. In fact, the land rights of only a very small proportion of the local population will be directly affected. As for the Bougainvillians as a whole, it is difficult to define precisely their attitude to the project in view. My impression — that of an amateur in these matters — is that the opposition is not strong and with wise guidance will rapidly diminish when the benefits of the mining operation become increasingly apparent. At the moment, militant opposition seems to be confined to those directly affected by the mining activities. A week or so before my visit about 200 villagers pulled out some mining pegs marking the boundaries of the lease, rushed the surveyors' camp and grounded their tents. The surveyors made off as fast as they could. The Administration sent in officials to ex-
plain the position to the local villagers, and I understand the

camp has since been re-established.

More vocal opposition has come from the white
owners of a copra plantation, "Arawa", near the coast, which
has been resumed by the New Guinea Administration for the
site of the proposed port town for the mine. The owners are
contesting the Administration's decision. One has even rashly
predicted civil war on Bougainville.

An alternative site for the town was rejected by the Ad-
ministration who said that the area would not be suitable because
it would have meant displacing 900 indigenous people from
their cultivated land. In the plans for the port town, the
company is making provision for hospitals, schools and other
amenities for the indigenes.

There is no doubt everything possible is being done to
achieve the full co-operation and understanding of the Bou-
gainvillians for the project. Indeed, CRA has been criticised
by some of the permanent white residents for being too soft
in its treatment of the local inhabitants. However, the com-
pany policy is undoubtedly right and far-sighted. The com-
pany has even gone to the lengths of engaging the services of
an eminent Harvard anthropologist to report on racial tradi-
tions, customs and attitudes on Bougainville.

An interesting point is that the land covered by the min-
ing lease will always remain the property of the landowners,
consisting of some 1,000 men, women and children. The com-
pany must pay occupation and compensation fees to these
people. The occupation fee will amount to about $20,000 a
year during the life of the mine. When the mine is brought
into full production the landowners will receive an additional
$80,000 a year out of the royalties paid to the Administration.

Every employee of CRA working on the project receives
full instructions on the proper attitudes to adopt toward the
racial groups with whom they come in contact. CRA policy is
one of integration. An employee manual contains the follow-
ing sentences:

"Though expatriates face problems in fully understand-
ing the ways of the indigenous inhabitants, it behoves
A Visit To Bougainville (continued)

each and every one of us to endeavour, with good manners and good sense, to be able to contribute to the upwards growth of the people of the Territory of Papua and New Guinea towards nationhood."

"Any expatriate who does not accept the company policy towards integration has no place on this project."

"It should be clearly recognised that intolerance towards indigenes, without just cause, constitutes a breach of contract."

"It is essential that we, at all times, back up and encourage the indigene who is genuinely trying to find his feet in the integrated mess, canteen or other camp activities."

At present there are about 800 islanders employed on the project, along with 300 Europeans. The locals are engaged in a wide variety of activities. They have been trained to drive the trucks, land rovers and jeeps; a few are employed as clerks in the office; they cook and serve food in the messes; some are employed even in the experimental plant which is assessing the best ways to treat the copper ore. CRA will spend $200,000 in 1969 on training indigenes for positions demanding skill and responsibility. By 1973 it is expected to be spending $900,000 a year.

CRA is also providing scholarships for students to study at schools and colleges in the Territory and Australia. Communication between the Europeans and the locals is mainly through pidgin English.

Not so many years ago the Bougainville project — the development of a huge mining operation in a relatively remote, primitive, jungle-covered area and in physical terrain of surpassing difficulty — would not have been feasible. It has been brought within the realm of practicability by recent developments such as the high-speed jet aircraft, modern management information systems based on the computer, the use of massive earth-moving and other equipment in constructional and mining operations, and other technical advances.
It is also impossible to visualise the successful launching and establishment of such a complex project without the new development in large-scale business organisation known as the multi-national corporation. Just as in the last century the joint stock limited liability company — a means of pooling the resources of thousands of people — evolved to finance the new large-scale industries of the industrial revolution, so the concept of the multi-national corporation has arisen naturally out of the scientific progress and needs of the mid-20th Century.

The $20 million which CRA has already risked in proving the ore reserves and assessing the feasibility of the project will be dwarfed by the $300 million now required to establish the enterprise in its entirety. Exploration, proving and establishment costs of this order can be financed only by organisations with great financial reserves, and with access to international capital markets. The combination of scientific knowledge and technical know-how required for the operation will be supplied by large specialist companies, many themselves multi-national in character.

The efforts being made to overcome the difficult racial problems inherent in the location of the project, provide a first-rate example of the responsibilities which most multi-national corporations are accepting for being "good neighbours" in the areas in which they operate. The discerning visitor can have nothing but admiration for the courage, imagination, skill, and far-sighted enterprise which has brought the project to its present stage and which will be necessary for the ultimate realisation of this vast undertaking.
At The Crossroads In Social Welfare

AUSTRALIA has reached a critical point in the development of its social welfare policies.

Traditionally, the Australian system has concentrated on providing government benefits for those in need and encouraged the individual to make provision as far as possible for himself. This contrasts with New Zealand, Britain and other European countries, where social service benefits are provided for all regardless of their financial circumstances.

There has now developed a strong body of opinion which would have Australia move away from the traditional system of selective benefits towards one of universality where all become entitled to draw benefits from the State. This is apparent in the fairly widespread agitation for the removal of the means test on old-age pensions. The Leader of the Opposition, Mr. Whitlam, has pledged that a Labor Government would abolish the means test on pensions within six years.

The removal of the means test has become a popular catch-cry associated in the minds of most people with a substantial improvement in the standards of elderly people living in straitened circumstances. In fact, the abolition of the means test would provide benefits mainly for people already comfortably off. It would make more difficult the alleviation of the position of pensioners and others in real need.

Nearly 700,000 Australians receive a Commonwealth age pension financed out of consolidated revenue. 90 per cent of these people receive a full pension: $14 a week for a single person, $25 a week for a married couple. The remaining 10 per cent are on a part-pension because of earnings from employment, a business or profession, or because of income from investments. A married couple may receive up to a maximum of $42 a week before their part-pension finally cuts out.

As well as the pension, each age pensioner enjoys fringe benefits, probably worth about $5 a week. Commonwealth officials estimate that free health benefits and concessions on telephone rental and radio and television licence fees are worth about $3 a week to a pensioner. In addition there are State and municipal concessions for rail and tram fares, Council rates and the like. There seems little doubt that at the top end of the scale (i.e. where it is proposed to further ease the means test) the standard of living of married pensioners would be much higher than that of the family of an unskilled worker. The minimum wage is currently assessed by the Commonwealth Arbitration Commission at $35.15 a week. Bearing in mind the heavy debt burden and other commitments of a young family, many pensioners may be better off than great numbers of ordinary wage and salary earners.

In view of other urgent demands, such as education, on the nation's resources, the Commonwealth Government may
have already gone as far as, if not further than, is reasonable in easing the means test. But it does not necessarily follow that old people, disqualified by the means test from a pension, should also be disqualified from free medical, hospital and pharmaceutical services which can become a serious burden to even the well-to-do elderly sick. It has been officially estimated that the extension of free health benefits to all persons of pensionable age would cost the Government approximately another $20 million annually.

But any further easing of the means test to lift the money income of people already in fairly comfortable circumstances seems totally unjustified. According to a Melbourne University research study, there could be half a million Australian men, women and children living below the poverty line — the chronically ill, pensioners paying rent, deserted wives, large families dependent on the minimum wage of the breadwinner, and so on. These people must surely have prior claim on welfare benefits to elderly couples considerably better off than existing age pensioners and many wage and salary earners.

Those who support the abolition of the means test claim that many people who have worked hard and lived frugally all their lives are being unjustly penalised. They have paid more in taxes than the average man, the argument goes, and should be entitled to some recompense in their old age. But this tends to overlook the fundamental principle behind the progressive income tax, that is that the higher a man's income, the more he is able to contribute without hardship to the costs of running the country, of which pensions are only a small part. To pay a government pension free of means test to the relatively affluent, merely because they have paid heavy taxes, would run counter to the responsibility accepted by all democratic communities for raising the living standards of the lower incomes from taxes paid by the higher income groups. It has also been claimed that the means test penalises the thrifty and subsidises the spendthrift. But the means test is now so liberal both in regard to income and property, that it is possible for a part-pensioner to accumulate assets worth $50,000 or even more. Another argument for the abolition of the means test is that it discourages many capable people from contributing their special skills and knowledge to the work force as they are not permitted to earn more than $17 a week and still retain their pension and the important fringe benefits which go with it. There may be a case here for easing the impact of the means test on those able to earn over $17 a week ($8.50 for a single man) or at least ensuring that their right to fringe benefits is retained.

Most Australian male wage and salary earners, with a reasonable degree of skill or permanency in private industry, and certainly everyone in the government service, now has the opportunity to participate in a contributory pension scheme. Nearly 700,000 people in private employment and over 600,000 government employees are covered by private pension schemes of various kinds. Casual and seasonal workers and low-income earners can look forward to a non-contributory

The Means Test

The rate of age pension depends on a pensioner's annual income from paid or self-employment, and including an assessed 10 per cent of the value of all property above $400 — excluding a home and contents, a car and certain other assets. A person's assessed means may consist entirely of income, entirely of property, or a combination of both. A married couple, both of whom are pensioners, may earn up to $17 a week between them, plus another $1 a week on their investments, and still receive the full pension of $25 a week. Under the means test the pension is progressively reduced until at a combined weekly income of $42 a week, it ceases entirely.
government pension, supplemented by a further private income if they choose to save for retirement or engage in part-time activities after retirement. The encouragement to private saving in Australia — through liberal government assistance to buy a home, and through tax concessions for life assurance and superannuation contributions — is among the most generous in the world.

Australia has been recently singled out by a leading University economist for the fact that we are one of the few countries in the world that still retains a means test on pensions. But most economies without a means test, which are held up as a model for Australia to follow, have different social and political traditions and attitudes. In Europe, for instance, there is a far more pronounced element of paternalism both by government and industry. Here, with our strong individualist traditions, people are encouraged to be more self-reliant in providing for their own future. Australia is a young country, with the majority of its population under 30 and with vast physical resources in process of development. The European prescription of universal social services for a well developed and ageing society and heavy channelling of savings to government funds, seems inappropriate to Australia where most people are in a position to make their own provisions for retirement and social welfare, and where private developmental capital is so scarce.

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DURING the past year, the financing of hospital and medical services has also become a major political issue, with the Opposition leader, Mr. Whitlam, again in the vanguard of the advocates of change. Mr. Whitlam would scrap the present system of voluntary health insurance operated principally through seven large "Blue Cross" Benefit Organisations and 30-odd Friendly Societies. The Voluntary Funds pay about one-third of their members' hospital and medical bills, the Government provides another third by way of subsidy. Members of funds, pensioners or others receiving medical and hospital benefits, comprise about 85 per cent of the Australian population.

Mr. Whitlam proposes that a Commonwealth Health Insurance Commission be established, drawing its revenues from the Government and insurers under third-party and workers compensation policies. This Commission would fully finance ward treatment, without a means test at a public hospital, and "out-patients" would be encouraged to consult salaried staff of the hospitals for a "nominal fee". Those consulting doctors in private practice would pay their bills in the usual way and receive a refund from the Commission, or the doctors could send their accounts to the Commission in bulk. In both cases, 15 per cent would be deducted for administration costs.

Mr. Whitlam claims that a compulsory health insurance contribution to the Government, equal to a 1¼ per cent surcharge on income tax, would secure for the average income earner comprehensive medical and hospital cover at half his present after-tax contribution to voluntary insurance funds. He states that on 1965/6 figures, those with incomes 50 per cent above average would pay 3 per cent less than their present contribution and those on twice-average incomes, 50 per cent more.

Not unexpectedly, Mr. Whitlam's ideas have drawn strong criticism from the Voluntary Health Insurance Funds and the Australian Medical Association. A recent booklet, written for the Office of Health Care Finance by Mr. R. J. Turner, Director of the Hospital Contributions Fund of Australia, puts forward "The Case Against Compulsion". Mr. Turner states that voluntary insurance provides a more equitable mechanism for "pooling" (i.e. spreading the burden of health costs
of the unfortunate minority who are sick or injured over the great majority of currently healthy) than is available under a system of direct taxation. Mr. Turner calculates that Mr. Whitlam's proposed surcharge of 1 1/4 per cent on taxable income would result in an over-all increase of 8.12 per cent in the rate of personal taxation. It would particularly affect the middle-income earners already being taxed far more heavily than any other Western country except Sweden.

The Australian Medical Association has trenchantly criticised Mr. Whitlam's health plan in its regular weekly journal, and in a special pamphlet, "Paying for Health Care". The A.M.A. warns that the standard of health care would inevitably run down under a Government Health Service because of competing claims on government revenues. The A.M.A. says the lessons to be learned from British experience of a government health scheme are, "the inevitability of rising costs due to over-utilization of free services; the inevitability of an underpaid, dissatisfied profession; the probable flow of medical graduates to other countries where medical practice offers a better life; decreased expenditure on hospital construction and maintenance; and the possible lowering of standards of patient care".

The A.M.A. contends that health care in only one of life's basic necessities, and the principle of self-responsibility should be encouraged in medical care as with other consumer spending. It believes that an impersonal State medical service can never be a satisfactory substitute for the personal doctor-patient relationship: "Hospital doctors would be nationalised from the start, and doctors in private practice would be fighting a losing battle against direct hospital-based competition."

The A.M.A. concedes some of Mr. Whitlam's complaints about the excessive costs of voluntary insurance and the prevalence of under-insurance and hardship on low income groups, but believes these defects can be remedied. It fails to see that a government bureaucracy could substantially reduce the present operating costs of the voluntary Funds. The Funds have a total staff of about 6,000 and a comparative salary scale which appears to be lower than in the public service.

The recent report of the Nimmo Committee of Enquiry into Health Insurance states that administration costs under voluntary insurance could be reduced by a wider sharing of responsibilities between the parties to the schemes. This leads the Committee to recommend, for instance, that employers with establishments of seven or more employees be required to deduct standard rate medical and hospital insurance contributions and remit them to a chosen organisation. To overcome the problem of under-insurance, the Committee suggests that families in need be assisted by the Commonwealth to meet their hospital and medical insurance contributions.

It is impossible to canvass in a short article all the arguments that have already emerged from the debate between the protagonists for and against compulsory provision of retirement and health benefits by the Government. But they all seem to come down in the final analysis to a discussion of the respective merits of selective benefits and voluntary arrangements on the one hand, and universal benefits and compulsion on the other.

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BRITAIN is becoming increasingly disillusioned with State-provided universal benefits. The Welfare State has not given birth to a new trouble-free society. On the contrary, many attribute the recurring difficulties of the British economy to the astronomical burden which the Welfare State is imposing on the taxpayer.
Expenditure on social services in Britain has doubled over the past decade, and is now costing about £7,000 million a year, half the total tax collections and a fifth of the national income. But it is estimated that at least half this money is going to people who could dispense with it and pay privately for medical attention and other social welfare services. An estimate by the Central Statistical Office suggests that people on lower to middle incomes in Britain are paying about as much in rates, taxes and social insurance as they receive back in social benefits; social welfare has not resulted in a notable redistribution of income from the “rich” to the “poor”.

Leading authorities in Britain are now calling for cuts in State-provided social services and increasing provision through private arrangements. A recent report commissioned by the British Medical Association advocates a mixed system of medical and other social services for Britain, part-public, part-private, along the lines of the Australian system. The report says, “The strengths of the evolving Australian method lie in its central principles — encouragement of self-dependence, maintenance of direct financial link between patient and doctor or hospital, competition between voluntary insurers, avoidance of direct government influence — which would be abolished or at risk in a compulsory, tax-financed, semi-governmental system.”

The author of this report, Mr. Arthur Seldon, a respected economist and a specialist in social welfare policies, also recently stated in a newspaper article that although Australia spends only 7½ per cent of her national income on Government Welfare compared with 10 to 15 per cent in most other Western countries, she does more good with it. Seldon praises Australia as a country where “people who need social benefits get them: those who don’t, don’t... Australia helps the man who helps himself. He is not spurned as a social pariah who wants to jump the queue, get ahead of the Joneses, engage in a rat-race or commit other crimes of haute couture sociology.”

“The Economist” (London) of January 18, 1969, goes so far as to advocate that State old-age pensions financed from general revenue should, during the 1970's, be paid only on proof of need (only a minor part of the age pension in Britain is financed by direct flat-rate payments from contributors). “The Economist” says other welfare benefits should be treated in the same way.

In an increasingly affluent society, the Australian emphasis on selective rather than universal benefits has much to commend it. This concentrates the direct responsibility of the Government on the poorer sections. But the rest of the community is still assisted indirectly through grants to hospitals, subsidies to voluntary health insurance funds, and liberal tax concessions for contributions to life assurance and superannuation funds. Experience with the British system of universal benefits for all, regardless of the circumstances of the recipient, must surely cause Australians to hesitate before they lightly abandon their present system in favour of an alternative which leads to the all-embracing Welfare State. Maximum “welfare”, it needs to be understood, is not by any means synonymous with the Welfare State.

The British system of universal benefits, by definition, is incompatible with efforts to give most help where there is most need. “Across the board” pensions, and services in such areas as health and education, merely spread the butter too thinly to bring material help to those who need it, and appear out of place in a youthful, vigorous, rapidly-developing Australia.
New Publications from London

The I.P.A. has stocks of the following new publications of the Institute of Economic Affairs, London. They will be of value to companies, public servants, libraries, universities and students of public affairs.

"The Enterprise Ethic" P. 166 Price $2.50
By Octave Gélinier

The author is a leading French scientist, engineer and business consultant. He writes in a penetrating way about the principles of competitive business and the market economy. Innovation can only be carried out by profitable firms which invest a part of their surplus. New ideas, research and development are the best ways of ensuring progress and future profitability. The future belongs to the international companies, carrying on a large business in many countries. State enterprises do not lend themselves to international extension and seem bound to be confined to a single country, thus renouncing the leadership of their industry.

"After the N.H.S." P. 44 Price 80 cents
By Arthur Seldon

The author has written a great deal on the need to reform welfare services. He recently studied medical care in a number of countries and found critics of its operation wherever he went. Mr. Seldon believes the days of a "free", tax financed National Health Service are numbered. With rising incomes people in all countries seem to want individuality in medical care and welfare services, as well as wider choices in ordinary everyday and household consumption.

"Choice: Lessons from the Third World" P. 52 Price 85 cents
by Peter Du Sautoy

The author is an expert on the developing countries, which he calls the "Third World". He says the developing countries are best helped by teaching their people to help themselves.

"Politics and Economic Growth" P. 64 Price 95 cents
By Graham Hutton

Mr. Hutton is one of a small group of economists who have refused to jump on the band-wagon of economic fashion and political popularity.

North Americans are only 1 in 16 of the world's workers, but they produce 1 part in 3 of the world's output, i.e. they are 5 or 6 times as productive. This is due to many factors — more productive capital and electricity per worker, better methods and better management, a political system favouring private enterprise, private investment and private profits, and to a social system which restricts public intervention in the economic sphere to a minimum compared with Western Europe.
If Britain had used her productive capital and labour nearer to her optimal potential, she would never have had a balance of payments crisis. British productivity of both labour and capital is the lowest in Western industrial countries; but with up-to-date management, mobility and flexibility, it could be among the highest. Big investments of new capital are not necessary.

By A. A. Shenfield

The author is a former Director of the recently formed Industrial Policy Group in Britain. He was also Economic Director of the Federation of British Industries.

"Towards an Independent University"  P. 32  Price 85 cents
By Prof. H. S. Ferns

The author, a Canadian, states a strong case for establishing an Institution of higher education free from government control and financed by private individuals, industry and trusts. Many of Britain's difficulties stem from the poor quality and inadequate education of the administrators, organisers and transmitters of knowledge. There is a place for at least one university which is prepared to say what its students need to study in order to prepare themselves for a creative and responsible place in the modern world.

"Paying for T.V."  P. 60  Price $1.25.
By Sir Sydney Caine

The author says that independent television in Britain has been very profitable. The ideal future system would be one in which all television services, whether provided by the BBC or by commercial contractors, were provided through pay-television receivers and financed by a combination of payments by viewers on the basis of time spent in viewing and the sale of advertising time. The television licence fee would be abolished.
Inflation and the International Monetary System

by

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The author is the representative of Australia, New Zealand and South Africa on the International Monetary Fund and World Bank.

Mr. Stone is a West Australian Rhodes Scholar. At Oxford, he took a First in Politics, Philosophy and Economics. He joined the Commonwealth Public Service in 1954, and spent some years in London as the Australian Treasury Representative.

In 1962 Mr. Stone was promoted to Assistant Secretary in charge of the newly created Economic & Financial Survey Division of the Treasury in Canberra. This Division has been largely responsible for a series of White Papers on important economic topics which appeared between 1964 and 1966 under the prosaic title of "Supplements to the Treasury Information Bulletin". The April/June, 1966, issue of "Review" described the Treasury Supplement on the Australian Balance of Payments as "the finest piece of applied economic analysis produced in Australia since the war".

In this article Mr. Stone deals with the impact of the world-wide inflation of the last two decades on the world monetary system.

The article is largely based on an address given at Ohio State University, Columbus, Ohio, on February 13th this year.

The world of full employment which most of the industrialised economies entered nearly 30 years ago has been marked by change at a pace probably never before encountered over so sustained a period. At least until recently, there has also emerged a growing confidence that, by contrast with earlier times, this pace can be sustained. Yet the fruits of this revolution have not been sweet in all respects. Nowhere perhaps have they been more suspect than in the monetary field. Domestically, all nations have found themselves confronted with similar problems of continually increasing monetary costs and prices. In turn, these domestic problems have spilled over into the international monetary field.

It is perhaps only within the past 18 months or so that public attention has been directed towards the latter field to any considerable extent. Yet the some-
what dramatic events which have caught the public eye within that period have had their origins much earlier.

Everyone who, like myself, was completing his high school days just after the Second World War will recall the anxiety which prevailed generally at that time. Everyone feared that the war-time boom would be succeeded, perhaps after a few years' "false prosperity" during the readjustment period, by the kind of post-war slump by which, throughout all history, wars had been succeeded.

It is now merely commonplace to recall that in fact the problems with which most countries found themselves contending in the late 1940's were not problems of deflation, high unemployment, and spectres of that ilk, but precisely the opposite problems of over-full employment, spiralling price and cost levels, and attendant difficulties, of the most severe kind, with the external balance of payments. The International Monetary Fund, brought into being with such high hopes at Bretton Woods as an instrument for ridding the world of restrictions on international payments, found itself in a world of currency inconvertibility, widespread bilateralism and currency and trading blocs.

The "system" of international payments enshrined in the Articles of Agreement of the I.M.F. required each member country to establish a parity for its currency against gold, thereby of course implicitly establishing parities against the currencies of all other members. The member was to maintain those parities within its own territories within specified margins by buying or selling, as the case may be, its own currency against the currencies of other members. In a system of n currencies, there would however be only (n-1) exchange rates. The continued willingness of the United States authorities to buy or sell gold freely against dollars in transactions with other monetary authorities at the official price, fixed in 1934, of $35 per fine ounce, provided the essential n\textsuperscript{th} exchange rate without which the system could not function freely.

The Articles of Agreement did not, however, envisage that any of these national parities against gold, once established, would necessarily remain fixed for all time. On the contrary, careful provision was made for any country to change its parity against gold (and hence against other currencies) once it had become clear that a "fundamental disequilibrium" had emerged in its external account. Provision was also made for the parities of all currencies against gold to be changed at the same time, should that, for whatever reason, become necessary.

It is probably fair to say that those who framed the Articles did not envisage, or at any rate hoped to avoid, frequent recourse even to the first, and certainly to the second, of these provisions. However, they were too realistic not to know that, just as man proposes and God disposes, so international bureaucrats may propose but national Governments will, in the end, dispose of the parities of their own currencies. In passing, I may observe that that is a reflection which may be generalised in regard to other aspects of the international monetary system, and which a good deal of the more abstract discussion of these matters today appears to overlook.

However that may be, the "system" broadly assumed that at least the major members would so manage their affairs that parity changes would be, to say the least, infrequent. Faced with temporary balance-of-payments' difficulties members were expected to draw on their own international reserves and/or amend their internal policies so as to rectify the external imbalance. In support of such measures, they might have recourse to short-term borrowing (drawings) from the Fund under conditions of policy surveil-
lance increasing in severity with the relative magnitude of the drawing.

The period of immediate post-war transition saw in most countries an inflationary boom of the kind which the policy makers, at least to the extent that they had read their economic history, might have foreseen. As a consequence principally of the differential effects of the war upon the U.S. economy, on the one hand, and most other economies, on the other, there followed next the widespread round of currency devaluations associated with the devaluation of sterling in September, 1949. Next, and while domestic price levels all round the world were still in process of adjusting to those events, there came the shock of the Korean war. The sharp increase in defence expenditures, including raw material stock-piling, which was associated with the outbreak of that conflict, led to a renewed burst of inflation more or less throughout the world.

From about 1952 onwards all these traumas were behind us. It was beginning to be recognised that the policy stance of governments in the post-war period had leaned too far in the expansionary direction, and had taken too little account of the possible inflationary consequences. It was still possible to believe, however, that with a more balanced approach to these questions we could indeed enjoy the social and economic fruits of full employment while retaining the generally accepted benefits, also social as well as economic, of price stability.

Experience, however, did not bear out these comfortable expectations. In the United States economy, on the one hand, employment was less "full" than was generally judged desirable. Indeed it could be said that it was not until 1965 or thereabouts that the U.S. economy really entered upon a regime of sustained "full employment" of the kind which most other industrialised countries had experienced during most of the post-war period. The record on prices was more variable. During the 1952-60 period it was by no means bad, and by latter-day standards now appears positively heroic. Even so it was by no means all that had been hoped. Between 1952 and 1960 consumer prices rose, on average, by 1.4 per cent per annum (and wholesale prices by nearly one per cent per annum). Meanwhile, however, unemployment rose, on what had all the appearance of an inexorable trend, from 3.0 per cent to 5.5 per cent of the work-force. Clearly, something was wrong here.

On the other hand, although the problems in most of the other industrialised countries were of precisely the opposite kind, they were none the less disquieting for that. Here one has to resort to generalisation; but subject to that qualification, one might say that while these countries found little difficulty in maintaining full, or even "over-full" employment, most of them found very great difficulty indeed in maintaining anything resembling price stability. Their attempts to do so gave rise to the phenomenon described, perhaps somewhat unjustly, as "stop and go".

For a brief period in the first half of the 1960's there was, in the U.S.A. at least, a kind of "golden age". The U.S. economy grew strongly under stimulatory policies; unemployment fell steadily but not so fast as to produce labour shortages; and with productivity rising fast as a consequence, prices were virtually stable and the trade surplus benefited accordingly. By 1965, however, the large pool of unemployed resources with which the economy had entered upon the 1960's had been drained; and as already noted the United States began to encounter, really for the first time, the problems with which by this time most of the rest of us had long been grappling without conspicuous success.

Since I am principally concerned here with the implications of inflation for the
Inflation And The International Monetary System (continued)

international monetary system, I will not dwell upon the extreme intellectual pain, and the predictable search for economic nostrums, which all this caused. Among other things, it gave rise on a world-wide basis in the early 1960's to the thesis that the solution lay in “indicative planning” à la the French — a view owing more, I may say, to the power of fashion upon economists and those who ape them than to any very acute analysis of actual French experience. Another such fashionable and rather longer-lived incantation conjured up about this time was “incomes policy”, and various governments have since busied themselves invoking this particular piece of witchcraft with predictable lack of success. The extreme exponents of the “growth” school simply said that what was important was maximising “real” output (which curiously enough they identified with the statistical increase of G.N.P. at so-called “constant prices”); so that, if even quite rapid inflation was part of the price to be paid for that, we should all have to bear it with such equanimity as we could muster*. But perhaps the most typical reaction, and undoubtedly the most enduring, was the shrug of the shoulders. This has, if I can put it that way without offence, been since dignified by the development of the Phillips Curve and the doctrine of the “trade-off”, in any given economy, between “desired” rates of inflation and unemployment levels.

I have emphasised the words “in any given economy” because, of course, different economies, or rather the different governments which are responsible for managing those economies, may and almost certainly will have different views as to what the appropriate “trade-off” for their own economy should be. Those views can, of course, also vary from time to time — depending in particular upon whether or not an election is in the offing — and from one governing party, or even one Finance Minister, to another. The essential point is, however, that once price stability has been tacitly more or less abandoned in this way, then policy objectives in different major economies may be set, explicitly or unspokenly, in terms of “not more than 2 per cent (or 3 per cent, or 4 per cent) annual inflation”. We are then faced immediately with the consequence that, unless these objectives happen to coincide as between countries (which we cannot expect), it will not be very long before relative international exchange rates, assuming them to have been “right” at the outset, will no longer be so. Broadly speaking, the countries with the higher “trade-off points” on the price increase axis will commence to experience balance-of-payments’ difficulties.

The first line of defence a country has when its balance of payments weakens is, of course, its own reserves. Here too, however, inflation has its effects. With continuing growth in the volume of world trade and payments one could expect countries in any case to require growing levels of reserves if they are to preserve the same relative capacity to absorb balance-of-payments’ strains in that way. Inflation, however, exacerbates the problem.

With costs continually rising, not only does new gold production inevitably decline, but if the price remains fixed an increasing amount of new production finds its way into industrial and artistic use and private hoards. (I leave aside for these purposes the additional and, in these circumstances, predictably increasing demand for purely speculative holdings). At the same time as the new increment to monetary gold reserves is being progressively diminished, the rise in

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*Note that by “quite rapid inflation” I am speaking only of rates of price increase of as “little” as, say, 3 per cent per annum. In 75 years (roughly, a man’s lifetime) such a rate will raise prices to a level roughly 8 times their original level.
the prices of internationally traded goods and services, and in the money value of any given international capital investment, increases pari passu the money value of international transactions and reduces in a related fashion the adequacy of the existing stock of reserve assets. On all sides cries about "the liquidity crisis" begin to resound.

The onset of more or less continuing inflation in the post-war period has thus not only produced a situation in which, other things being equal, relative exchange rates are almost bound to get out of line over a period of time, but also in which the first defence against the resulting strain on countries' balances of payments, the use of reserves, has been weakened by the erosion of "real" reserves by inflation. In the absence of actual parity changes, one would expect therefore, within the rules of the game, to see a greater need for reliance on internal measures of adjustment.

Yet a little more reflection may raise doubts whether in this field of adjustment also inflation has not taken its toll. There may be — to me, there do appear to be — grounds for thinking that in most industrialised economies a given set of restrictive internal measures taken today has less effect than the same set of measures would have had if taken (say) ten years ago.

The most obvious example is in the field of interest rates. Ten years ago, rates of over 7 per cent on triple A bonds would have produced in the U.S.A. a stock market crash, a more or less complete cessation of housing construction, a drying up of sales on instalment credit, and in short, a sharp recession to say the least. Today the market has "adjusted" to such rates. We have all become much more "sophisticated". Only those still suffering from a kind of "cultural lag" believe any longer in holding money, beyond the minimum cash balances required for everyday solvency. The distinction between "nominal" interest rates and "real" interest rates is becoming increasingly widely known. In passing I cannot help noting that this particular example of the "generation gap" has its cruelest effects precisely upon those least able to protect themselves — the old, the poor and the ignorant.

The effect of inflation upon interest rates, however, is but a particular example of a more general phenomenon, the change in both personal and entrepreneurial expectations. In the early post-war years, and indeed, albeit with diminishing force, until very recently memories of the 1930's lingered. Debts were not contracts to be entered into lightly. Though prices might still rise secularly over time, they did fall in particular periods. Interest rates did go down as well as up. Labour did become more freely available as well as less so. Stock-markets did plunge as well as soaring dizzily. Bankruptcies did occur. Currencies were still, in the words of the old text-books, a store of value as well as merely a medium of exchange.

Today, however, we are nearly 25 years into the post-war period, and nearly 30 years past those fearful pre-war years. Those whose minds were shaped by the experiences of those years, whether their personal experiences or those of their parents, are a steadily declining proportion of our communities. Quite literally, they are a dying race. Within the totality of decision-making, small and great, which goes to shape the outcome within our private enterprise societies, the "weights" have therefore been shifting steadily towards the new men (and increasingly, women) whose memories and hence whose expectations are quite different.

As an aside I may remark that those who are fond of analogies between domestic and international monetary mechan-
isms — for example, between domestic credit creation and international reserve creation — may do well to consider the consequences of importing world-wide national inflations into their model. May it not be that, in their renewed preference for gold, central banks over recent years have been doing no more than reflect, in their international attitudes, what has for some years now become increasingly apparent in the attitudes of individuals in their national investment behaviour? — namely, a desire to avoid so far as possible simply holding currency or indeed any obligation issued by or under the control of governments and hence subject to the policies of governments?

In the matter of internal policies also the adjustment process is thus today beset by the corrosive effects of inflation. Interest rates are everywhere higher than ten years ago, and require to be moved more sharply to obtain the same effects. Government bonds are everywhere discarded. Because, as a consequence, governments find it increasingly difficult to borrow genuinely, they are forced to resort either to borrowing falsely (that is, creating more money) or to further increasing taxation. A third alternative, reducing government expenditure, has few charms for them — and indeed, although cases differ from country to country, in many countries the case for increasing government expenditures, taken in isolation, is by no means without merit. Yet nowadays consumers everywhere seem less inclined to adjust their expenditures to cuts in disposable money incomes resulting from tax increases. Pressures for offsetting wage and salary increases intensify; consumer credit in all its manifold forms expands; and in brief the response of the economy to any given "touch on the brake" suggests that a good deal of the fluid has leaked out of the brake lines.

Analogies may often be misleading, and in any case the one I have just used has been much over-worked, and should perhaps be put out to pasture. To continue it for a moment, however, one might see this "brake fluid" as confidence — confidence in the worth of currencies, confidence in the words of governments and international institutions, confidence in the public statements both of elected and appointed public servants. It is unfortunately undeniable that the leakages of the fluid of confidence in all these forms during recent years have been serious, cumulative and in the light of experience entirely justified. The consequences for domestic policy formulation have been matched, moreover, in the field of external monetary policy. Just as currencies have declined in standing domestically as a store of value, so have they (with one or two notable exceptions) externally.

With inflation thus cutting at the roots of the two accepted means of adjustment to external imbalance (reserve use, and internal restrictive measures), one might have expected to see both increased net recourse to the resources of the I.M.F. (to eke out inadequate reserves) and perhaps to rather more frequent parity changes.

Recourse to the resources of the Fund has indeed grown to some extent. Chiefly, however, the financing of major reserve losses over recent years by countries within the Group of Ten has taken place outside the Fund. The principal mechanism for such financing has been the central bank swap network. A number of reasons, some of them more credible than others, have been advanced for using that mechanism rather than the Fund. Without much doubt, however, the principal reasons have been two-fold: the unwillingness of the countries concerned to submit themselves to the Fund's procedures of policy surveillance; and the hope that, by use of the swap lines rather
than open drawings from a Fund, the facts might be better concealed from the public and the gravity of particular situations be less generally appreciated.

There have, of course, been some parity changes, of which the devaluation of sterling and some other associated currencies in November, 1967, were the most notable. It is true, however, that contrary to what the preceding analysis might lead one to expect, the non-events in the field of parity change have been more notable than the events. Incidentally, since the conventional wisdom has it that the most notable such non-event of recent times has been the decision of the German authorities last November not to revalue the Deutschemark upwards, it may be appropriate if in passing I enter a demurrer from that fashionable view. I saw (and see) no need or reason for such action; nor do I believe it would have been desirable for the German authorities to seek an answer to other countries' problems by a change in the price of their currency.

The absence of parity changes, or the obvious delays in making them, have led some critics to allege that we no longer have a system of merely "stable" exchange rates, but one of "fixed" exchange rates. Such a view goes, I believe, too far. Yet it undeniably contains a considerable element of truth.

Contrary to what many have suggested, the growth of this behavioural characteristic does not stem, at any rate in my view, from some recent upsurge of overweening national pride on the part of governments. Rather, it stems from the fears that some governments now have as to the consequences for their own parities should the parities of others be amended. It is thus associated with, and finds its common origins in, the same springs of motivation which have led to the setting up, outside the Fund, of the central bank swap network referred to earlier.

At this point, however, with all the generally accepted alternatives under the rules of the game either diminished in effectiveness through inflation or inhibited in their usage through fears for confidence, what is left? Up to date, at any rate, all that has been left has been to break the "rules". Resort to restrictions, which in the case of the U.S.A. began most notably with the introduction of the interest equalisation tax in 1963, has therefore continued apace and has doubled and redoubled since that time. Increasingly, even not very thoughtful people are beginning to notice that there is nothing more permanent than the "temporary"; that in the eyes of other countries a "voluntary export restraint" has a smell as sweet as a mandatory import quota; and that the words of official apologists are no longer conforming to the deeds of their authorities. The question has even been voiced as to whether the ends may not be being sacrificed to the means. As a bureaucrat myself, I know how much bureaucrats — international as well as national — detest the asking of such questions. They strike at the very root of institutional infallibility and must therefore, if at all possible, be exorcised, bell, book and candle.

Wherein lies the remedy or remedies? One remedy, of course, is to stop inflation. By this I do not mean to turn back the inflationary clock, which would probably require a world-wide depression with the gravest economic and indeed political consequences. Rather I mean, to stop the hands of the clock from moving even further round the price dial.

As to that, it will be fairly and truly retorted that it is easier said than done, a statement with which naturally one can only agree. However, such agreement in no way lessens the need for doing it; but I would have to concede that I am not very sanguine that it will be done. Naturally, I hope to be proved wrong.
The remedies that will be sought — or be thrust upon us — may therefore quite possibly take other forms. One view, for example, is that since inflation "cannot be stopped", it must be financed. Internally, such a view implies a willingness on the part of the central bank, when in the last analysis it is faced with the choice between creating money and creating a few bankruptcies, to choose the former. In external policy terms, the acceptance of such a view implies a somewhat similar choice. However, to enable that choice to be made, it is first necessary to import into the international monetary system mechanisms for international reserve creation similar to those which, within our domestic economies, are used for domestic money (or if you prefer, credit) creation. Some kind of international counterpart to the national printing press is, from this viewpoint, required.

We therefore stand today at a crossroads. One road leads to domestic price stability and a restoration of reasonable calm and stability to the international monetary system. The other road continues up the hill of national price and cost inflations — a hill the gradient of which shows signs of growing ever steeper, and over the brow of which we cannot see. The first road, which some would say is not a road but merely a mirage, is certainly not without its bumps. The second road certainly has a more smooth and beguiling appearance; yet I fear that the top may reveal not a brow but a precipice. Since we have to choose, I think I will choose the devil I know.