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CONTENTS

	Page
Now is the Hour!	121
The Vanishing Race . . .	127
Comparison of Real Incomes	134
Food for Britain	136
Judgment on Bank Nationalisation	148
Statistics:—"The Quarterly Business Surveys	149

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NOW IS THE HOUR!

SOME of the greatest misconceptions in the public mind about economic matters surround the subject of booms and depressions. It is popularly, one might almost say universally, supposed that the prevention of boom and depression is the sole responsibility of governments and the banking system; and that so long as these institutions do their job properly, the rest of the community can be left to "go its own sweet way," without impairing economic stability. This is an exceedingly dangerous attitude. The truth is that neither the Commonwealth Government nor the banks can, of themselves, even with the best-conceived plans and the most impeccable foresight, assure Australia against a repetition of the boom-depression cycle of the inter-war years. Without co-operation, and self-discipline and a sense of responsibility on the part of the whole community, nothing that the Government and the banks can do will be sufficient to avoid the extremes of inflation and deflation, with fluctuating employment and business conditions.

The calamity of 1929-33 was not, as is popularly supposed, primarily due to a failure of wisdom and foresight on the part of the Commonwealth Government and the banks—in fact, the banks in many respects acted more intelligently and with a greater sense of social responsibility than most other sections of the community. The disastrous impact which the Great World



Depression had on Australia was not mainly the fault of the banks nor the Government. It was the fault of the community as a whole. This was made clear in the report of the Banking Commission, the most exhaustive and authoritative document on the financial aspects of the 1929 crisis.

Booms and depressions are not due so much to institutions and systems, as to the frailties, the greed and short-sightedness of human nature. Economic stability is impossible in an unstable, irresponsible, uninformed (or misinformed) community. If another depression, or serious recession, should occur in Australia, everyone will cast about for a scapegoat. Few will stop to consider whether their own activities—or lack of activity—have played any part in bringing it about. Casting out the mote in its own eye is not an occupation at which the human species excels.

GREATER SENSE OF RESPONSIBILITY

If, when a boom is threatening, trade unions demand higher and higher wages and workers restrict production, employers aim at excessively high profits and pay excessively high dividends, primary producers insist on having all their cake at one swallow, and consumers recklessly spend their inflated incomes without much thought for the morrow, then the most intelligent governmental and banking policies in the world will be helpless to prevent the day of reckoning. And if, when the black clouds of depression loom on the economic horizon, employers rush for cover and unnecessarily contract their activities, trade unions resist the inevitable adjustments to new conditions, and the community as a whole, overcome with fear, passively awaits the dawn of a more hopeful prospect, then depression we will most certainly have—and in its most acute form.

The achievement of economic stability—an achievement which has hitherto been denied the modern industrial communities—demands a greater economic wisdom and a more highly-developed sense of social responsibility on the part of all sections of the people.

DANGEROUS INFLATIONARY BOOM

It is well that these facts should be thoroughly understood just at the present time; for we have now reached a critical

point in the economic cycle. Over the last twelve months the post-war inflationary trend has perceptibly quickened. Prices and costs have been rising more rapidly, much more rapidly, than at any time since the end of the war. Primary producers are receiving unprecedented incomes from the "Himalayan" levels of prices ruling overseas for wool, wheat and other commodities. Business turnovers are expanding and business profits (in money terms) are now at a higher level than at any time for twenty years. Share values are continuing to move upward. Wages in money terms—and possibly in real purchasing power—have never been higher, and show every sign of increasing further. The total quantity of money possessed by the public—both by private people and business institutions—is at an exceedingly high level, and continues to increase more rapidly than the resources and commodities on which it can be spent. The labour shortage is today much more pronounced than twelve months ago.

These conditions could very easily degenerate into an inflationary boom of the most unhealthy and dangerous kind. This is a time, if ever there were a time, when a great effort of economic self-restraint and self-discipline is called for on the part of all responsible sections of the nation. If we wish to avoid a serious recession "now is the hour"—and it is a very late hour.

PRICES AND PROFITS POLICY

The business and industrial community is especially concerned. Price control has recently been removed from some 30,000 commodities. Price subsidies have been greatly reduced—they are now payable on only one or two key items such as tea. The sellers' market still prevails over the great proportion of consumer and capital goods. In this situation the temptation to seek maximum monetary returns, to make exorbitant profits, and to pay higher dividends by pushing up prices to what the market will stand, will be difficult to resist. It is supremely important that it should be resisted. For a policy of charging what the market will bear, pursued under present circumstances, would only serve to hasten on the boom, and ultimately to bring about those conditions of rapidly falling prices and turnovers, which are in the interests of all businesses to avoid. Moreover, it would be very difficult for business to justify its demand for lower taxation if gross

profit and gross shareholders' returns are permitted to rise to higher levels during the current financial year. Rapidly rising prices and profits would also constitute an open invitation to labour to press vigorously forward with its claim for higher wages, quite apart from those increases it can expect to obtain from the normal cost-of-living adjustments. And when prices and dividends are soaring it is not easy to make a convincing case against wage and salary increases.

TIME TO STRENGTHEN RESERVES

A distinction should be made between exorbitant or excessive profits and reasonably high profits. At a time of rising costs and prices and buoyant turnovers it is, of course, inevitable that businesses should make high profits—higher, that is, than they can expect to make should prices fall and spending and demand drop away. If business is to be properly fortified to meet bad weather conditions, then it must be in a position to build up strong reserves when the weather is favourable. And this is important not only for business concerns themselves, but for the whole community, because nothing would serve to bring on more rapidly a serious depression than a succession of business failures with a virtual cessation of dividend payments. At the present time, therefore, businesses should endeavour to strengthen their financial position by a generous reserve policy and resist the temptation to pay abnormally high dividends out of their earnings. This is the most important contribution that business can make to economic stability and to the protection of the community against the time of recession.

ACTION IN THE UNITED STATES

Other countries, faced with similar conditions of threatened boom, have foreseen the danger and have attempted to forestall it. In the United States, the Committee for Economic Development (an organisation of prominent businessmen launched during the war) urged industrial concerns to resist the tendency to price increases and to cut prices wherever possible. Several of the great industrial corporations, notably The General Electric Company, made all-round price reductions in an endeavour to set an example to the business community and to help to curb the wage-profit-price spiral. More recently, in May, 1948, the Joint Economic Committee

appointed by Congress to investigate the high cost of living, recommended that "business should adopt moderate price and profit policies, and labour adopt reasonable wage and productivity attitudes, thus achieving price reductions wherever possible."

The fact that these efforts have not, so far, been very successful does not prove that they are misdirected. Inflation, and the fear of further inflation, is the main topic of public interest in the United States at the present time, and it is clear that one of the main ways in which these fears can be allayed is through policies along the lines which have been recommended by responsible business groups in that country.

SIR STAFFORD CRIPPS' POLICY

In Britain, the efforts to control inflation have been more successful. The essence of the British policy lies in the attempt to prevent money incomes—mainly wages and profits—increasing at the source.

As a result of action by the Chancellor of the Exchequer, Sir Stafford Cripps, reciprocal undertakings were given by the Trade Union Congress to refrain from pressing for wage increases, and by the Federation of British Industries, the Association of British Chambers of Commerce, and the National Union of Manufacturers to attempt to obtain the support of the members in checking advances in prices and profits. In a joint report to the Chancellor, these three employer organisations stated that prices should be reduced wherever possible and that manufacturers should attempt to bear an increased proportion of rising costs. The report recommended that dividends should not exceed the amount distributed in the last financial year: "Subject to exceptional cases, the gross amount distributed by a business by way of dividends in the current year should not exceed the gross amount distributed in its last financial year."

EMPLOYERS AND ECONOMIC STABILITY

It is not suggested that the recommendations of the Federation of British Industries and the other representative employer bodies should serve as a model for Australia. Nor is it suggested that, if costs continue to rise, either because of internal wage increases or external pressures, it would be possible for businesses to refrain from increasing prices. It is the

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spirit, rather than the letter, of the action taken by British employers which is important for Australia.

Employers, as much as any other section of the community, in the end stand to gain from economic stability and to lose from economic instability. It is, at present, not merely in the national interest but in their own interests that businesses should adopt an attitude of moderation and restraint in their prices and profit policies.

THE FUTURE OF THE ENTERPRISE

Moreover, there is much more than the long-run financial interest of business at stake. There is the whole future of the traditional economic system of the British communities, free enterprise, to be considered. Few can doubt that another economic collapse of the 1929-33 proportions would deal a fatal blow at private enterprise. It is true that a depression of this magnitude would, on present indications, seem to be most improbable—but it is always possible. However, something short of a major depression, a serious recession, with mounting unemployment, business bankruptcies, falling turnovers and profits and a collapse of business confidence, is by no means beyond the bounds of possibility. On the contrary, if we fail to prevent the boom from getting out of hand, it is almost a logical certainty. And a severe recession, while it might not be fatal to private enterprise, could have profound political repercussions which would be anything but favourable to business interests.

The truth is—as it always has been—that the survival and prosperity of the ship of free enterprise depends upon those who work it and guide its destinies from day to day. Propaganda and politics can do little unless the captain of the ship has the safety of the crew at heart. The salvation of free enterprise, in the final summing up, is in its own hands. Nothing will save private business from the encroachments and depredations of governments, the dead hand of bureaucratic control, the socialist, the planner and the demagogue, except its own vision and its own good deeds. This is a time of all times when vision and good deeds are abundantly necessary.

