



# the IPA review

THE INSTITUTE OF PUBLIC AFFAIRS — MELBOURNE, VICTORIA

A non-profit organisation, supported entirely by voluntary contributions. The Institute aims at educating the public in the true facts of our economic system in order to bring about a wider understanding of the merits of free enterprise.

OCTOBER-DECEMBER, 1953

Vol. 7—No. 4

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## EDITORIAL

**C**OSTS are the "weak spot" of the Australian economy.

On practically every other count, the economy looks fairly robust. Employment is high. Company balance sheets are satisfactory. Supplies of basic materials are ample. Taxes are lower than for some years. Money is plentiful; the major financial institutions are highly liquid, interest rates are tending downward, the loan market is much stronger. Overseas financial reserves are at reasonably healthy levels. The seasonal outlook is good and, above all, the wool market retains its amazing buoyancy.

Because of the possibility of a recession in America, the future of overseas prices is, it is true, hedged about with some uncertainty. (The article on page 126 by an eminent economist, Professor J. B. Condliffe, suggests the need for caution on this score.)

If costs were lower it would be possible to face even a drop in export prices without undue misgiving. But the cold winds set in motion by a slump in these prices could be turned icy-cold on the Australian continent by the alpine peaks of our cost structure.

In view of the crucial importance of costs we have felt justified in devoting two articles in this "Review" to the subject.

THE first article "Do Costs Matter?" is concerned with basic economic theory. We feel that a re-statement of the theory of the matter is called for because, since the war, there has been a noticeable tendency among some professional economists to disregard the importance of costs. This tendency has expressed itself, either more or less strongly, in political policies, in the decisions of industrial tribunals and in the general climate of popular thought. A conjuncture of fortunate circumstances has so far enabled Australia to "get away with" this attitude to costs without any disastrous economic consequences. But economic truths cannot be flouted indefinitely with impunity. Our first article endeavours to demonstrate the fallacies and the perils of this line of thought.

THE second article is concerned with the facts of the problem. Through collecting together a considerable body of the most authoritative data, it aims to show the menacing levels to which costs have risen. It is designed to be an answer to those people who still refuse to recognise that the level of costs is proving in any way damaging to the economy, and to those who are still disposed to argue that Australian costs are not yet out of line with those overseas.

