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PROBLEMS OF A HIGH  
EMPLOYMENT ECONOMY

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## PREFATORY NOTE

In 1903 the late Mr. Joseph Fisher paid the sum of £1,000 to the University of Adelaide for the purpose of promoting, with the income thereof, the study of commerce at the University.

"The Joseph Fisher Lecture in Commerce" was founded as one result of this endowment.

The lecture is given biennially on a topic relating to commerce, industry, or finance by a lecturer who is appointed from time to time by the Council. The lectures are free, and are open to the public, and printed copies are afterwards distributed at the cost of the fund.

The present lecture, which is the twenty-first of the series, was given by Dr. H. C. Coombs, Director-General, Ministry of Post-War Reconstruction.

The following is a complete list of Fisher Lectures given since their foundation:

- \*1904—"Commercial Education", by Henry Gyles Turner, Esq.
- \*1906—"Commercial Character", by L. A. Jessop, Esq.
- \*1908—"The Influence of Commerce on Civilization", by J. Currie Elles, Esq.
- \*1910—"Banking as a Factor in the Development of Trade and Commerce", by J. Russell French, Esq.
- \*1912—"Australian Company Law; and Some Sidelights on Modern Commerce", by H. Y. Braddon, Esq.
- \*1914—"Problems of Transportation, and their Relation to Australian Trade and Commerce", by the Hon. D. J. Gordon, M.L.C.
- \*1917—"War Finance: Loans, Paper Money, and Taxation", by Professor R. F. Irvine, M.A.
- \*1919—"The Humanizing of Commerce and Industry", by Gerald Mussen, Esq.
- \*1921—"Currency and Prices in Australia", by Professor D. B. Copland, M.A.
- \*1923—"Money, Credit, and Exchange", by J. Russell Butchart, Esq.
- \*1925—"The Guilds", by Sir Henry Braddon, K.B.E., M.L.C.
- 1927—"The Financial and Economic Position of Australia", by the Right Hon. S. M. Bruce, P.C., C.H., M.C.
- 1929—"Public Finance in Relation to Commerce", by Professor R. C. Mills, LL.M., D.Sc. (Econ.).
- 1930—"Current Problems in International Finance", by Professor T. E. G. Gregory, D.Sc. (Econ.).
- 1932—"Australia's Share in International Recovery", by A. C. Davidson, Esq.
- 1934—"Gold Standard or Goods Standards", by L. G. Melville, Esq., B.Ec., F.I.A.

### PREFATORY NOTE

- \*1936—"Some Economic Effects of the Australian Tariff", by Professor L. F. Giblin, D.S.O., M.C., M.A.
- \*1938—"Australian Economic Progress against a World Background", by Colin Clark, Esq., M.A.
- 1940—"Economic Co-ordination", by Roland Wilson, Esq., B.Com., D.Phil., Ph.D.
- 1942—"The Australian Economy during War", by the Right Honourable R. G. Menzies, K.C., LL.M., M.P.
- 1944—"Problems of a High Employment Economy", by H. C. Coombs, Esq., Ph.D.

Copies of these lectures, except those marked with an asterisk, which are out of print, may be obtained free of charge on application to the Registrar, University of Adelaide.

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# A HIGH EMPLOYMENT ECONOMY

## INTRODUCTION.

### PURPOSE OF THIS PAPER.

Governments of democratic countries during the war have accepted a new responsibility—that of maintaining a high and stable level of employment within their borders.

It is of course not a new thing for governments, as far as lies within their power, to seek governmentally determined results from the workings of the economic system. The writings of those early economic thinkers, the Mercantilists, show that it was generally believed that the course of trade, in addition to enriching the individuals who carried it on, should lead to the accumulation of "treasure" within the nation and increase its economic and therefore its military strength in relation to that of its actual and potential rivals.

Gradually, however, these beliefs gave way to the general view that the economic system could generally be left to run itself, and that governments should confine their intervention to making the rules, and to some extent to protecting the weak and succouring the injured. This non-interventionist attitude of governments of course had its exceptions—defence and the promotion of industrial development have long been recognized as at least plausible excuses. And of course during wars the workings of the economic system have always been subordinated to a greater or less extent to the over-riding purpose of winning the war.

The new objective, however, is different in character. In the past where intervention has been positive, it has been associated with power—military and economic. Where it has been social, for example concerned with the welfare of the members of the community, it has been merely protective, that is, negative. Now, however, intervention is proposed which is both positive and social—it is designed to influence the processes of the economic system so as actively to increase human welfare—to subordinate the workings of that system to the purposes of welfare as it has been subordinated during the war to the purposes of war.

This change in the attitude of governments is due, I believe, to two main causes. The first, a growing belief that it is not enough for the State to provide merely protection from destitution. Second, the belief that increasing understanding of the economic system and improving

techniques of economic management have made possible, technically at least, successful positive social intervention.

It is not my purpose to discuss whether governments should accept this responsibility of maintaining employment or whether the objective itself is a desirable one, but rather—accepting the objective as given—to attempt to answer three questions:

- (i) Can a high and stable level of employment be maintained by deliberate action?
- (ii) If so, by what means?
- (iii) What are the main problems which will be created by the action taken?

#### BASIC ASSUMPTIONS.

Before passing to a consideration of the questions I have set myself, it is necessary to outline the basic assumptions upon which my analysis is based. Clearly the practicability, the techniques, and the problems of a high employment economy would be different in the different economic systems of, say, the U.S.S.R., the United States, and the United Kingdom. For the purposes of this paper, I have assumed that in post-war Australia:

- (a) the great bulk of production, distribution, and exchange will be carried on by private enterprise, (this does not preclude some increase in public and joint public and private enterprise);
- (b) the Government will continue to limit the rights of property to a greater extent than it did before the war, but will abandon its war-time control of persons.

I should perhaps add that the selection of these assumptions does not indicate approval or disapproval but merely a judgment that they are the most realistic that can be made in the light of existing knowledge.

#### DEFINITION OF "HIGH EMPLOYMENT".

It is necessary first to examine the meaning of the objective of a high and stable level of employment—to make clear both what it does not mean and what it does mean. Firstly, it will be clear from the second assumption I have outlined above that it does not mean compulsory employment or employment only in occupations by authority. Secondly, it does not mean the continuation of labour at the level of intensity which has been general during the war. There will be less overtime,

more regular holidays, and so on. Thirdly, it will not be merely work for work's sake. It will, or at least can, mean employment directed to worth while purposes, to the raising of living standards, to the improvement of the physical environment, to the increase of individual and family security, and to the development of our economic resources. Fourthly, it does not mean everybody in a job. There will be some who do not need to work. There will be the sick, those moving from job to job, those who prefer seasonal occupations with periods of idleness between them. There may even be some unemployment due to the decline of particular industries or occupations, although it should be the objective of policy to reduce this form of unemployment to the minimum.

A high and stable level of employment means, therefore, that there will be a few more jobs available than men and women to fill them, that there will be a slight but persistent shortage of labour.

## MEANS OF HIGH EMPLOYMENT.

### (A) MAXIMUM PRODUCTION.

Employment is dependent upon production, and we can only hope to have the highest practicable level of employment if production itself is at a maximum. In examining, therefore, the means to high employment, it is useful to assess the maximum production of which the economy is capable, since this will be the aim, if maximum employment is to be achieved. The production possible is dependent upon :

- (i) the raw materials available ;
- (ii) the capital equipment available ;
- (iii) the quantity and character of labour available for employment ;
- (iv) the efficiency with which these resources are employed.

In making an estimate for any given year, only the changes which will take place in these determinants compared with the preceding year are significant. As a general rule, the materials and equipment factors can be ignored since they are unlikely to have changed significantly. Attention can be concentrated, therefore, on the increases in the labour force available either by natural increase, immigration, or from labour previously idle, and upon changing efficiency. Fortunately there does seem to be a fairly steady trend about changes in efficiency as measured by the real value of production per head which has been estimated for various parts of the world at figures which range between 2 per cent. and 4 per cent. per annum. So far as can be judged the lower figure seems more applicable to Australian conditions.

It is possible, therefore, for any given year, to estimate roughly the value of production which it will be necessary to achieve if our human resources are to be employed to the full. In this estimation the available labour and the changing levels of efficiency will be the most significant factors to be taken into account, and the value will be expressed in terms of prices current in the year upon which the estimation is based. If, for instance, we were estimating the maximum production possible in 1945-46 by estimating changes in the available labour force and in efficiency from 1943-44, our answer would be in terms of production at the levels of prices generally current in 1943-44.

#### (B) THE MAINTENANCE OF EXPENDITURE.

Production is dependent upon expenditure, and maximum production will be achieved only if expenditure by private individuals and public authorities is equal to maximum production. It is of course not sufficient merely for total expenditure to be adequate; it must be distributed geographically roughly in accordance with the distribution of the physical resources used in production, and, furthermore, it must be directed into industries so as to conform broadly with their capacity to produce. In other words, it should not impose upon industry changes in the type of production or the distribution of its resources which are too great to be effected in the time.

#### (C) TYPES OF EXPENDITURE.

Consequently, if the Government accepts responsibility for the maintenance of employment, it must accept responsibility for the maintenance of total expenditure and for its approximate distribution between industries and between areas.

Expenditure can be classified into the following broad classes :

- (i) private expenditure on current consumption, for example, on food, clothing, housing, health and other services, entertainment, etc.;
- (ii) private expenditure on investment, buildings, machinery, durable equipment, stocks of materials and of goods;
- (iii) public expenditure on current consumption goods and services, for example, education, defence, etc.;
- (iv) public expenditure on investment goods, buildings, roads and bridges and other public works, machinery, and equipment, etc.
- (v) Net expenditure overseas, that is, the difference between exports of goods and services and imports.

It is necessary to add the last-named factor, for some of the above expenditure by Australians is on goods produced overseas, and this of course produces employment in the countries concerned. On the other hand, however, some expenditure by people in other countries is on goods produced in Australia, and this of course produces employment in this country. The balance between these two items will depend upon whether our overseas trade results in a net addition to employment in Australia or vice versa.

#### (D) METHODS OF CONTROL.

##### 1. *Private Expenditure on Consumption.*

These various classes of expenditure vary both in their liability to fluctuation and in the ease with which they can be controlled. Private expenditure on current consumption is on the whole the most stable of the various classes of expenditure. So long as people's incomes do not change greatly, they will continue to spend roughly the same proportion of their income on current consumption. The maintenance of this class of expenditure is, therefore, dependent upon the success in securing stability in other classes of expenditure. There is, however, an important exception to this conclusion.

Many Australian incomes are derived from the production of goods for sale overseas, and are dependent upon variations in seasonal conditions and in the prices commanded by Australian exports. In the past these incomes have, therefore, been subject to wide fluctuations, and as a consequence private expenditure on current consumption has been relatively unstable. Any measure, therefore, to bring about greater stability in the incomes of export producers would have a stabilizing effect on the level of expenditure, and therefore on production and employment. From this point of view a strong case can be made for stabilizing the prices received by producers for the main export commodities provided that these prices are adjusted progressively to long-term changes in the level of world prices of these commodities.

##### 2. *Private Expenditure on Investment Goods.*

Private expenditure on investment goods is probably the most variable form of expenditure, and, furthermore, the most difficult to influence by any form of public action. Business men must necessarily be guided in their plans for investment expenditure by their judgment of the prospects of their own industry. Greater stability in expenditure and employment generally will of course give greater stability to their markets, and therefore to their prospects. This may be expected to



reduce the amplitude of fluctuations in private investment expenditure, but there will remain wide fluctuations which will derive from such things as :

- (i) the appearance of new commodities requiring extensive capital equipment ;
- (ii) the development of new methods and techniques rendering existing capital equipment obsolete ;
- (iii) the uneven incidence of replacement of existing capital equipment.

### 3. *Public Expenditure on Consumption Goods and Services.*

Public expenditure on consumption goods and services is relatively stable, although it is likely to experience sudden increases if governments assume new social responsibilities. It is, furthermore, to some extent capable of being adjusted to offset fluctuations in other types of expenditure. There are disadvantages about this practice, however. Expenditure undertaken to offset a threatened decline in private expenditure may well tend to become permanent. It seems preferable that this class of expenditure should be determined largely in the light of the purposes which it is intended to achieve.

### 4. *Public Expenditure on Investment Goods.*

Public expenditure on investment goods in the past has been a very variable factor. This has been due predominantly to the tendency of public authorities to restrict this expenditure at times of falling incomes when their revenues were uncertain and economy seemed to be the right policy. It has, however, for some time been accepted by economists and in general by governments and other public authorities that it is desirable to pursue almost the reverse policy, that is, that times of falling expenditure generally are times when public expenditure on investment goods should be stepped up. This expenditure is particularly well suited to control. There are always a number of projects of a public investment character associated both with the provision of services to industry, for example, in transport, and with the improvement of amenities to the civilian population, for example, schools, hospitals, for which resources could usefully be employed. Intelligent planning should make it possible to adapt the volume of this form of expenditure to economic policy decisions.

Such an adaptation is, however, not quite so easy as it may at first appear. Firstly, before any work can be undertaken, much preparatory work is necessary, and unless this is carried out well in advance it may

prove impossible to step up actual expenditure on investment quickly enough to meet a threatened decline in other parts of the economy. Furthermore, work once commenced is not easy to slacken off or to stop without increased cost to the public authority concerned.

##### 5. *Net Expenditure Overseas.*

For a country such as Australia, which is largely dependent upon international trade, the net expenditure overseas is the most usual and the most difficult cause of fluctuation in total expenditure. Everybody will recall how the depression of 1929 was precipitated on Australia from overseas, showing itself first in a sharp reduction in our export income, and a check to the inward flow of capital to which we had become accustomed.

Action by the Government to control this source of instability is difficult, since the factors determining the demand for our exports and overseas investment in Australia are substantially outside our control. Appropriate policy would seem to be to seek agreements with other countries by which they, too, will follow domestic policies aimed at a high and stable level of expenditure and employment. If this is done, their demand for our products will be maintained at a relatively high level, and fluctuations in our domestic situation arising from changes in that demand correspondingly reduced. Furthermore, it is of course possible to control our expenditure overseas on imports and on services so as to prevent its exceeding the export income available. To do this, however, means limiting Australian expenditure in other countries, and this is not likely to be welcomed by them.

##### 6. *Conclusion.*

The conclusion seems to be, therefore, that the government can, if it so desires, influence the various types of expenditure so as to maintain expenditure equal to the maximum production of which the economy is capable. This it can do:

- (i) by providing more stable incomes for export producers;
- (ii) by determining public expenditure, particularly on investment goods, by the need to maintain total expenditure at the desired level.

In controlling public expenditure on investment the government will be faced with a difficult choice. Firstly, it can estimate what private expenditure on investment is likely to be, and can adapt public expenditure to that estimate. Secondly, it can fix public investment at a level sufficiently high to make it practically certain that public

investment and investment which private industry would wish to carry out would exceed what is practicable, and then to seek to control private investment so that it does not go beyond the level necessary to maintain total expenditure. The difficulty about the first method is the extreme uncertainty of any estimates of private expenditure and the danger, therefore, that public investment may be fixed at a level insufficient to maintain expenditure, and that the government will be unable to adjust it quickly enough to offset a possible deficiency in private investment. The difficulty about the second alternative is that it will frequently require limitation of the freedom of activity of private enterprise. Such a limitation is undesirable unless it serves a sufficiently important social purpose.

This problem arises from the absence of knowledge of the plans of private industry. Rational planning of total investment is impossible unless the government has earlier and more complete information about the plans which private enterprise itself is preparing. An appropriate policy for the government would appear to be:

- (a) to determine a basic public investment programme, including all works which it considers of sufficient urgency to be undertaken whatever the level of private investment;
- (b) to discover from private enterprise the scope of their plans;
- (c) if these two programmes are judged insufficient, to supplement them by:
  - (i) further investment plans by private enterprise prepared at the request of and perhaps assisted by the government; and/or
  - (ii) the inclusion of projects for public investment of lesser urgency than the basic programme already included;
- (d) to have ready numbers of emergency works which could be readily put into operation to supplement the planned programme if it proves insufficient.

In this discussion emphasis has been placed upon the problem of maintaining total investment. As I mentioned earlier, however, it is not enough that total expenditure should be sufficient. It should also be distributed both geographically and between industries roughly in accordance with the availability of resources. This may well affect the government's planning. The traditional fields for government investment are public works and buildings. Plans now being prepared by the Commonwealth and State Governments will extend this field to include housing—perhaps the most important single item of invest-

ment. There will, however, be substantial investment, particularly in machinery, plant, and equipment, which it will be difficult for the government to influence. There may be a danger, therefore, that in seeking to increase public investment to maintain employment, the government may not be able to distribute that investment geographically and industrially in accordance with available resources. This problem places particular importance on the need for the government to have some fore-knowledge of plans of industry, and for methods to be worked out by which the government itself can influence investment in industry. This it could do by direct participation, by joint participation with private enterprise, or by assistance to private enterprise to undertake forms of investment in which a deficiency is anticipated.

## APPLICATION TO 1938-39.

It might be of interest to consider what the effect would have been in a past year had the government pursued a policy of seeking the highest practicable level of employment. In 1938-39 net income produced at market prices was £877 million. There were, however, roughly 10 per cent. of our labour resources idle, and maximum production, allowing for only unavoidable unemployment, might reasonably have been estimated at £940 million. The main items of expenditure are set out in the first column of the following Table A:

TABLE A.

	£ million.	£ million.
Private expenditure on consumers' goods and services	638	665
Private expenditure on investment goods	97	115
Net expenditure in Australia from overseas*	20	2
Public expenditure on goods and services:		
From revenue	88	114
From loan	34	44
Unemployed resources	63	—
Maximum production	940	940

\* Export of goods and services minus imports, excluding government imports.

In estimating the additional public expenditure which would have been required of the government to bring expenditure to the desired level, it is necessary to bear in mind that any increase in public expenditure will itself raise private incomes, and therefore private expenditure on consumption, and by maintaining markets for consumption goods will stimulate the desire of private enterprise to maintain its own investment.

In the second column of the table figures have been set out to indicate the scale of action which would have been required by the government. In preparing these figures it was assumed that private expenditure on consumption and on investment would increase roughly in proportion to private incomes. This is a reasonable assumption in relation to private expenditure on consumption, but some doubts have been expressed as to whether an increase in public expenditure would not intensify the fears of private enterprise and lead to a further contraction of private investment. There is some evidence in other countries where government expenditure has in the past played a relatively minor part in the economy, for example, the United States and France, that an increase in public expenditure can have this effect. There is little reason, however, to expect such a response in Australia, where public authorities have normally been responsible for a substantial section of total investment. In the figures given it has been assumed also that the rise in incomes consequent upon the increased expenditure would have shown itself roughly proportionately in increased receipts from taxation, and in increased expenditure on imports.

The detailed effect on the public accounts and on the balance of payments is set out in the following Table B :

TABLE B.

ITEM.	1938-39.	1938-39.
	<i>Actual.</i>	<i>High employment.</i>
	£	£
	<i>Million.</i>	<i>Million.</i>
<b>EXPENDITURE:</b>		
Goods and services	122	158
Interest and exchange	58	59
Sinking funds	9	9
Pensions and cash benefits (including unemployment relief)	30	25
	<hr/>	<hr/>
	219	251
<b>REVENUE:</b>		
Direct taxation:		
Individuals	32	37
Companies	16	18
Indirect Taxation	89	100
Net government income	48	52
	<hr/>	<hr/>
Total	185	207
<b>GOVERNMENT LOAN EXPENDITURE</b>		
	34	44
	<hr/>	<hr/>
Total	219	251

TABLE C.  
BALANCE OF PAYMENTS.

ITEM.	1938-39.	1938-39.
	<i>Actual.</i>	<i>High employment.</i>
	£	£
	<i>Million.</i>	<i>Million.</i>
Imports	125	141
Excess freight	16	17
Interest overseas	27	27
Net income payable overseas	20	20
	<hr/>	<hr/>
TOTAL DEBITS	188	205
Exports	137	136
Sundry credits	24	24
	<hr/>	<hr/>
TOTAL CREDITS	161	160
OVERSEAS DISINVESTMENT	27	45

The following interesting conclusions emerge from the figures given :

- (a) That to bring about a total increase in expenditure and therefore of production of £63 million, it would have been necessary to increase public expenditure by only £36 million, and of this increase it was necessary to finance only £10 million from loan, the balance being covered by increased revenue receipts.
- (b) That the rise in incomes would have brought about a corresponding increase in expenditure on imported goods, and consequently reduced a surplus of exports by £18 million.

The same results could have been obtained by an increase in public expenditure balanced by a corresponding increase in taxation sufficient to prevent an increase in the expenditure to be financed by loans. Because of the adverse effect such an increase in taxation would have had upon private expenditure, it would have been necessary to increase public expenditure to a correspondingly greater extent, and consequently to increase the severity of taxation considerably. Alternatively, public expenditure could have been left unchanged but a reduction made in rates of taxation, leaving more income in the hands of individuals to be spent on private consumption and investment. This method does not in fact seem practicable since politically it would be impossible to vary taxation rates in this way. Taxation policy must be determined with due reference to equity and the need for stability rather than by the requirements of economic policy.

## APPLICATION TO POST-WAR YEARS.

It is of course relatively easy to speculate about what would have been the result of a different economic policy in the past. Such speculation has the outstanding advantage that it cannot be proved to be incorrect. But if economic policy is in fact to be based upon considerations of the kind which I have outlined, it will be necessary to apply them in advance. I propose, therefore, to examine the problem of planning for a high level of employment in an early post-war year in order to bring out more clearly the nature of the problems which would be encountered, and to obtain some rough numerical impression of the various factors to be taken into account.

In this section I will be using estimates of many items which have yet to be determined by public and by private policy. The figures I use have no official standing whatsoever, and in their preparation no inside knowledge has been used. They have been prepared upon assumptions in many cases arbitrary, but which I have judged to be the most reasonable possible in the light of information which is available to the public.

## MAXIMUM PRODUCTION.

The first question to be answered is: What is the maximum production possible? Taking the year 1947-48 as the post-war year with which we are concerned, we have first to take account of the increase in the labour force available. Compared with the last pre-war year there has been some increase in the working population, and, furthermore, it should be possible to reduce the level of unemployment which existed in that year. We can, therefore, start by assuming that on these two counts, it should be possible to increase the value of production in 1947-48 by about 13 per cent. compared with 1938-39.

During the war years efficiency measured by output per worker engaged has increased by about 16 per cent. This has in part been due to overtime and to the stimulus which the war itself has given. These factors will to some extent disappear with peace and there will, it is presumed, be some reduction in hours. Furthermore, the concentration of war-time production on special types of industry, and the fact that costs have been regarded as at least a secondary factor, may have reduced the normal improvement in efficiency which might have been expected during this period. It would, therefore, be reasonable to assume an increase in efficiency, compared with 1938-39, of about 12 per cent. This would be less than the average of some pre-war years, and substantially less than in certain other countries, but, in view of the distortion of our productive organization for war, may be regarded as

reasonable. Price levels of course have risen substantially since 1938-39. It is assumed for the purpose of these calculations that prices and wage rates will remain constant at their present levels, that is about 25 per cent. above 1938-39.

On the basis of these factors it would appear probable that the maximum net production at market prices possible in 1947-48 would be about £1,380 million.

### 1. *Level of Investment.*

It is mainly through control over the level of expenditure on investment that the government can influence total expenditure, and so production. The question immediately rises, therefore, as to what level of investment will be necessary in our post-war year to ensure the necessary total expenditure. In 1938-39 total net investment was 14.9 per cent. of the net national income at market prices, but if the action we have described above had been taken by the government in order to ensure a condition of high employment, it would have been necessary to raise this percentage to about 19 per cent. This might be taken, therefore, as an indication of the level of investment necessary. In order to be on the safe side, it would perhaps be as well to aim at 20 per cent. as a minimum.

There is, however, some uncertainty as to whether expenditure on investment equal to this percentage would be sufficient in an early post-war year. Firstly, consumption goods industries have been seriously restricted during the war, and some time may elapse before they have recovered to an extent which will enable consumers to spend as much on current consumption as they would desire. It is possible also that the habit of saving a larger proportion of current income which has been imposed upon people during the war may tend to persist.

Another factor to be taken into account is that there will be strong incentives to invest. As far as private enterprise is concerned, many firms will feel the need to re-equip their production units, and generally to overhaul their capital equipment. In addition there has been serious deterioration of plant due to the impossibility of carrying out normal maintenance expenditure. This applies both to private and to public investment. Furthermore, there has been serious restriction upon public investment expenditure so that substantial arrears of urgent and essential works are known to exist. It is clear, therefore, that both public authorities and private firms would desire to spend on investment goods larger amounts proportionately than in pre-war times. Furthermore, many of them, because of accumulated funds, are in a position to meet such expenditure. In what follows, therefore, I consider two post-war possibilities:



- (a) an investment programme based upon urgent projects which it is likely that public and private authorities will wish to carry out: this gives a figure for net investment expenditure equal to about 24 per cent. of the national income; and
- (b) an investment programme equal to approximately 18 per cent. of the national income.

These two alternatives would require investment expenditure of £325 million and £255 million respectively.

#### PUBLIC INVESTMENT.

The amount of these totals required for public investment depends upon government expenditure programmes on the one hand, and the yield of revenues on the other. These are examined in Tables D1 and D2. Both programmes A and B provide for:

- (a) expenditure on housing in accordance with the proposals recently made by the Commonwealth to the States;
- (b) expenditure on defence at a substantially higher rate than pre-war—at roughly 4 per cent. of the national income: this is less than the normal peace-time proportion in European countries, and may well prove a conservative estimate;
- (c) continuation of expenditure on subsidies designed to prevent the cost of living from rising;
- (d) higher expenditure on interest and sinking fund;
- (e) greater expenditure on pensions and cash benefits consequent upon the national welfare programme being introduced by the Commonwealth Government;
- (f) Australian contribution to post-war relief of war-devastated countries.

TABLE D1.  
1. GOVERNMENT EXPENDITURE ON GOODS AND SERVICES AT  
1943-44 PRICES:

	1938-39.	1942-43.	1947-48.	
	£m.	£m.	"A" £m.	"B" £m.
Buildings:				
Dwellings	1	1	40	40
Other	5	3	7	5
Public works	65	32	108	80
Defence*	12	534	50	50
Post-war relief	—	—	5	5
Administration	26	32	30	30
Social	43	37	50	50
	<hr/>	<hr/>	<hr/>	<hr/>
	152	639	290	260

\* Including defence works.

The main difference between the programmes is in expenditure on public works other than housing. Alternative "A" provides for works programmes which would enable States and local and semi-governmental authorities to catch up arrears of maintenance, and to carry out works which they judge to be urgent and essential, within the first three post-war years. The "B" alternative on the other hand provides for works programmes little in excess of pre-war levels (after allowing for changes in prices) and would fall far short of the programmes which the authorities concerned would regard as urgent. Neither, it should be noted, provides for any of the imaginative large-scale development projects which have received a good deal of attention during the war.

In estimating the revenue which will be available against this expenditure, I have assumed reductions in the current rates of taxation of the following proportions:

Direct taxation of individuals	25 per cent. approx.
"    "    " companies	15 " " "
Indirect taxation	20 " " "

Lest I should raise false hopes, perhaps I should repeat that I have no authority for these assumptions.

TABLE D2.  
THE PUBLIC ACCOUNTS.  
(Excluding Self-Balancing.)

ITEM.	1938-39		1942-43.	1947-48	1947-48
	1938-39 Actual. Prices.	1938-39 High Employment. 1943-44 Prices.		"A". 1943-44 Prices.	"B". 1943-44 Prices.
<b>EXPENDITURE:</b>					
Goods and services	£m. 152	£m. 197	£m. 640	£m. 290	£m. 260
Interest and exchange	72	74	70	110	110
Sinking fund	11	11	17	30	30
Costs of living subsidies	—	—	—	25	25
Pensions and cash benefits	37	31	49	100	100
<b>TOTAL</b>	<b>272</b>	<b>313</b>	<b>776</b>	<b>555</b>	<b>525</b>
<b>REVENUE:</b>					
Direct taxation:					
Individuals	40	46	107	120	120
Companies	20	22	57	45	45
Indirect taxation	111	125	144	155	160
Net Government income	60	65	83	50	50
<b>TOTAL</b>	<b>231</b>	<b>258</b>	<b>391</b>	<b>370</b>	<b>375</b>
Government Loan Expenditure	41	55	385	185	150
	<b>272</b>	<b>313</b>	<b>776</b>	<b>555</b>	<b>525</b>

On the basis of these estimates we have figures for public expenditure on investment of £185 million and £150 million respectively, compared with £55 million at comparable prices pre-war and £385 million in a recent war year.

#### PRIVATE INVESTMENT.

This would leave £140 million and £105 million respectively for private investment compared with £121 million at comparable prices in 1938-39 and probably a net disinvestment during recent war years.

It is more difficult to guess the lines on which these totals will be distributed, but an attempt is made in Table E. The estimates are of course very tentative, but they take into account what is expected of private housing in the general housing plans being prepared by the Commonwealth and State Governments, the need for stocking up by retail stores, the deficiency of motor transport, and so on. It should be noted, however, that programme "B" does not reach pre-war levels of expenditure in any group.

TABLE E.  
NET PRIVATE INVESTMENT.

ITEM.	1938-39	1938-39	1947-48	1947-48
	Actual	High		
	1943-44	1943-44	"A".	"B".
	Prices.	Prices.	£m.	£m.
	£m.	£m.		
Machinery: plant and equipment for industry and commerce	15	19	26	10
Farm machinery, plant, and equipment	6	7	8	5
Motor cars and commercial vehicles	30	35	42	28
Other transport equipment	10	11	9	8
Building: business and residential	60	71	51	50
Livestock	-1	-1	—	—
Stocks and stores of materials and equipment	1	1	4	4
	<u>121</u>	<u>143</u>	<u>140</u>	<u>105</u>

#### 2. *The Balance of Payments.*

We have seen that after investment expenditure the demand for exports is the most important variable affecting the levels of expenditure, production, and employment in Australia. How far is it possible to forecast this and other factors in the balance of payments? \*

*Imports.* There is for any economy a fairly stable relationship between imports and incomes—people tend in the short run at least to spend a fairly constant proportion of their incomes on imported goods.

Imports in the three pre-war years averaged 16·2 per cent. of the net national income produced at market prices. There are, however, a number of factors to be taken into account :

- (a) supplies of many imported goods in Australia have disappeared, and there will be some "arrears of demand" and the need to build up stocks;
- (b) many industries are in serious need of imported plant and equipment.

On the other hand :

- (a) some time must lapse before overseas production of many civilian goods gets under way, and supplies are likely to be difficult;
- (b) war-time restrictions on imports may not be entirely lifted;
- (c) any shift in expenditure towards construction would probably reduce demand for imports.

*Exports.* Export prices are higher than pre-war, and may possibly go higher. On the other hand it may take some time for our staple export industries to get back to full production. Some secondary industries expanded during the war may, however, have the opportunity to enter export markets.

All this is very speculative, and the following figures are correspondingly tentative:

TABLE F.  
BALANCE OF PAYMENTS.

ITEM.	1938-39	1938-39	1942-43.	1947-48
	<i>Actual.</i>	<i>High employment.</i>		"A" and "B".
	£m.	£m.	£m.	£m.
Imports	125	141	110	190*
Excess freight	16	17	19	20
Interest payable overseas	27	27	27	25
Net income payable overseas	20	20	25	25
Net overseas war expenditure	—	—	1	—
<b>TOTAL DEBITS</b>	<b>188</b>	<b>205</b>	<b>182</b>	<b>260</b>
Exports	137	136	144	200†
Sundry credits	24	24	29	30
<b>TOTAL CREDITS</b>	<b>161</b>	<b>160</b>	<b>173</b>	<b>230</b>
OVERSEAS DISINVESTMENT	27	45	9	30

\* Assuming some import replacement and probably some import restriction.

† Assuming a good season and expanded exports of iron and textiles. Excludes "relief" exports.

There is one factor which it may be desirable to take into account. One of the most difficult problems which will arise in the transition to peace will be the shortage of goods in relation to demand. If our overseas balances warrant it, and supplies are available, it would be a welcome aid to that transition to use part of our reserves to finance a temporary import surplus greater than that contemplated here.

### 3. Total Expenditure.

It should now be possible to complete the Expenditure Budget by treating the remaining item—private expenditure on consumption goods and services—as the residual amount necessary to bring the total of expenditure up to the value of maximum production. Provided goods are available there seems little doubt that private expenditure on consumption will reach this level. In both approaches the proportion of income devoted to consumption is less than was customary before the war, and in addition consumers have many “arrears of demand” backed by accumulated purchasing power from past savings.

TABLE G.  
EXPENDITURE BUDGET.

ITEM.	1938-39	1938-39	1942-43.	1947-48	1947-48
	Actual.	High		“A”.	“B”.
	1943-44	1943-44		1943-44	1943-44
	Prices.	Prices.		Prices.	Prices.
	£m.	£m.	£m.	£m.	£m.
Private expenditure on consumers' goods and services	798	831	704	930	1,000
Net private expenditure on investment goods	121	144	-20	140	105
Public expenditure on goods and services:					
B. from revenue	110	143	254	105	110
L. from loan	42	55	385	185	150
Net overseas expenditure in Australia	25	2	44	20	20
Unemployed resources	79	—	—	—	—
Maximum production	1,175	1,175	1,367	1,380	1,385

“A” Investment 26.3 per cent. of available gross income.  
“B” Investment 21.7 per cent. of available gross income.

### 4. Consumption Levels.

Since both investment programmes contemplate an encroachment on consumption in order to sustain a higher level of investment, it may

be as well to make some examination of the levels of consumption for which they in fact provide. Relevant figures are set out in Table H.

TABLE H.  
EXPENDITURE LEVELS.  
(1943-44 prices throughout.)

		1938-39.	1942-43.	1947-48 "A".	1947-48 "B".
Private expenditure on consumption	£m.	798	704	930	1,000
Index of consumption per head of population		100	85	108	116

Despite the "limitation" of consumption, production on the programmes contemplated should, therefore, provide for average levels of consumption 8 per cent. and 16 per cent. respectively higher than pre-war.

Furthermore, the increased public expenditure on social services (education, health, etc.) and on cash security payments should ensure greater equality of consumption standards.

#### CONCLUSIONS.

From the foregoing attempt to plan post-war expenditure with the aim of ensuring maximum production and employment, the following conclusions emerge:

- (a) that the investment programmes contemplated, while adequate to ensure maximum production, are less than public authorities and private firms seem likely to want and to be in a position to finance;
- (b) that planned expenditure on current consumption, while providing for higher and more equitable consumption than pre-war, would require individuals to save a higher proportion of their current incomes than they did pre-war, despite the great increase in their holdings of liquid assets;
- (c) that a high level of production and expenditure seems likely, in the short run at least, to involve us in some depletion of our international reserves.

These conclusions point to the problems that will confront Australian governments in their pursuit of high employment.

Before considering these problems, however, it is necessary to refer to another set of quantities which must be watched if our objective is to be achieved.

## THE RESOURCES BUDGET.

It is not sufficient merely to plan expenditure in broad categories. This expenditure must be distributed so that physical resources will be employed in a way conforming closely to their distribution both geographically and industrially. There will of course need to be changes in this distribution with the changing character of production, but if shortages are not to appear locally and for particular industries, too great pressure should not be placed upon the mobility of resources. At the same time the difficulties of change should not be magnified. In the first years of the war we brought about a revolution in the organization of our production and in the allocation of our resources. The problems of peace-time adjustment are unlikely to be as difficult.

1. *Industrial Distribution.*

The resources to be watched are materials, capital equipment, and labour. Of these labour is the most important, and the most readily measured. In Tables I and J, I set out for males and females a comparison of the distribution of labour between principal industrial groups as it was in 1939 and 1943, and as it will be required to carry out the production planned under the two programmes of expenditure.

TABLE I.  
ESTIMATED NUMBER OF MALES ENGAGED IN PRINCIPAL INDUSTRIES,  
AUSTRALIA.

INDUSTRY.	June, 1939. 000'S.	June, 1943. 000'S.	June, 1948.	
			Estimated Demand "A". 000'S.	Target Distribution. "B". 000'S.
Fishing and Trapping	15	10	17	17
Agricultural, Pastoral, and Dairying	497	374	525	525
Forestry and Forest Saw-milling	29	18	35	33
Mining and Quarrying	67	47	60	60
Manufacturing	450	573	550	567
Building	97	} 103	150	120
Public Construction	103		135	130
Gas, Water, and Electricity Production and Supply	28	31	33	33
Transport and Communication	231	232	260	260
Commerce and Finance	371	214	320	340
Public Administration and the Professions	133	144	155	155
Entertainment and Sport	21	12	25	25
Personal and Domestic Service	53	38	55	55
Defence	15	680 +	70	70
<b>TOTAL OCCUPIED</b>	<b>2,110</b>	<b>2,476</b>	<b>2,390</b>	<b>2,390</b>
<b>UNEMPLOYED</b>	<b>265</b>	<b>19</b>	<b>100</b>	<b>100</b>
<b>TOTAL IN INDUSTRY</b>	<b>2,375</b>	<b>2,495</b>	<b>2,490</b>	<b>2,490</b>

TABLE J.

## ESTIMATED NUMBER OF FEMALES ENGAGED IN PRINCIPAL INDUSTRIES, AUSTRALIA.

INDUSTRY.	June, 1939.	June, 1943.	June, 1948.
	000'S.	000'S.	000'S. "A" and "B".
Fishing and Trapping	—	.1	—
Agricultural, Pastoral, and Dairying	18.0	39.8	20.0
Forestry and Forest Saw-milling	.1	.3	.2
Mining and Quarrying	.2	.6	.4
Manufacturing	158.0	252.8	205.0
Building	.4	1.6	1.3
Public Construction	.3	.8	.6
Gas, Water, and Electricity Production	1.0	3.1	2.0
Transport and Communication	13.0	35.0	20.0
Commerce and Finance	124.0	163.7	144.0
Public Administration and the Professions	115.0	143.8	138.0
Entertainment and Sport	5.0	7.3	7.5
Personal and Domestic Service	209.0	107.3	175.0
Defence	—	44.8	1.0
<b>TOTAL OCCUPIED</b>	<b>644.0</b>	<b>801.0</b>	<b>715.0</b>
<b>UNEMPLOYED</b>	<b>36.0</b>	<b>6.0</b>	<b>15.0</b>
<b>TOTAL IN INDUSTRY</b>	<b>680.0</b>	<b>807.0</b>	<b>730.0</b>

In preparing these target distributions I have taken the following factors into account:

- (a) *Primary Industries.* The general trend is for a decreasing proportion of the population to be engaged in these industries. There may, however, be some expansion in dairying, vegetable production, and forestry.
- (b) *Mining.* Some time must elapse before gold production is fully restored, and increased mechanization will probably reduce demand for labour on coalmining.
- (c) *Manufacturing.* Some war-time industries—shipbuilding, aircraft production—are likely to persist. A higher population with higher real incomes will increase demand more than proportionately in this field. Materials for the greatly expanded construction industry will be an additional cause of growth.
- (d) *Building and Construction.* Labour requirements of the planned private and public investment programme will be considerable, but changing methods may prevent the increase being proportional to the increase in production. The trend is definitely for more to be done in the factory and less on the job.
- (e) *Commerce and Finance.* War-time rationalization will probably persist to some extent.



- (f) *Public Administration and the Professions.* War-time employment on administration will, it is hoped, decline, but it is unlikely that it will return to pre-war levels. Social welfare plans will probably result in increased numbers of doctors, dentists, nurses, teachers, etc.
- (g) *Defence.* It is assumed that substantial peace-time strength will be maintained in the Services. (There is no authority for the guess given.)
- (h) *Women in Employment.* It is assumed that the numbers of women in employment will decline from war-time levels, but remain substantially above pre-war numbers.
- (i) *Unemployment.* Taking into account the types of unemployment which I outlined earlier as being consistent with a slight but persistent shortage of labour, I have assumed that on the average 4 per cent. of males and 2 per cent. of females seeking employment will be unemployed.

It will be noted that the industries which it is expected will absorb the greater part of the released service personnel are building, public construction, commerce, and finance, and amongst women personal and domestic service, although the numbers in this group are well below pre-war figures, while the number of women employed in all other industries is expected to be higher.

The relative stability of employment in manufacturing conceals a difficult transfer problem within the group.

## 2. *Geographical Distribution of Resources.*

In addition to this survey of employment by industries, it would be desirable to maintain a similar survey by regions. This would be invaluable in ensuring that total expenditure was so distributed as to avoid the development of depressed areas and in throwing into relief the indirect effects on employment of declining and expanding industries. Furthermore, it would be a valuable factor in influencing the direction of housing, migration, and development policies. Unfortunately, I have not been able to assemble facts on this matter.

## 3. *Can there be a Man power Policy?*

In the above tables I have set out the allocation of labour at which we should aim in order to achieve given production programmes. It might well be asked what the use is of having a "target" of this kind if the government will not exercise any authority of direction over persons. In other words, is a man power policy possible without some powers of compulsion?

In my opinion the answer is definitely "Yes". It should be recalled that the major war-time shifts in the industrial distribution of our man power were made before the power of direction was used, and that in fact it has been used surprisingly little, even if allowance is made for its indirect use—as an unstated sanction for persuasion.

The problem of securing a changed allocation of our labour force is that described in economic text-books as increasing the "mobility of labour". Labour in the aggregate is not very mobile. Its units are human beings, with lives to live outside their jobs—with families, homes, associations, and loyalties which make transfers a real hardship. But mass transfers are rarely required, and at the margin labour is much more mobile. From any industry there is a steady stream of withdrawals—because of death, retirement, attraction to other occupations, marriage, and so on. This wastage is repaired by a corresponding stream of recruits—youths, people attracted from or leaving other jobs, and so on. To some extent this stream of recruits is specialized in the sense that the persons who compose it have definite wishes about the job they want to do, have definite capacities which should be made use of, or definite limitations which restrict the field of their usefulness. But within fairly wide limits the direction in which it flows can be influenced without compulsion. The existence of opportunities itself will exercise quite an important influence, and this can be made much more effective by conscious action which might include:

- (a) the establishment of an Australia-wide employment service which would bring to the notice of those seeking jobs the whole range of opportunity throughout the country, and would bring to employers effective recruitment from the whole field of available labour;
- (b) the provision of financial aids to overcome some of the costs of transfer—advances or gifts to meet fares, costs of moving furniture, and so on;
- (c) assistance in securing housing or other accommodation;
- (d) the preparation of special plans for *growing* industries which would include:
  - (i) special assisted courses of training for skilled occupations within the industry;
  - (ii) improvement in working conditions, etc., to render industry more attractive;
  - (iii) possibly improvements in wages—this might be given in the form of a temporary bonus;

- (e) the preparation of special plans for declining industries which would provide for:
- (i) limitation of entry by apprenticeship, etc.;
  - (ii) provision of assistance to enable earlier retirement;
  - (iii) introduction of *retraining* plans for younger people in the industry.

This series of measures would, I believe, be capable of giving effect to any man power policy arising from specific production plans, unless we were faced suddenly by the collapse of a major employing industry or new demands for labour of the order created by war. Furthermore such measures would generally be welcomed by employees and their organizations and by employers because of the services provided.

There may be some doubt as to the attitude of trade unions of skilled workers to special plans to recruit new workers for the industries in which they are engaged. The war has shown, however, that Unions are willing to accept recruitment where need can be established. This is being confirmed by the attitude of the Unions to the Reconstruction Training Scheme for special training to assist in the re-establishment of Servicemen. It is necessary, however, that Unions should be taken into consultation on the labour needs which arise from specific programmes of production. Provided recruitment is based on definite production plans, and workers already in the trade are protected against recruitment being used merely to weaken their bargaining position, there is reason to expect the co-operation of Unions in such special plans.

## THE PROBLEMS OF A HIGH EMPLOYMENT ECONOMY.

### A. EXCESS EXPENDITURE.

The policy described in this paper might be described as one of a government underwriting expenditure to ensure that it does not fall below the level required to sustain production, and therefore employment at a maximum. The obvious questions which arise are: Is it possible for expenditure to rise *above* that level? and what would be the consequences if it did so rise?

It is clearly *possible* for expenditure to rise above the planned level. Public expenditure may have been planned on the assumption that private expenditure on, say, investment goods, would be £x million, but unexpected opportunities may arise which persuade firms to use reserves or borrow from banks to increase their expenditure above this level. What would be the result?

Firstly, production (with certain minor qualifications to be referred to later) cannot be increased, since it is already planned to be at the maximum. If total expenditure rises, therefore, it can show itself only in increased prices for the goods produced and in some change in the character of production. This then is the nigger in the wood pile. Planned expenditure rules out deflation and ensures high employment, but it must be recognized that a high employment economy always carries within it the seeds of inflation. How serious is this danger, and by what means can it be controlled or mitigated?

(a) SOURCES OF EXCESS EXPENDITURE.

1. *Private Consumption Expenditure.*

Expenditure habits are relatively very stable, and for any given level of income it is possible to predict on the basis of past experience what private expenditure on consumption will be. But where investment plans (public and private) are on a scale which leaves for the production of consumption goods and services less than would be required to meet the consumption expenditure which private individuals would desire to make the goods available for consumption would be less than the money being spent on them, and rising prices would be threatened. This would be the situation under the planned expenditure described above in programme "A".

In the foregoing paragraph I have not considered the possibility that consumers might wish to spend from accumulated reserves of purchasing power. Past experience suggests that people in fact draw upon such reserves only in times when incomes are falling. Provided that incomes generally are sustained we can, therefore, generally ignore this source of spending. The immediate post-war years will, however, be very exceptional. Holdings of cash reserves in Savings Bank deposits, and other liquid assets, have risen during the war to unprecedented heights. Furthermore, people have been forced to forego much of their customary expenditure, and their stocks of durable goods will have fallen to low levels. It is not unlikely, therefore, that many people will draw upon their reserves, or at least refrain from adding to them, and a higher than normal level of private consumers' expenditure may, therefore, result.

2. *Private and Public Investment Expenditure.*

Private investment expenditure, depending as it does upon fluctuating opportunities, business confidence, etc., is a much more uncertain factor than private consumption expenditure. Ignorance on the part of the government of the plans of private industry may lead to

excess expenditure on investment. This danger is particularly acute in the post-war years when both industry and public authorities will have arrears of investment work to catch up, and when many private firms and some government and public authorities have large accumulations of cash resources.

### 3. *Pressure for Rising Wage Rates.*

Excess spending will follow also from successful pressure from wage earners for increased wage rates greater than that justified by rising productivity. Insofar as such increases lead to higher costs, and are permitted to be passed on in higher prices, there will again be higher money incomes without any corresponding increase in goods available for purchase.

#### (b) STABILIZERS.

Insofar as expenditure above the planned level is temporary, and of modest proportions, there are stabilizing factors—elements in the economy which can absorb the shock of this expenditure and prevent its showing itself in higher prices. Firstly, there are the stocks of goods within the system which can be drawn upon, and so increase the goods available against expenditure. Secondly, it is possible, if reserves of international currency are held and the necessary goods are available on international markets, to increase imports, so increasing the volume of goods available without a corresponding rise in incomes. This obviously cannot continue for long. Thirdly, there are within the economy some reserves of unused labour. Overtime can be worked, and persons who would normally not be seeking gainful employment drawn into production. This will increase the flow of goods produced and will also increase incomes, but provided some of the new incomes are saved there will be some net gain.

These stabilizers taken together could have appreciable effects, and with involuntary saving resulting from occasional inability to buy precisely what is wanted, would probably be sufficient to prevent inflation in a high employment economy with normal reserves of purchasing power and a total expenditure which had been planned without any attempt to devote a higher proportion of available resources to production of investment goods than people are generally prepared to save from current incomes. They are, however, clearly inadequate:

- (a) if there is any widespread expenditure from accumulated purchasing power;
- (b) if it is desired to concentrate resources on investment.

In these circumstances it would be necessary to supplement them with more conscious controls of prices and of wages.

(c) PRICE POLICY.

The objective of price policy should be to stabilize prices at their existing level or at least to prevent their rising at rates much in excess of the rate at which productivity is increasing. In Australia, with its strict relationship between prices and wages, any other policy could readily deteriorate into the notorious spiral of inflation.

How can this be achieved? In the years immediately following the war some form of price control similar to that current during the war may well be necessary, involving the maintenance of ceilings over a substantial part of production, and the continuance of subsidies where necessary for this purpose. The field covered should include at least all articles normally entering into wage earners' expenditure, and legal price control might well be supplemented by the government's underwriting production by private firms of essential classes of goods of satisfactory quality at reasonable prices. There seems little reason why the government should not operate as a check to prices by competition at the margin in the same way as the central bank does in controlling interest rates.

An additional phase of price policy will be concerned with monopoly prices. Without some control of the prices of monopolies, rising expenditure to ensure employment may be absorbed in rising prices and profits of monopoly goods, and the objective of the expenditure defeated. This problem is likely to remain when the need for general price control passes.

(d) WAGE POLICY.

It must be recognized that with high employment the wage earner will be in a strong bargaining position to seek concessions. This shift in the balance of strength must be recognized as a real factor.

There are two phases of the wage problem: (i) the general level of wages; (ii) relative wages.

The first problem is embodied in Australia in the task of determining the basic wage which is fixed in real terms by the Arbitration Court at irregular intervals in accordance with "industry's capacity to pay". If wage earners are not to take advantage of their increased bargaining strength to exact higher wages, it is necessary that they should be satisfied that their wages do pass on to them the increasing productivity of their labour. This could be done by having a periodical review, to which Trade Unions would be a party, of the changes in real production per head, as it was influenced by rising efficiency and by changes in the terms of trade, and to have the basic wage re-assessed in the light of that review.

The problem of relative wages is partly one of assessing appropriate margins for skill—a task for which our Arbitration Court system is reasonably well adapted, and partly one of relative scarcities of labour of different kinds. Local or industrial shortages create conditions in which pressure for relative increases can be effectively exerted. To prevent such conditions occurring, the whole policy of ensuring mobility of labour outlined earlier in this paper is essential.

#### B. THE BALANCE OF PAYMENTS.

We have seen that a high level of expenditure includes a high level of expenditure on imported goods and services, and that it seems likely that in our early post-war years our requirements from overseas may well exceed the proceeds of our exports. We will, therefore, have to draw upon our reserves. The circumstances are to some extent temporary—export industries imperfectly recovered, and heavy accumulated demands for imported goods, including building up of distributors' stocks. But when we recall that pre-war our export industries did no more than pay for our import requirements on much lower levels of income, there is clearly cause for concern as to our capacity to continue to pay for the imports a high level of expenditure will require.

A good deal, of course, turns on the domestic policies of other countries. If they, too, are pursuing policies of high expenditure, production, and employment, then we can expect a high demand for the products of our export industries. Indeed if the United States, the United Kingdom, and the major European countries maintained high levels of employment, it seems probable that the war-time shortages of internationally traded foodstuffs and raw materials will persist.

There may, therefore, be no problem, but it is clear that if other countries do not maintain levels of employment comparable with our own, we shall face a persistent tendency towards adverse balances of payments which, if we are to maintain internal employment, would have to be met by internal measures designed to limit imports.

An additional problem is the changing values of our exports. We have seen that fluctuating seasons and prices have in the past been responsible for many fluctuations in Australian employment generally, and I have suggested that this effect can be mitigated if stable prices (adjusted progressively to overseas prices) for our major export commodities can be paid to producers. This does not solve the problem of a permanent change in the relative value of our exports. Suppose, for instance, the price of wool fell to half its normal level and stayed there.

This would mean a permanent reduction in our capacity to buy overseas, and would mean a real reduction in our standards of living.

In the past the procedure of adjustment would have been as follows. First a fall in the incomes of exporters, and then in the incomes of those from whom they bought. This would lead to unemployment, falling incomes over a wide field, and falling demands for imports. This would bring the balance of payments into line, and gradually the prevalence of unemployment would bring about a lower level of wages, costs, and incomes.

It should be recognized that if we consciously aim at a high level of employment this method of adjustment will not be possible, and other measures to secure a balance in our international payments must be sought.

### C. THE PROBLEM OF EFFICIENCY.

One of the most serious criticisms levelled at the policy of high employment is that it reduces the incentives to efficiency. There are three aspects to this problem :

1. Labour efficiency.
2. Managerial efficiency.
3. Efficiency in the broad industrial organization of our resources.

#### *Labour Efficiency.*

In the past labour discipline was based primarily upon the threat of dismissal, with its consequent fear of unemployment. If that fear is removed there may be reduced output, increased labour turnover, absenteeism, and so on. If we are incapable of finding other incentives to efficiency, these results will follow. They may follow at any rate while we build up new attitudes and incentives. We cannot expect to transform the basis of labour discipline over night after a hundred and fifty years during which it was based essentially on a threat.

What can these new incentives be? In the broadest community sense we can educate people to understand the relationship between efficiency and national income as a whole, and consequently its effect on wages, and on communal services, education, housing, public utilities, hospitals, clinics, etc. We can interest workers in figures of production, costs and efficiency for individual plants, and for production as a whole. We can educate them in the relationship between wages and profits on the one hand, and national income on the other.

In the more detailed sense we can build up a consciousness in the worker that his work is significant to production as a whole, and a sense



of participation in the total achievements of the economy. We can provide a progressively improving physical environment on the job and at home, better housing and community facilities, effective safety measures and industrial welfare services, adequate opportunities for training and transfer to other jobs, and an understanding and acceptance of the principles on which his wages are based.

Furthermore, we can develop those measures used during the war which bring the worker and his representatives increasingly into the tasks of production planning, wage determination, and labour control. Briefly, we must build up the worker as a partner in the tasks of production and of management, and thus establish the co-operation which can come only from a sense of common responsibility.

#### *Management.*

Examination of some Australian industries has revealed that the higher costs compared with overseas production derive not from higher wage rates or less zeal or intelligence on the part of the workers but from defective organization as a result of which best use is not made of the labour. Australia has much to learn in this field. This is due in part to the absence of opportunities for training managers and lesser managerial staff, but in part also to the fact that much of our industry has been content with much below the best, sheltering behind the natural or artificial protection of the Australian market.

We cannot afford this. Industries receiving protection for which the public pays, have an obligation to improve continuously their methods, and the government has the right to ask questions of them to ensure that they reach the highest possible efficiency and the lowest level of costs.

#### *Efficient Use of Resources.*

In the past industries and firms no longer providing efficiently the goods required, have been eliminated in the purges of periodical depressions. The maintenance of high employment may permit the inefficient and the obsolete to linger on. This is perhaps the most serious inefficiency of all, since it will prevent resources being used more effectively for more urgent social purposes.

This problem requires the development of consciously planned machinery. When evidences of decline appear, an appropriate authority might overhaul the whole industry, determine the causes of the decline, and submit specific plans to the government for its reorganization. If it was necessary to provide for substantial reduction in output, plans

should provide for the absorption elsewhere of the labour, and other resources so released. Permanent commissions of investigation in the fields of primary and secondary industry would be of value for this purpose.

### CONCLUSION.

In conclusion may I summarize by reminding you of the three questions I set myself, and of the answers this analysis suggests.

1. Can a high and stable level of employment be maintained by deliberate action? I think the answer is clearly: yes.

2. If so, by what means? Our analysis suggests the following means:

- (a) the stabilization of exporters' prices;
- (b) the planning of public expenditure, particularly on investment goods, so as to ensure that total expenditure does not fall below the level necessary to sustain production at a maximum.

3. What are the main problems which will be created? The main problems are:

- (a) the inherent threat of excess expenditure which may lead to inflationary price rises; this will be particularly acute in the post-war period because of the desire to concentrate on investment production and of the accumulation of war-time purchasing power;
- (b) the tendency of high employment to unbalance our international payments; and
- (c) the difficulty of maintaining efficiency of labour and management, and in the broad use of our resources.

These problems are difficult, and to build up a complete technique for their solution will certainly require years, if not generations, of trial and error. However, their difficulty need not deter us. To avoid them is not to avoid difficulty but to return to the difficulties of a world where mass unemployment is a commonplace, where businesses are wrecked in the alternating boom and slump, and where the shock absorber for the vagaries of the economic system is the health, happiness, and lives of human beings.