Inflation—Confusion Over Causes

If we are ever to get a grip of inflation, we have to be clear about the causes. An effective cure depends on an accurate diagnosis.

Here there is confusion. Cabinet Ministers, press commentators, and even some economists repeat ad nauseam that rising prices result from wages and salaries increasing faster than productivity. It needs no unusual powers of perception, or knowledge of economics (a grasp of simple arithmetic will suffice) to see that this is the main immediate cause. But what we must be concerned to uncover are not the immediate causes of inflation but the deep-seated, root causes.

First, however, it should be said that wage and salary increases are not the only immediate cause of higher prices. Higher costs for imports are clearly another. Lower export returns for primary products associated with home price support schemes may result in higher domestic prices. Higher prices for other exports, for example beef and zinc, mean higher prices on the domestic market for these commodities. Increases in sales tax and excise duties on such things as cars, beer and cigarettes, result immediately in higher prices to the consumer. Increases in company tax and payroll tax are reflected in higher prices. Increases in charges by governments and their business undertakings for T.V. and radio licenses, postal and telephone services, water, fares and many other things have directly increased the cost of living. They also add to business costs and thus to prices.

Prolonged strikes in key industries and the under-utilisation of plant capacity mean that overheads have to be spread
over a smaller volume of output, thus increasing unit costs and selling prices. Wage and salary increases are thus not the only immediate cause of rising prices, though they constitute the main element.

We must now ask ourselves how far wage and salary increases which exceed productivity gains are a cause of inflation in their own right, and how far they are merely a secondary response to less obvious causes. To an important extent, wage and salary rises are a cause in their own right — especially so at the moment. It would be quite wrong to argue that there are no elements of what is now called "cost-push" in recent price increases. But it would be equally wrong to argue that wage and salary increases are the only cause, or that our inflation is entirely "cost-push".

If the diagnosis is pursued further, it becomes clear that rising incomes are often a natural response to other factors. When this occurs, they are part of the inflationary process itself, not a cause of it.

A general scarcity of labour, or even of particular types of labour, will produce a rise in the "price" of labour. A great part of the wage and salary increases of a year or two ago were the result not only of union pressures, but of employers competing for a shortage of workers from skilled artisans to office secretaries. The spiralling of over-award payments at the time is clear evidence of this. Admittedly, increases in award payments were granted by wage tribunals, but these increases had their chief source in the widening disparities in wages paid to different classes of labour and even to the same classes of labour in different industries, as a consequence of above-award payments. This was certainly the reason behind the now notorious 6 per cent National Wage Judgment in December 1970. Thus, the root cause of inflation at that time was not incomes exceeding productivity, but over-full employment, that is, excess demand. Moreover once excess demand has developed, its inflationary effects may continue long after the excess has been corrected. Thus, many of the wage increases in 1971 had their genesis in the disturbance of relativities which resulted from the spiralling of over-award payments in 1970.

In an economic climate of excess demand inflationary wage and salary rises will inevitably occur. But this is not the whole of the matter. Other conditions which virtually guarantee
inflationary wage and salary increases, will arise where governments, year by year, are expanding their claims on the resources available and increasing their taxes and charges to make their claims effective. (Over the past decade the public sector share of total national expenditure has risen from 29 to 33 per cent at the expense of personal consumption and private capital investment).

When governments add to prices in this way, thus raising living costs, they must expect increased pressures for higher incomes as wage and salary earners try to retrieve their position. Moreover, taxes and charges which act directly on prices are often accompanied by increased taxes on personal incomes: so the people are hit at both ends: living costs soar at the same time as there is less money in the pay envelope. Such an environment will inevitably result in a great intensification of the pressures for higher incomes. People, as Keynes pointed out, become accustomed to an habitual standard of consumption. If that standard is threatened they will take steps to try to protect it.

The reason for increasing taxes and charges is to be traced partly to expanding government expenditures to meet glaring deficiencies in community facilities, from hospitals and schools to roads and sewerage. In turn, these deficiencies stem, in the main, from a rate of population increase that the economy cannot digest properly, and so suffers serious inflationary discomforts.

Thus the pressure for higher incomes comes not only from the "Oliver Twist" desire for more, but from the understandable concern of the people to hang on to the living standards they have achieved.

From this diagnosis it follows that to curb inflation, we must create an economic climate in which the pressures for wage and salary increases—which will always exist—are reduced to a minimum. This means, first, keeping total demands in the economy from exceeding supplies with acute shortages of labour and increasing over-award payments. And, second, it means avoiding conditions in which governments feel compelled to make expanding claims on the resources of the community and, in so doing, leave less resources for satisfying the improvements in standards of personal consumption which are the natural wish, if we are to be frank, of us all.
The New I.P.A. President

Mr. Wilfred Deakin Brookes, D.S.O. has accepted the position of President of the Institute of Public Affairs at the invitation of the I.P.A. Council. He succeeds Mr. F. E. Lampe who becomes Immediate Past President. Since the I.P.A. was established nearly thirty years ago, it has had only two previous Presidents. The Foundation President, Sir George Coles served from the establishment of the Institute in 1943 until 1957. Mr. F. E. Lampe was President for fourteen years from 1957 to 1971.

Mr. Brookes is widely known in Australian finance and industry. He is Chairman of Associated Pulp & Paper Mills Ltd. and Colonial Mutual Life Assurance Society Ltd., and a Director of other important companies including Alcoa of Australia Ltd., North Broken Hill Ltd. and Western Mining Corporation Ltd.

Mr. Brookes served in the RAAF during 1939/45. He was decorated with the D.S.O. and mentioned in despatches. He commanded a Fighter Wing in New Guinea and was subsequently Director of Postings, RAAF Headquarters.

Mr. Brookes has always had a great enthusiasm for the work of the I.P.A. He brings to the Presidency an exceptional knowledge and experience gained from many years service over a wide field of Australian business.
Inflation Battle

The rise of 2.3 per cent. in the Consumer Price Index in the December quarter sent a shock-wave of alarm through the community.

The announcement of the increase on January 20th was accompanied by a warning from the Federal Treasurer on the growing menace of inflation. Inexplicably, the text of the Treasurer's statement, one of high national importance, received scanty treatment in most of the daily newspapers.

Mr. Snedden's comment contained two highly significant features. The first was its summary rejection of the "scare" pictures of the economy and the unemployment position given in recent months by the media, many economists, some employers, and, not unexpectedly, by trade union and political leaders—the last-named for obvious purposes of gaining political mileage. The comment by the Treasurer is worth quoting at length.

"With all this in mind, it is necessary to say something about the various alarmist opinions which have been so freely expressed in recent months as to the state of the economy in general and the labour market in particular. Charges such as 'recession' and even 'depression' have been freely asserted from many quarters. So far from being in recession, the economy is basically sound and is growing quite strongly. Gross national product can be expected to show an increase of over 4 per cent. in real terms in 1971-72. If that is to be described as a 'recession,' words have lost their meaning."

The second noteworthy feature of the Treasurer's statement lay in its emphasis that the battle against inflation was one for the whole community, not just for Government. "It is fair to say that no democratic Government, of whatever political complexion, can deal effectively with this grave matter unless it has the broad support of the community." The fight, Mr. Snedden said, will not be easy, "for those charged with the hard decisions involved. These include not just the Government, but others such as wage tribunals, union leaders and employers." He could have added those who play a major role in forming opinion and shaping public attitudes—the press, radio and television.

This was clearly not an attempt by the Government to lay the blame for inflation at every door but its own—which it seemed to be doing only a few months ago. It was a plain statement of an economic truth. The task of beating out the fires of inflation is one for the whole community. It is absurd to think that government alone can do the trick while the community goes its own sweet way. If inflation is to be overcome, new and different attitudes will be required of employers, trade unions, wage tribunals, State and local governments and government instrumentalities, not to mention the communications' media.

Leadership, self-discipline and example will be demanded of all the main sections of the nation. Unless they are willing to play their part in the battle to defeat inflation, the Commonwealth Government will be like a general whose army is not prepared to fight. The Government, though, would be well advised to spell out, in unmistakable terms what is re-
quired of each section of the community if the battle is to be won and the victory then maintained. This might take the form of a television address to the nation by the Prime Minister.

Employers, for the time being, will need to pursue the utmost moderation in their pricing policies. It might be claimed that the declining level of company profits in recent years suggests that over a good part of the field this is already being done.* Moreover, unavoidable increases in costs, resulting from wage rises unmatched by productivity improvements, or from higher government taxes and charges, must, in the main, be passed on. If they are to continue to attract the capital necessary for the expansion of their enterprises, employers are left with no alternative. Nevertheless, the times are such that a special effort should be made to keep price increases to the minimum compatible with inescapable business necessities. The maximisation of profits should, for the time being, take second place to the need for overall economic balance.

The trade unions have a clear responsibility to moderate their wage and other cost-increasing claims. They should face up to the truth that wage and salary rises far in excess of productivity gains are really not genuine rises at all: or, if some sections gain benefits, others must lose. Those who lose are, in the main, not employers or investors but fellow workers (including the hundreds of thousands of those in retirement) less favourably placed to enforce their demands. Whatever they are saying for public consumption about wage rises bearing no responsibility for price increases, trade union leaders know in their hearts that this is not true. Unless union officials are prepared to give a higher priority to the national interest, and to educate their members in the simple relationship of wages, productivity and prices, inflation will go on. The reduction of work stoppages and threats of work stoppages will, needless to say, be another test of how far the trade unions are prepared to cooperate with government and the rest of the community in achieving the goal of price stability.

The role of wage-fixing authorities is, of course, crucial. While fair-minded people will readily concede the special difficulties the tribunals have faced in recent years—largely because they have been operating in an environment of over-demand with spiralling above-award payments—it must be said that these bodies have not, in general, given sufficient weight to economic needs and the effect of their determinations on the cost and price structure. If anything close to price stability is to be achieved in the future, wage authorities must recognise, unequivocally, that productivity improvement is the limiting factor in non-inflationary wage awards. While the Commonwealth Government has argued, in case after case, for the acceptance of this principle, it has not made the task of wage tribunals easy by allowing conditions of excess and ill-balanced demand to develop.

The communications' media have a role of signal importance in the war against inflation. Public opinion and public attitudes are largely formed by what the people read in their papers and hear on their radio and television sets. Unless the media are prepared to undertake a proper share of responsibility by educating and guiding the public in a balanced way, the task of the Government will be rendered virtually impossible. The media, regretfully it must be said, have been more concerned to stir up controversy, to create feelings of alarm and disturbance through the community by presenting sensationalist accounts of the economic situation than

*Over the last three years net company profits as a percentage of shareholders' funds have fallen: 1968/69 — 8.7%; 1969/70 — 8.5%; 1970/71 — 8% (est'd).
to paint a balanced picture. This has no doubt played a part in the gloom which has overtaken business psychology in recent months and in the surprising reluctance of consumers to spend. Criticism of policies and personalities is a legitimate and necessary function of the media, but criticism carried to extremes is irresponsible criticism, destructive of the public interest because it distorts understanding of the real issues. The reporting of economic developments in current affairs programmes on T.V. is often such as to be very close to mischievous trouble-making. As the Treasurer said, in his statement on the December Consumer Price Index rise, one never hears the good things that are happening, only the bad. “Good news, it seems, is no news.”

With an election pending later this year, it has been argued that the Government has no alternative but to provide a strong stimulus to the economy, in other words, to re-create what would be, in effect, an inflationary climate of over-employment and excess demand. This would mean that the Government could only assure its return to office by acting in a way opposed to the best interests of the nation—if true, a sad commentary on the democratic process. Perhaps it is not true. The Government might bear in mind that once resistance to inflation is relaxed, what it could gain on the political swings could be lost on the roundabouts. Notwithstanding the difficulties created for it by the media, the Government might be well advised, for political reasons alone—even forgetting for the moment where its true duty lies—to place the defeat of inflation above all other objectives.

While the Commonwealth Government cannot beat inflation on its own, it must bear full responsibility for the strategy and direction of the battle. In this task, it is entitled to ask for, and indeed must secure, the full support and co-operation of the remainder of the public sector—State and local governments and government and semi-government undertakings. The I.P.A. has never wavered in the view that the first and all-important step in combating inflation must be a sharp reduction in the rate of increase of public sector spending, which has increased, and continues to increase, at a much faster rate than private spending. The private sector, not the public, has been required to bear the brunt of any attempts to bring supply and demand into balance.

At this time last year, it appeared that the Commonwealth had accepted, belatedly, the necessity of arresting the strong growth in government claims on resources. In a T.V. address to the nation in January, 1971, the then Prime Minister, Mr. John Gorton, said, “We believe our first line of attack should be to ensure not only a restraint of government expenditure but a reduction in government expenditure this financial year.” Later in his address, Mr. Gorton got close to the heart of the reason why government rather than private spending should bear the main brunt of any expenditure cut-backs. He said, “By reducing the demand of governments, more is made available to meet the demand of private persons.” The fact is that heavy government spending, particularly on capital projects (as in the Australian setting) puts a brake on the rate of improvement in personal living standards. In doing so it gives rise to an atmosphere of smouldering discontent throughout the community. This eventually results in an intensification of claims on wage tribunals and employers (government as well as private) for increased wages and salaries. The cost-push pressures on the economy are thus greatly aggravated.

The modus operandi for increasing public sector spending is higher taxes and charges at all levels of government—personal and company income taxes and indirect taxes at the Commonwealth level, State taxes of various kinds, local Council rates and such things as fares,
water rates, postage and telephone rates, gas, electricity, hospital and other charges by the multitude of government instrumentalities. Faced with increases in all these directions, it is scarcely surprising that the mass of the community try to retrieve their position by clamouring for higher wages and salaries. The genesis of cost-push pressures in the economy can thus be traced, at least partly, to the expanding claims of governments on the resources of the economy.

In the first Snedden Budget, some concession—pitifully small—was paid to the need for curbing government spending at the Commonwealth level. However, the main emphasis of the Budget strategy, which provided for increases in personal and company and indirect taxation, was directed at expenditure in the private sector. This, we believe (and said so at the time) was a serious blunder. While, as the Government is now claiming, its policy has curbed demands in the private sector, it will do little to relieve the pressures on the cost side. The main contributions to higher prices in recent years have been coming not from goods and services supplied by private enterprise, but from rising taxes and charges imposed in the public sector. Of the rise of 2.3 per cent. in the December quarter, about half was directly the result of increased taxes and charges largely imposed in the 1971/2 government budgets. Faced, on the one hand, with reduced take-home pay (because of the increase in personal taxation) and, on the other, with higher prices (because of indirect taxation), increased State taxes and local rates and higher charges for fares, water, hospital attention and for practically everything else in the government sector, the mass of the people react in a predictably human fashion. They respond to this situation by demanding higher incomes.

Had the Commonwealth Budget provided for a substantial cut-back in government spending and had the State governments, in the weeks that followed, not acted irresponsibly by greatly increasing their own expenditures, these pressures would have been avoided. In fact, the net outcome of all government expenditures in the current year will be to increase substantially public sector claims on total resources.

We could not agree that the current unemployment position calls for the material increases in government expenditures decided upon at the Premiers' Conference of February 14th. At a time of rapid inflation, and with unemployment little or no greater than the long-term average, it is strange doctrine, surely, to introduce emergency measures to provide for a large expansion in government spending. Some financial assistance to the States was justified, but the net effect of the decisions of February 14th must be to strengthen the inflationary tendencies inherent in an economy where government claims on resources are already so large.

The I.P.A., however, supports the rise in unemployment benefits and the restoration of the industry investment allowance—the latter largely on the grounds that it should help overcome the lack-lustre psychology in business circles.

Rather than provide for such big increases in government spending, the Commonwealth might have been better advised to reduce the present 5 per cent. levy on personal income tax to 2½ per cent.—in other words, to the pre-1971/72 Budget position. While this may not have had such an immediate impact on employment as expanded government spending, it would carry the important advantage of taking some of the steam out of the pressure for higher wages and salaries which is the immediate cause of current inflationary difficulties.

It is no good crying over spilt milk, but had the Commonwealth Government refrained from imposing such large increases in taxes in the last Budget, and
adopted a much sterner attitude towards the growth of government expenditure at all levels, the present situation might have been less critical. As it is, the structural bias of the economy toward inflation has been strengthened. This bias, to which we have drawn attention on many occasions in the past, is inherent in an economy where, because of a too rapid growth in urban population, governments are virtually compelled to constantly increase their demands on available resources through raising taxes and charges of all kinds in order to meet inescapable capital expenditures. The strategy of curbing government spending was accepted by the Commonwealth Government at the beginning of 1971. Over the last 12 months this strategy has suffered a resounding defeat, the reparations for which may have to be paid in the continually rising bills of inflation.

The economy will need to be very carefully watched in the months ahead to guard against the re-emergence of excess demand with over-full employment. The Prime Minister rightly concluded his statement to the Premiers’ Conference with the words, “In this respect we have a narrow path to tread. We must tread it.”

But no Government policies will succeed in arresting inflation, and, at the same time, provide the basis for healthy growth, unless employers, unions, wage tribunals and indeed all sections of the community display a greater awareness of their responsibilities in the delicate and difficult task of maintaining economic balance.

“BETTER LIVING—THE KEY IS PRODUCTIVITY”

Over 37,000 copies of this booklet produced by the I.P.A. and the Productivity Promotion Council have been sold to some 200 companies for employee distribution. Both the I.P.A. and the P.P.C.A. feel that many more companies could put this booklet to good use among their work forces. Among the large orders received are the following:-

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F. L. Fitzpatrick C.B.E.

IT IS WITH deep regret that we record the death of Mr. F. L. Fitzpatrick.

Frank Fitzpatrick’s association with the I.P.A. extended over 15 years. He joined the Council in 1957 and immediately became a member of the Executive and Editorial Committee. His contribution was invaluable. He was able to bring to the work of the Committee an experience gained over many years in the development, from small beginnings, of a most successful industrial enterprise — Rocla Industries Ltd. Mr. Fitzpatrick was one of Victoria’s most respected businessmen and his advice came to be sought by many other companies. In 1958 he was appointed Chairman of Nylex Corporation Ltd. He was also a director of a number of other leading companies.

Mr. Fitzpatrick had a special interest in the promotion of higher standards of industrial management. He was at one time President of the Australian Institute of Management and in 1966 was awarded the John Storey Medal for distinguished services to the development of scientific management in Australia.

Frank Fitzpatrick’s special value to the Institute arose not only from his keen interest in national affairs, but also from his first-hand, intimate experience of the production line. He had a quite unique understanding of the ordinary Australian worker, his attitudes, his interests and way of thinking. This was of great value to the I.P.A., particularly in the production of “Facts”. To all the draft material for this publication he applied the stern test of whether the articles could be understood by the people to whom the message was directed.

Perhaps Frank Fitzpatrick’s two outstanding qualities were his transparent honesty and his compassion for the less fortunate. It is no sentimental indulgence to say that in the Rocla enterprise he was not merely greatly respected, but loved at all levels in the Company, from plant operators to fellow-members on the Board. This is surely the high watermark of real achievement.
Strange Economics

The President of the A.C.T.U., Mr. R. J. Hawke, describes the present economic system as "bloody crazy." He said this in a question and answer interview reported in "The Australian Financial Review" of February 4th. The question which evoked this startling response was whether a Prices and Incomes policy would be a solution to the current inflation. The burden of Mr. Hawke's reply was that such a policy would be equivalent to applying a little liniment to a gravely ill patient when drastic deep-seated treatment was needed. Mr. Hawke left no doubt that his solution for inflation was to do away with our Western-type free enterprise economy and replace it with socialism. As most people seem to be in confusion about what modern socialism really is, it is a pity that the questioner did not follow through by asking for some elaboration.

Curiously, a little later in the interview, Mr. Hawke shifted ground about the need for a revolutionary change in the economic system by saying, in effect, that inflation, in itself, was really not a problem at all. Rising prices didn't matter; all that was required was for the authorities to protect those who were powerless to protect themselves against the consequences of rising prices. The main thing was to ensure that pensions and other social service benefits kept pace with the increases taking place in average community earnings. Then, presumably, nobody would suffer and inflation wouldn't matter. "What you've got to concentrate on," said Mr. Hawke, "is growth ... you've got to have growth to increase real rewards ... inflation doesn't matter so long as you have growth."

Let us look a little closer at these two propositions; first, that the present system is "bloody crazy."

In light of the spectacular gains in living standards of the great mass of people over the last quarter of a century, one wonders whether the system can be quite so crazy as Mr. Hawke asserts. The facts have been repeated almost ad infinitum but apparently they cannot be stated too often. Let us, therefore, look again at just a few of these gains.

Similar gains have been recorded in all countries with systems based on free enterprise. On the other hand there is no evidence whatever of improvements of a remotely comparable character in socialist countries. While some advances in living standards are being made in the socialist economies, these advances lag far behind those of the free enterprise countries and indeed the socialist economies continue to lose ground year by year.

No fair-minded person would, however, claim that the free enterprise systems are working perfectly. They have numerous problems—some of them grave—but then so do the socialist economies. Pollution and environmental disorders, for instance, are by no means exclusive to the Western world.

An expert on air pollution in the Soviet Union, Dr. Peteryanov-Sokolov, in a recent newspaper article, said, "In our country, as in other countries, the problem of pollution of the environment really exists." In his article, Dr. Peteryanov-Sokolov made no mention of the pollution of Lake Baikal which has become...
The World Bank states that the estimates of GNP per capita for the Socialist countries have a wide margin of error mainly because of the problems in deriving the data and converting it to U.S. dollars. The data for some Western countries, particularly the United States, could be over-stated (relative to other countries) because fixed exchange rates do not ideally measure the purchasing power parities of international currencies.


**RISE IN LIVING STANDARDS—AUSTRALIA**

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**SOURCE:** Publications of the Commonwealth Statistician.

such a grave national issue that it has been the subject of high-level decrees for some years now, so far without appreciable effect.

Dr. Peteryanov-Sokolov, asserts however, that environmental troubles are less serious in socialist countries than in capitalist. If this is true, it is almost certainly because technological and industrial progress is so much further advanced in the free enterprise economies. The countries which are suffering most severely from environmental problems seem to be those enjoying the highest living standards.

The gravity of these problems should certainly not be under-rated, but it is pertinent to ask how many members of the A.C.T.U. would be willing to exchange their lot for that of the workers in the U.S.S.R. or, for that matter, in any of the East European economies.

Mr. Hawke implied that under socialism inflation would cease to be a
serious problem. No doubt cost and price rises can be kept to a minimum in systems where there is direction of labour and rigid controls over workers' incomes, prices, production and consumption. The costs however, in terms of productivity, enterprise, living standards, not to mention personal independence and freedom, are exceedingly heavy. We had experience of this in Australia during and immediately after World War II. Shortages and rationing were the order of the day as they are at present in most of the socialist regimes.

It is not easy to gauge the extent of inflation in socialist countries as United Nations' publications do not publish price indexes for most of these countries. However, the 1970/71 Annual Report of the Bank of International Settlements suggests that G.N.P. price deflators indicate an annual rate of inflation of at least 3 per cent. in Russia. In the satellites such as Poland, Bulgaria and Eastern Germany it is at least 2 per cent.

What of Mr. Hawke's second point that "a reasonably high rate of inflation" is an unavoidable concomitant of rapid economic growth? This being so, he argues that the sensible thing to do is not to slow down growth but to protect those people who can't protect themselves against rising prices.

This is strangely reminiscent of an idea that threatened to gain fairly general acceptance in the 1950's—namely that inflation doesn't matter. This notion was shortly to be emphatically rejected by institutions such as the I.M.F. and the O.E.C.D. as well as by practically every reputable economist in the world. The conception that growth would proceed more rapidly under conditions of some inflation than with price stability was also flatly dismissed by our own Federal Treasury in a special White Paper and in its Annual Surveys of the Economy.

The trouble with "the inflation doesn't matter" view is that it doesn't specify how much inflation doesn't matter. Is it 2 per cent. a year, 3 per cent., 5 per cent., or perhaps even 10 or 20 per cent.? While an economy may be able to accommodate to a modest rate of increase in costs and prices, it can hardly contemplate with equanimity an inflation rate of 7, 8 or 10 per cent. Once, however, it is generally accepted that even 2 or 3 per cent. doesn't matter, opposition to inflation relaxes, and the rate begins to accelerate. In other words, to keep inflation down to a modest gait you must take price stability as an ideal and strive with all your might and main to achieve it.

Once the word gets around that the authorities are not greatly worried about inflation, then everyone will base their financial planning, business and personal, on the expectation that inflation is going to proceed rapidly. In doing this they will, in effect, make certain that it does. With the world as it is, absolute price stability, like peace, may be a forlorn hope but it is, nevertheless, an ideal which we must hold constantly in view if there is to be any sense at all in the ordering of human affairs.

The idea that you can protect everyone against the consequences of inflation and achieve justice for the lower incomes is just not practicable.

In a climate of inflation the weak are sure to get hurt. Money ceases to perform its traditional role of being a store of value and there is a flight from money into tangible assets; some are far better placed to take advantage of this situation than others. With values changing rapidly, the smart operators, those with special knowledge and connections, those who own property and have capital to spare can usually protect themselves and, indeed, make undeserved gains. Among the wage-earners, members of powerful unions might reap advantages at the expense of their fellow workers. Moreover, how would lower income earners who put their savings in bank deposits and life insurance policies, be protected
against falling money values? The people Mr. Hawke is concerned to shield from the consequences of inflation would inevitably lose out.

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In another part of the interview Mr. Hawke was asked whether it was the aim of the A.C.T.U. to increase the share of wages in the national income. He replied "the way we think about life is just to make sure that we don't fall behind." He claimed that in the 1966 National Wages Case hearing his arguments obliged certain members of the Vernon Committee to retract the Committee's findings that the share of wages in the national income remains fairly constant over a period of time.

Mr. Hawke maintained that if farm income and depreciation were "taken out" of the national income (presumably he meant gross national product) the share of wages in the national income declined between 1953 and 1966. Admittedly, a table can be constructed from the Australian National Accounts published by the Commonwealth Statistician, showing that wages and salaries declined as a proportion of the national income between 1953 and 1964 (the largest figures available in 1966). But since then the share of wages and salaries has risen again.

<table>
<thead>
<tr>
<th>NATIONAL INCOME (EXCLUDING PERSONAL FARM INCOME) BY TYPE OF INCOME</th>
<th>1953/4</th>
<th>1963/4</th>
<th>1970/1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries</td>
<td>69.1</td>
<td>67.1</td>
<td>71.0</td>
</tr>
<tr>
<td>Personal Income from dwelling rent</td>
<td>2.1</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Public trading enterprises Income</td>
<td>1.1</td>
<td>3.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Net Interest, etc., paid by trading enterprises</td>
<td>2.5</td>
<td>4.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Company Income</td>
<td>12.3</td>
<td>11.6</td>
<td>8.9</td>
</tr>
<tr>
<td>Other Income—professions, self-employed, etc.</td>
<td>12.9</td>
<td>10.2</td>
<td>8.3</td>
</tr>
</tbody>
</table>

The apparent decline in the share of wages and salaries between 1953/4 and 1963/4 cannot be attributed to an increase in the share going to company profits. It was clearly due to a steep rise in personal income from dwelling rent imputed to home-owners (the vast majority of whom would be wage-earners), the surpluses of government business undertakings and higher interest charges.

However, tables showing income shares are quite irrelevant for the purpose for which they have been used in wage hearings. They do not show the workers' share of the national income. They merely indicate what part of the proceeds of production is paid in a particular form, not what is paid to a particular section of the community. For instance, wages and salaries exclude the large "labour" element in the incomes of self-employed persons and include the incomes of executives, senior public servants and others engaged on administrative as distinct from manual and routine clerical work.

In view of the capital intensive nature of much modern industry — investment averages about $15,000 per worker and is increasing all the time—one would expect that the share of profits would tend to increase by comparison with the share of wages. As the table shows this has not occurred and shareholders are in fact receiving a lower rate of return on the money they invest—8 per cent. on
invested funds in 1970/1 as compared with 10¼ per cent. in 1953/4.

Mr. Hawke seems to have a curiously old-fashioned, almost 19th century concept of the free enterprise economy. A half century or so ago the direct benefits of profits were limited to a comparative few. Mr. Hawke apparently assumes that there is a hard-and-fast dichotomy between wages and profits, where all non-wage incomes (i.e. dividends, rent and interest) go to one section of the community and wages to another. This is clearly an out-of-date conception in today’s economy, where share ownership is spread over the millions and share registers are dominated by the large holdings of life companies, pension funds, unit trusts, charitable and other institutions, which spread the benefits of profits widely through the community.

There is a further aspect of this which seems to have escaped Mr. Hawke. If the profit share were substantially reduced, then productivity improvements, which are the ultimate source of higher real incomes for wage-earners and other sections of the community, would of course be retarded: industry would be deprived of resources needed to take advantage of modern technological advances and to improve and expand its capital equipment.

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Mr. Hawke’s laudable goal of achieving real gains in living standards for the mass of workers is not likely to be advanced by sloppy economic reasoning, or by obstinate adherence to what must be by now discredited socialist concepts. This objective will be achieved only if he and other leaders in the community bend their energies toward making the free enterprise economies, which have proved so productive, work still better, and toward the correction of the serious side-effects of modern technology. Sound economic thinking and a genuine respect for the human factor based on the principle that “industry is for people not people for industry,” are the two essential ingredients. Mr. Hawke seems to have the latter and he is capable of the former. It is up to him.

* * * *
Wages and Prices

An argument gaining increasing credence (in connection with the curbing of inflation) is that wages are fixed whilst businesses are left free to charge whatever prices they wish; it is unfair, the argument runs, to expect the mass of the community to accept control of their incomes while profits remain uncontrolled.

On a number of occasions the Institute has given what we believe to be a convincing rebuttal of these propositions. However, so much confusion continues to surround the matter that our readers may appreciate a brief restatement of the I.P.A.'s views.

1. Wages are not fixed. Award rates for different classes of labour are determined by the various industrial tribunals. These are minimum, not maximum rates. Actual wages are far above the minima and are set by market forces—namely, the supply and demand for various types of labour. There is also the growing prevalence of "consent awards" where a wages authority merely ratifies agreements on wages and fringe benefits voluntarily reached between employers and unions. In addition, while minimum rates for various skills are determined by wage-fixing bodies, individuals are still free to increase their incomes by acquiring greater skills, or by rising to positions carrying added responsibilities, or by working overtime.

2. In any case, the claim that wages are fixed but profits are not, ignores the distinction between these two types of income. Wages, for most of those employed in industry, are a guaranteed reward. A wage or salary earner knows, with some degree of certainty, what his minimum yearly income will be.

Profits, however, are far from certain. Thousands of businesses go bankrupt every year. Few companies are able to estimate, with assurance, what their profits will be at the end of the year, still less for a period of years; so many unpredictable factors can and do upset the best calculations of the accountants. We have seen this illustrated recently in the mining industry where prices have fallen and anticipated deliveries to overseas buyers have been scaled back.

Every economist knows that profits are the reward for risk; those who choose to invest their money in industry incur this element of risk.

3. The argument that wages are controlled and that, therefore, in the interests of equity, prices and profits should be likewise, assumes there is
one section of the people who receive their incomes in the form of wages, and another and entirely different section who receive income from company dividends.

This assumption has no relevance to the modern Western economy. Shareholdings in to-day's "affluent society" are widely spread throughout the community; many wage and salary earners hold shares and participate in company profits. However, the main investors in industry to-day are not individuals, but large institutions which marshall the savings of the millions—life assurance societies, employee pension funds, investment companies and many non-profit foundations and charitable organizations. Few people to-day do not benefit, in one way or another, from company dividends.

4. Profits largely determine the level of capital investment in industry. If profits are inadequate, industry is unable to attract funds for the expansion of its activities and the introduction of advanced technologies. Unless people can expect a return on their investment, over and above what they could obtain from gilt-edged, fixed-interest securities, they will clearly not be prepared to put their money into ventures which necessarily carry a degree of risk. Also, if companies are precluded from making adequate profits, they will be unable to pay satisfactory dividends and, at the same time, plough back earnings into the business to raise efficiency and expand production. Excessive profits cannot be justified on any count. But where the risks are great as in oil and minerals exploration, there must be the hope of high rewards if capital is to be attracted into these fields.

The whole community must stand to gain from a fair and reasonable level of profits. Enterprise will be encouraged, the growth of industry will be accelerated, and productivity enhanced. Far more job opportunities will be created and living standards will rise much more rapidly.

The freedom of business to determine its prices is really the central feature of the economic systems characteristic of all the Western countries, where people enjoy living standards far in advance of those in economies where no such freedom exists.
THE AMERICAN DISCONTENT

The Crisis of American Liberalism

by

D. A. KEMP

David Kemp received his formal education at Scotch College and Melbourne University. After graduating with a B.A. (Honours) and LL.B., he lectured for two years in International Relations and Comparative Government. He has just returned from three years spent in the United States where he did post-graduate studies in Political Science at Yale; he is at present completing his doctorate. He now holds an appointment as Lecturer in Political Science at the University of Melbourne. David Kemp is the eldest son of the Director of the Institute of Public Affairs.

AMERICA is not so much one country as many countries; its complexity seems to defy comprehension. As soon as you believe that the key to understanding is within your grasp, some new experience pushes it away. Almost every generalisation can be challenged by its opposite; and a plausible enough case made for both. For this reason it is necessary to be especially wary of the visitor, who, after a brief stay, assumes he is qualified to hold forth on all aspects of American life. An appropriate scepticism is to be encouraged—towards this article as well as others.

America is in a trough of deep discontent. Among the sources are the part failures of the great reform laws of the Johnson administration and the Vietnam war. The discontent has taken the form of an attack on the set of political attitudes which motivated these policies—a set of attitudes which can be summed up under the heading, "American liberalism." These philosophies have found spokesmen in some of the most famous American leaders of the last twenty years—Adlai Stevenson, John F. Kennedy, President Johnson and Nelson Rockefeller among them. Liberal attitudes have been held most influentially among the upper-middle class of the North-east, and have found continued expression in newspapers such as "The New York Times" and "Washington Post," and in the editorial approach of the three main television networks, CBS, NBC and ABC. Until the present disillusion, liberalism was really the American approach to social and international problems.

The main vantage point from which I have attempted to understand America for the last three years is Yale University. Although one of the elite academic institutions and therefore not typical, Yale provides a good perspective from which to view American life. On the one hand, it has been in no sense isolated from the main forces which have shaken American society in recent years. On the other, from an institution such as Yale one can see, perhaps in clearer relief, deeper currents in American life often submerged by the surface flows of sensational current happenings.

New Haven, in which the University is set, is a city which has had for many years a nation-wide reputation for progressive reform. For long a model of what can be achieved under enlightened and liberal administration, the city, however, now stands also as a warning of the limitations of the accepted approach to the nation's urban and poverty problems. Few city administrations have been as successful as the New Haven government.
in obtaining funds from Federal Government programmes for urban reform. Where New York has struggled to get $50 per capita from the Federal Government, New Haven has obtained over $400. Yet, despite these huge funds not only has New Haven many problems yet unsolved — among them the failure to adequately replace the housing pulled down during urban renewal — but it would scarcely have been feasible to have provided other cities of a similar or larger size with funds on a comparable scale. To have done so would probably have cost something of the order of 150 billion dollars. Nothing could illustrate more vividly the limitations of wealth alone in the solution of social problems.

American Liberalism

Appropriately, for an institution located in such a town, Yale's approach to social questions may be described as liberal. Since the content of "liberalism" in the United States changes from decade to decade, it can best be defined by reference to attitudes to a number of key issues. In respect of foreign affairs, to be liberal in the United States now means to reduce the American role around the world — especially in Vietnam and in Europe, rather more so than in the Middle East. This is a sharp change from the liberal "internationalism" established under Dean Acheson and President Truman just after the Second World War, and carried as the liberal position up to President Johnson. Disillusion with the war in Vietnam is probably the primary reason behind the change. By 1968 the debate on Vietnam appeared to have ceased at Yale, and I do not recall having once heard the basic issues of the war discussed in my time there. Between 1965 and 1968 most American liberals had decided that withdrawal was the only desirable policy — and not all worried about the costs.

In domestic policy there had been some changes in the content of American "liberalism," though these were not so dramatic as in the foreign policy field. Since the New Deal, the primary domestic posture of liberalism had been one of activist reform through the use of Federal power. Whether the problem was one of racial discrimination, urban decay, unemployment, inflation, poverty or pollution, the tendency has been to seek a solution through the application of Federal money and Federal Law. Not only did the Federal Government seem the logical instrument for nation-wide reform, but it had the capacity to mobilize resources on a much greater scale than any other institution. Through the Federal Government, over a succession of administrations, members of the liberal upper-middle class have sought to re-make many aspects of American society to conform more closely to their widely shared conception of what is good.

Two aspects of the liberal approach to domestic reform should be emphasised. First, it is an activist approach. Unlike the 19th century liberals who believed in the long-term beneficence of spontaneous social processes, the mid-20th century American liberal is so conscious of the defects of undirected social activity, that sometimes the value of spontaneous change is overlooked.

The second characteristic of twentieth-century liberalism in America is its belief in the power of the State to remould society. Both these characteristics are embodied in the approach to racial discrimination under President Johnson. Through the Civil Rights Act and other legislation the leaders of American liberalism have sought to cajole and coerce a somewhat truculent society into a more morally justifiable attitude to blacks. That their efforts have had considerable success is clear. Yet the policy has not been without its costs — among these a growing hostility to the upper-middle class reformers among those whose behaviour is being "reformed"; the lower-middle and working-class white residents
of suburbs where blacks can afford to buy under open housing laws; the lower-middle and working class occupants of jobs who now have black competition under anti-discrimination job laws; and lower-middle and working-class parents whose children attend public schools integrated under court orders. Part of the discomfort of the American middle-class liberal is undoubtedly due to the realization that the personal burden of the reforms he recommends must be borne largely by others—an uncomfortable position indeed, and one which political leaders such as George Wallace, and (more respectably) Spiro Agnew have not been slow to point out.

Liberal Programmes in Trouble

Not only has the moral ambiguity of the position of many liberal reformers probably contributed to a weakening of self-confidence, but the failures of some of the main reform programmes have cast the whole approach into doubt. Only five years after its introduction, President Nixon was able to call President Johnson's much-heralded—and often imaginative—War on Poverty a national disaster; and few dissented. One of the most serious criticisms of the programme was the effect of the welfare provisions on the poor black family. The welfare system actually encouraged the break-up of the black family because welfare payments might be cut off if a male income-earner was living at home. To protect the family income, therefore, many men just left home.

One of the most imaginative features of the local community programmes provided for the participation in their administration of those affected. This produced numerous instances of corruption and mis-management. People unskilled in the administration of large sums of money were suddenly confronted with the handling of resources on a scale beyond their dreams. A further aspect of the problem seemed almost insoluble; when cities sought to improve their welfare provision over and above the levels of other cities, the effect was to attract large-scale migration of poorer workers from other parts of the country. When I left America, New York and other cities were fighting for the right to impose residence requirements on welfare recipients, but were being challenged on the grounds that such requirements were themselves discriminatory.

The poverty programmes were not the only major liberal reforms to come under attack in the late 'sixties. In a remarkable book, "The Unheavenly City," Edward Banfield, a leading Harvard social scientist, argued that many of America's urban problems—poverty, ignorance, injustice, unemployment and racial ghettos—had been made worse rather than better by a long succession of government programmes. He pointed out, for example, that improvements in transportation systems, while enabling suburbanites to move about the metropolitan area more freely, indirectly subsidized the movement of industry, commerce and well-to-do residents from the inner city. He argued that this development would,

"Make matters worse for the poor by reducing the number of jobs for them and by making neighbourhoods, school and other community facilities still more segregated. These injuries will be only partially offset by allowing a certain number of the inner-city poor to commute to jobs in the suburbs."

Banfield also pointed out—and he was not the first—that urban renewal programmes had, in fact, benefited the rich rather than the poor. In large part the programmes have been designed to attract back into the inner-city the middle class which had left for the suburbs:

"Hundreds of thousands of low-income people have been forced out of low-cost housing, by no means all of it substandard, in order to make way for luxury apartments, office buildings, hotels, civic centres, industrial parks and the like. 'At a cost of more than three billion dollars,' sociologist Scott Greer wrote in 1965, 'the Urban Renewal Agency (URA) has succeeded in materially reducing the
supply of low-cost housing in American cities."

Banfield's generalization might have been written with New Haven specifically in mind. In the preceding decade the poorer areas close to the central city had been razed to make way for a turnpike, a large modern shopping mall, a new luxury hotel and office block, a Coliseum for exhibitions, and several moderate to high-income apartment blocks. The poor were forced into previously moderate-income areas where rents were not easy to meet and where bitter conflict with landlords was common.

In his book, Banfield speculates about the causes of these paradoxical results of liberal reform policies. He dismisses without hesitation the most obvious explanation—and one which many radicals had adopted—that behind the facade of humanitarian rhetoric, the middle-class reformers were merely looking after their own interests. He pointed out that while the urban renewal policies had benefited the well-to-do, many liberal policies which had harmed the interests of the poor could not, by any stretch of the imagination, be said to have been in the interest of the better-off.

"The well-off are not benefited by an increase in the minimum wage or by any other measures that price low-value labour out of the market and on to the welfare rolls. They are not benefited by laws that keep children who cannot or will not learn in schools that they (the well-off) must support. They are not benefited by the making of sweeping charges about 'white racism' or by crisis-mongering of any kind."

Banfield concluded the failures had much more subtle causes, which lay deep in the nature of the American approach to social problems.

"The American political style was formed largely in the upper classes, and, within these classes, mainly by people of dissenting Protestant and Jewish traditions. Accordingly, it is oriented toward the future and toward moral and material progress, for the individual and for the society as a whole. The American is con-

fident that with a sufficient effort, all difficulties can be overcome, and all problems solved, and he feels a strong obligation to try to improve not only himself but everything else—his community, his society, the whole world. . . . To be sure, practice has seldom corresponded to principles. The principles, however, have always been influential, and they have sometimes been decisive. They can be summarized in two very simple rules—first, DON'T JUST SIT THERE; DO SOMETHING! And second, DO GOOD!"

Responses to the Crisis

By 1970 the tradition of reformist liberalism was under sweeping attack from both the radical Left and the Conservative Right, as well as from leading social scientists. The serious unintended consequences of well-meant and massive attempts at social reconstruction were too plain to be ignored. Of the many responses to this crisis, three fairly characteristic reactions can be singled out:

(1) Those of the liberal reformists themselves
(2) Those of the radical New Left
(3) Those of conservative inclination.

1. Some of the proponents of the reform programmes felt compelled to admit that important considerations had been overlooked. This was most obvious in foreign affairs, where Vietnam had shown the inadequacy of the "limited warfare" approach developed under President Kennedy by Robert McNamara. Indeed, the reaction appears in some cases to have been sharper than warranted by the actual event, as in the approach of George McGovern and others who favour rapid withdrawal from Vietnam, with little concern for consolidating the gains made in the war. In domestic affairs, President Nixon's policy of devolving some aspects of federal power to local governments now commands wide support across the political spectrum. In general, however, the traditional approach of using federal power, persuasion and money in the interests of social reform
remains the dominant approach among liberal leaders.

2. Among radicals the response has ranged from abandonment of participation in the “system” in favour of self-contained communal living, on the one hand, to revolutionary violence, with the aim of overthrowing the “system,” on the other. Like many other American universities, Yale experienced the full range of responses. The most disturbing of these occurred in May, 1970, when radical leaders from all over the country came to New Haven in support of the Black Panther leader, Bobby Seale, then on trial in the city for his part in the alleged murder of a member of the Black Panther Party. Thousands of students attended mass rallies in support of the proposition that Seale could not expect a fair trial from the “system,” and that he should therefore be set free.

Violence was avoided partly because many of the students, though sympathetic to the Panther cause, worked to prevent it. In addition, the university administration went out of its way to appear as flexible and sympathetic as possible to the students. Thus, the President, Kingman Brewster, announced that he, too, believed that it might be difficult for Seale to get a fair trial. Exams in many cases were postponed or cancelled.

The tolerance of many liberals when faced with virulent verbal, and occasional physical assaults by angry white and black radicals, has its source in one of the great virtues of American liberalism—its sympathy with those who have been disadvantaged by social circumstances, and its insight into the psychological damage which can result from such deprivation. I suspect that most members of American universities have attended “community forums” where a tolerant chairman has bent over backwards to be fair to speakers whose ignorance is exceeded only by their anger. But this stance of kindly receptivity has also meant that insistence on basic rules of civility which make reasoned discussion possible have often been abandoned to placate dissenters. Indeed, on many occasions, extreme actions and statements have been almost encouraged by liberal leaders, as when Hubert Humphrey was reported to have observed that if he had lived under conditions as bad as those of many blacks, he would be rioting too. Whether this failure of those who have so long provided moral leadership to America to insist on the observance of civility in political discourse will have serious long-term effects on the conduct of the nation’s politics cannot be determined as yet. The possibility, however, cannot be overlooked that it may.

A further radical response to the failure of many of the policies of the liberal elite has been to demand increased participation in decisions which affect them. This demand draws strength from deep roots in American history and culture. No nation has experimented so widely and with such imagination as America with techniques for ensuring popular control over political leaders. Plebiscites and referenda, recall of representatives, primaries to select candidates for high office, and elective judgeships have all been instituted in one or more of the States in pursuit of the ever more perfect democracy. The radical movement has merely extended the demand for popular control to institutions where previously it would have been considered quite inappropriate—the armed forces, universities, and even corporations. Aside from the doubtful merits of extreme “democratization” in these institutions, such demands strike a responsive chord in many who do not consider themselves radicals.

3. A third response to the crisis of liberalism has been more conservative. In this view, the inflated claims for the benefits to be derived from massive projects of social reform have—through their failure—seriously imperilled the authority of American political institutions, and
hence the stability and rationality of American politics. The appropriate response to this crisis is not, therefore, another round of far-reaching efforts at social reconstruction, but a more modest conception of what government can, in fact, achieve in a society as complex as that of the United States. In some instances, this may mean governmental passivity with respect to problems despite insistent urgings for "leadership" and "action." Passivity here is urged not on the grounds that the problems are unimportant, but that the most effective path to a solution is to let social and economic processes work themselves out, once the legal framework for peaceful change has been established.

The movement for a more limited conception of what is feasible reform in American society is more than a reassertion of conservative positions. It derives additional strength from the opinions and findings of social scientists and commentators not identified with political conservatism. Among these, Edward Banfield's study of urban policy has already been mentioned. A better known view may be that of Daniel Moynihan, whose report on poverty and welfare programmes was one of the first exposures of the weaknesses of current welfare policies.

In a now famous memorandum to President Nixon, Moynihan argued that after the major reforms of the Johnson period, the racial problem might now benefit from the "benign neglect" of the Federal Government. His point was that the major contribution of the State to racial understanding must be in removing legal discrimination and in opening the way to equality of opportunity. Once the major pieces of legislation had been passed, the next step lay in the willingness of citizens to accept blacks as neighbours and workmates, and this was something which government could only effect to a limited degree. What was needed now, Moynihan argued, was time for the effects of the reforms to work themselves out, and for blacks to be able to rise into the American middle-class, as other minorities had been able to do in the past. He pointed to statistics which indicated that this process was under way. Specifically, he claimed that outside the South, young black families, with both adults living at home, had 99 per cent. of the income of white families in the same category. Although this was achieved by a higher incidence of female work amongst blacks, it nevertheless suggested that the path to material advancement had been cleared. Needless to say, Moynihan's suggestion was greeted with outraged cries. In the minds of many Americans, as Banfield said, inaction and immorality are still closely related.

Another area where expectations, plans and expenditures have outrun the capacity of institutions to perform is education. America has placed more hopes on education than any other democracy. Undoubtedly the over-all quality of this system has contributed to a high level of technical skills. But in sometimes seeing good schools as a replacement for the family (with the goal of overcoming inequalities resulting from family background), hopes have conflicted with reality. A large-scale investigation of the effects of buildings, teaching facilities, and teacher quality on the achievement of pupils in secondary schools was undertaken under the direction of James S. Coleman, an outstanding sociologist. The Coleman Report concluded that, contrary to popular belief, "... differences between schools account for only a small fraction of differences in pupil achievement."

The study found that no less than 80 per cent. of the difference in achievement between schools was accounted for by aspects of the pupil's life outside the school, particularly his family. Indeed, in the case of white pupils, 90 per cent. of differences in performance were accounted for by non-school factors.
Significantly, the investigation discovered that: "A pupil attitude which appears to have a stronger relationship to achievement than do all the 'school' factors together, is the extent to which an individual feels that he has some control over his own destiny."

In the light of this finding, there appears to have been a very unrealistic emphasis on school reforms as a means of producing social change. It is not that the schools are without importance, but the influence of the family, among other things, is of far greater importance.

Implications of Studies

There are, it seems to me, one or two important implications of the studies referred to. Perhaps the most important is the need for a more realistic appreciation of the difficulties of deliberate social change in a society as complex as that of the United States. Good intentions, enormous energy, and large resources have not, in themselves, proved sufficient for effective reform, and in some cases have actually produced great harm. Instead there must be humility and realism in assessing the implications of any projected change. Inevitably, we are compelled to work with simplified notions about society, for the reality is too complex. The difficulty is in developing simplifications which do not too seriously conflict with the world as it is. Even such well-worn notions as "the poor" and "unemployed" need to be treated with great reserve, because we tend to lump into them individuals whose circumstances are, in fact, vastly different. When policies are devised to cope with categories such as these as if there were a common denominator, it is not surprising that there are often unexpected and unpleasant outcomes.

It is often the failure to foresee how people will respond to reforms which produces these unexpected, if not undesirable, consequences. One of the contributions which can rightly be demanded of the social sciences in the next generation is a great improvement in our knowledge of the things which give meaning to people's lives. When governments or private organizations act, they can then do so with a much better appreciation than at present of the factors which individuals will take into account in responding to efforts at social change.

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The debate between liberals, radicals and conservatives is far from being resolved. It is undoubtedly one of the most important debates in the modern world, for it goes to the roots of what it is reasonable to expect from centrally planned action in modern industrial society. Its implications for governmental policy—not to mention for engineering—are profound. It is an area where substantial contributions should be demanded of the social sciences.

The practical difficulties of significantly changing direction, however, are very great. President Nixon, whose inaugural address warned against the dangers of inflated rhetoric, has himself been guilty on many occasions of making exaggerated and utopian declarations. The expectations of Americans remain high, and there are still believed to be few votes for the man who (realistically) promises to make a "small difference." Consequently, it is to be expected that performance will continue to fall short of expectations, and that disillusion and anger at such failures will continue. One can hope, nevertheless, that the large reservoir of goodwill, technical skill, and extensive resources which make American society so exciting, creative, even revolutionary, will yet find a solution which will be of value to the rest of mankind.