

Government Control—

To What Ends?

THE British crisis has brought to the fore, once again, the major economic controversy of this generation. Shall we conduct our economic affairs through a system dominated by government direction and intervention or through a system in which the chief role is played by free enterprise? Shall the allocation of productive resources between industries and of finished goods between consumers be determined, in the main, by governments or, in the main, by individuals operating through prices responsive to changes in demand and supply? Shall the individual person control the spending of the great part of the income he earns from his own efforts or shall the government appropriate a considerable part of his earnings and spend them for him?

SINCE the end of the war the United States has continued its traditional reliance on free enterprise and has achieved one of the most astounding economic successes of modern times. Great Britain, at the other extreme, under its great experiment in the state-controlled economy, has stumbled from crisis to crisis. Australia has had a piece of both worlds, but our economy is nearer perhaps to the British model than to the American. Our performance in production has fallen far short of what should have been possible and, indeed, looks pathetically poor alongside the magnificent achievement of the U.S.A. But on the financial side, we have been greatly and fortuitously assisted by the high post-war level of world prices for food and raw materials.*

Of course, in strict logic, it may not be possible to draw from these experiences any hard-and-fast conclusions about the comparative merits of free enterprise and state control. But the fact remains that, adhering substantially to free enterprise conceptions, the United States has achieved a production performance that borders on the miraculous, whereas Great Britain after a decade of socialist planning is at a low ebb in her economic fortunes.

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* But not sufficiently, as the import cuts bear witness.

IN the last few months, the British predicament has led to an assault on overall government planning by three of the leading economic authorities of Britain—Geoffrey Crowther, the Editor of "The Economist"; Roy Harrod, joint-editor of "The Economic Journal" and one of the most controversial and outspoken of British economists; and John Jewkes, Professor of Economic Organisation at Oxford University.

JEWKES

Jewkes is perhaps the most uncompromising in his attacks on the centrally planned economy. In an article in the December, 1951, number of the American publication "Fortune," he writes: "Thinking Americans should ask one important question: If the United States had, since 1945, followed the policy of Great Britain in nationalizing industries, maintaining detailed controls on the whole economy, equalizing incomes by the present British rates of taxation, would the United States then have been capable of her great achievements in this period—the rapid increase in the standard of living, the acceptance of world leadership, the generous assistance to impoverished countries, the swift rebuilding of her fighting forces and armaments effort? I doubt it." He states categorically: "Every thinking person in Britain realises that British central planning has failed."

CROWTHER

Geoffrey Crowther, in an address to the Cotton Board at Harrogate, last October, contrasts British experience since the war with that of the United States, Soviet Russia, Belgium and other countries. He sees the British economy out of hand, moving from crisis to crisis in progressively worsening degrees of severity, whereas other countries, even Western Germany and Japan, he says, are unmistakably on "the way back." The reason, he claims, is that whereas Britain has been operating under what he calls a "soft economy," the other countries have operated under "hard economies." "A soft economy" he defines as one in which nobody can get hurt and nobody can be very successful. It is one from which both the penalties of failure and the rewards of achievement have been removed. The only hope for Britain, he

says, is to infuse some degree of hardness into the British economy. Inflation must be corrected; a man must not be able to "toss" his job with impunity; taxes must be reduced and the individual allowed to retain more of his own earnings; businesses must be forced to compete; price control wherever possible must be abolished and the food subsidies drastically cut back. In other words, Britain must take a decisive step away from the government-controlled economy.

HARROD

Roy Harrod* says: ". . . controls are in the nature of a disease, which proliferates and tends to spread through the whole economic organism. One control gives rise to the need for another control and as the controls multiply, new disequilibria appear and create an apparent need for still more controls; crises of ever-growing intensity occur, each in turn seeming to cry for direct government handling, which after an interval produces a further crisis." He concludes: "The important point is that we should rely mainly on the self-adjusting forces that reside in a free system, rather than on a multitude of detailed pressures for getting our balance right."

ONE would be on fairly safe ground in saying that these appeals for a rejection of rigid governmental planning, and for a greater reliance on the motive forces of free enterprise, working through the free price market, would be supported by most leading economists in both Great Britain and this country. And yet on the economics profession falls the great bulk of the blame for the methods of governmental direction which have been such a prominent feature of the economies of Britain and Australia in the post-war years. But today it is the economists—except those who reside at West Block, Canberra, or Whitehall—more so than governments (even of a conservative bent) and perhaps even more so than some businessmen, who most strongly support the traditional economic tenets of free enterprise.

Why is this? Partly because there is still in the minds of most people a distressing confusion about the real objects of government planning. The economist, it is true, led the

* In an article "More or Less Controls" appearing in "The Director", December, 1951 (the Journal of the Institute of Directors).

attacks against the old-time laissez-faire system in which there were violent fluctuations of employment, great inequalities of opportunity and often unjustifiable disparities between the incomes received by different sections of the community. Their leader and mentor in this movement was the late Lord Keynes, but Keynes himself insisted that within the framework of government intervention necessary to cure these evils, *the great traditional advantages of individualism—the driving force of self-interest, the efficiency arising from the wide decentralisation of decision, the individual's freedom of choice—should be preserved.* Only a minor proportion of the recognized leaders of the economics profession has ever advocated detailed government direction. Admittedly, in war-time the economist was largely responsible for the complex system of controls used to contain war-time inflation and to divert resources into war production. But, in general, those methods, which were basically alike in all the allied countries, worked with praiseworthy effectiveness. And in total war there was no practicable alternative to total government direction of the economy. But for peace-time, few top economists have regarded detailed price controls, subsidies, rationing, direction and allocation of materials, massive government spending or government trading as workable substitutes for the automatic adjustments performed by the free price mechanism or for the incentives provided by the prospect of private gain and competitive business. The purpose of economic planning is not to regulate the price of a string of artificial pearls, but to provide a healthy and invigorating economic environment in which the free system can carry out its work most effectively.

Harrod claims that in Britain the decline in the belief in the free system has occurred among members of all parties and of no party, among businessmen as well as civil servants, among plain citizens as well as long-haired intellectuals. It has occurred even among those who are foremost in paying lip-service to the principle of economic liberty. Perhaps the same could be said of Australia. Certainly there is among a small minority of business people evidence of a growing disinclination to accept the losses along with the gains. There have been examples where businessmen have refused to accept

the blame or the financial penalties of their own miscalculations. At the first sign of stress criticism is heaped on the government and the cries are loud in the land for government assistance. It has been partly true of all sections of the community that they have wanted the prize without the struggle. It is this prevalent psychology that has been at the root of what Crowther has aptly called "the soft economy" in Britain, which is another name for the government-controlled economy. *No one must be permitted to get hurt. Everyone must be protected, even against his own follies or miscalculations. No one must be allowed to suffer the consequences of his own mistakes. There are to be no penalties for failure, but equally there are to be no worthwhile rewards for success or achievement. No sticks and only small anaemic-looking carrots!*

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THE belief in detailed government planning in Britain, and to a less degree in Australia, is to be seen most clearly in the field of price control, which is of course the central lever of the government-controlled economy. Over six years have passed since the end of the war, supplies have overtaken or nearly overtaken demand over a wide range of goods, yet price control on individual items persists over a considerable part of the economy. Can there be any rational justification for this?

If price control has been regarded as an essential means of controlling inflation, then all that can be said is that price control in Australia has been accompanied by the biggest peace-time inflation of prices in Australia's history. Since the end of the war prices have risen by nearly 100% yet many people blindly and obstinately adhere to the notion that price control must be continued as a safeguard against further inflation. One may legitimately ask whether prices would have been any higher than they are today if the great bulk of prices had been freed soon after the war. Again, if price control is regarded as a means of limiting the profits of avaricious producers, then, during the period of control, money profits have been astoundingly buoyant. And over the period of operation of price control does anyone suppose that it has been the most enterprising, hardest-working and responsible

producers that have made the biggest profits; or is it rather the irresponsible, the black marketeers and those engaged in the easy trades to whom the richest gains have accrued?

Still further, if price control is regarded as a means through which governments can obtain the production of the things most essential to the economy, and to limit the production of those things not so essential, then the era of price control has been the era of the "milk bar" economy. Finally, governments in their passion to control the prices of individual commodities have utterly failed in their prime duty of controlling the price level as a whole. The stability which the new conceptions of government planning were to have introduced has proved to be, in fact, one of the greatest periods of instability in Australian economic history.

If, in the face of this record, the advocate of controls should reply that price fixation has been ineffective only because the Commonwealth Government was not given the power to carry out the job and to pay subsidies, then two answers can be made. First, if price control by the States is futile, then where is the point in persisting with it? And second, even if the Commonwealth Government had been given the authority to control prices, then the bill in the form of subsidies necessary for a reasonable stability in the price level would have been too terrific to contemplate.

And then there is the British example! Britain has attained much greater stability of prices than Australia; but at what cost? First, at the cost of rigid wage-pegging. Would the advocates of government control in Australia have been prepared to accept that? Second, at the cost of some £500 million a year in subsidies which have to be financed by taxation.* Would the control advocates in this country have been prepared to accept that? And, if so, are they so sure of their economic knowledge that they are prepared to blithely ignore the opinion of leading British economists on this point, with all their experience of the working of the subsidy system in Britain? Crowther states emphatically that he can-

* Subsidies were cut back substantially in the British Budget introduced in March. Undoubtedly a move in the right direction.

not see how the British people can be any worse off if the moneys saved from the abolition of subsidies are handed back to the people in lower taxation to spend as they wish and not as the Government machine sees fit. Jewkes takes the argument further: "The food subsidies now amount to £470 million; the total taxes on beer and tobacco to £1,000 million. If the food subsidies were abolished then the government could afford to reduce the taxes on beer and tobacco to about half their present level. People would be no worse off. They would pay a higher price for food, but they would buy their luxuries more cheaply." And then Jewkes puts his finger on a vital point. How, he asks, can services be properly distributed and a proper economy exercised in their use unless a price is put upon them? All experience, he points out, suggests that when things are free, or sold below their market cost, they will be wasted; and he instances the classic case of free medicine in Britain under the National Health service.

We may go further. How is it possible to ensure that those things we need most and of which we desire to increase the supply will be forthcoming unless the free price mechanism is allowed to do its work? The answer is that it is not possible. What fantastic anomalies arise as soon as government enters the field of price fixation! Take the example of wheat and wool in Australia at the moment. The price of wool in Australia is allowed to go free; the Australian price is the world price. But, with a glorious inconsistency, we insist that wheat should be sold on the home market at a price substantially below its world price. We then purport to wonder why farmers concentrate on growing more wool and consequently less wheat, and why we are faced with the serious national problem of a rapidly declining acreage devoted to wheat. Here surely is a classic example of how government interference with the price mechanism leads to a distortion in the pattern of production and aggravates the very condition it is designed to correct. For the basic purpose behind a home consumption price for wheat lower than the world price is to hold down the price of bread in the interests of the Australian consumer. But how does it work out? The supply of wheat falls, thus tending by the operation of the law of supply and demand to bring about higher prices;

the amount of wheat available for export diminishes, thus helping to bring about an acute balance of payments problem and impairing our ability to pay for imported goods necessary both to the improvement of living standards now and in the future.

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HOW long, as a community, will we blindly adhere to the notion that our salvation is to be found in still stricter and more far-reaching price controls with all the supplementary controls and heavier taxes to which they must inevitably give rise? Is Australia now to follow in the footsteps of Britain, in face of the disastrous experience of that country during its period of rigid and detailed government planning? Or are we to move, wherever we reasonably can, in the direction of a freer economy with its incentives and sanctions such as broadly obtain in the United States? If there are advantages to over-developed Britain in a greater reliance on the free economy, burdened as she is with economic difficulties of a fundamental deep-seated character, how much greater are those advantages likely to be in under-developed Australia with its need for flexibility, imagination and individual resourcefulness of a high order?

The time is overdue for a complete overhaul of our thought on the subject of government planning to ascertain where we are going astray. Let us, by all means, plan the things that we need to plan—something we are not doing at the moment, as witness our lamentable failure to manage inflation. But let us, wherever we can, dispense with the multitude of futile and petty government controls that are overshadowing and confusing the real purposes of economic planning by the state.

* It looks as if we are going the same way. Consider the import cuts.