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Editorial — A CRY FOR LEADERSHIP

Australia's economic performance in the decade just ending — the 1970s — makes a dismal contrast with its performance in the two preceding decades — the '50s and the '60s.

The twenty years, 1950 to 1970, now look almost like a "golden age": though few of us thought so at the time. In terms of growth, inflation and unemployment, the 1970s make, by comparison, a sorry story.

In the twenty years from 1950 to 1970 the average yearly increase in the Gross Domestic Product was slightly above 5 per cent. In the 1970s it has been around 3 per cent.

The average annual rate of inflation

over the '50s and '60s was about 4 per cent.

In the 1970s it has been about 11 per cent.

In the earlier decades, unemployment averaged slightly under 1.5 per cent. Sometimes it was under 1 per cent and only in the minor recessions of 1952/53 and 1961/62 did it reach 2 per cent or more. In the early years of the 1970s unemployment was maintained at under 2 per cent. During 1974/75 it rose rapidly to over 4 per cent and by the beginning of 1977 was above 5 per cent. The present rate is about 6 per cent.

To emphasize the contrast, the figures are set out below in tabular form in terms of decades.

	GROWTH (Real GDP)	PRICES	UNEMPLOYMENT
	(Average annual percentage increase)		(Approximate average)
1950s	5.0	5.3 (includes Korean War escalation)	1.5
1960s	5.5	2.3	1.5
1970s	3.2	10.8	6.1 (the rate as at September, 1979)

Compared with the 1970s, the performance of the '50s and '60s is all the more remarkable in view of the unprecedented increase in population — itself a powerful inflationary factor — mainly brought about by the pursuit of large-scale immigration. In the earlier decades there was also a persistent weakness in the balance of payments — so much so that for most of the 1950s we were compelled to exercise direct controls over imports.

How, then, is this striking disparity between the economic performance of the 1970s, and that of the '50s and '60s to be accounted for? It has something, but not all that much, to do with economic forces beyond our control. The economic winds were blowing only a little less favourably for Australia in the 1970s than in the '50s and '60s. The deterioration can fairly be attributed to a combination of three factors — gross economic mismanagement, a failure of political leadership and a change in the public mood.

The change in the public mood — which was both cause and effect of the shortcomings in economic management and political leadership — began to make its presence felt in the closing years of the 1960s. It was then that the rate of increase in money incomes began to accelerate dangerously.

In the ten years to 1963-64 average earnings for male workers increased at a yearly rate of 4.5 per cent; in the 5 years to 1968-69, 6.4 per cent; in 1969-70, 8.4 per cent; 1970-71, 11.1 per cent; 1971-72, 9.7 per cent.

In retrospect, from the end of the war until about the middle of the 1960s the Australian people exhibited a quite remarkable degree of income restraint. This was especially so because the rate of increase in their consumption expenditure, which was an inevitable

consequence of the national policy of rapid development and population expansion (requiring the diversion of resources into investment), was very much lower than in other Western countries. But by the closing years of the 1960s this restraint began to break down and in the 1970s it was cast to the four winds. From 1972-73 to 1975-76 the average annual increase in male weekly earnings was an incredible 18.7 per cent; from 1975-76 to 1977-78, 11.1 per cent. Moreover, with the introduction of equal pay, the rate of increase in the earnings of women was much greater, even than this. The attitudes of moderation and reasonableness which, looking backward, prevailed over the great part of the '50s and '60s, were, in the '70s, succeeded by an ugly mood of greed and unreason.

The following table demonstrates graphically what happened in the years between 1963/64 and 1977/78.

Percentage Yearly Increases in Average Earnings of Male Workers

10 years to 1963/64 (annual average)	4.5
5 years to 1968/69 (annual average)	6.4
1968/69	7.5
1969/70	8.4
1970/71	11.1
1971/72	9.7
3 years to 1975/76 (annual average)	18.7
2 years to 1977/78 (annual average)	11.1

The immediate catalyst of the ominous change in income expectations, although not the underlying cause, probably lay in the Metal Trades Judgement of December 1967 which granted increases of \$7.40 to a fitter and \$10 to a tradesman at the top of the scale. The Arbitration Commission clearly concerned about the secondary effects of its decision included in its judgement two provisos, the unreality and futility of which it was soon compelled to

admit. These were that the increases should not "flow on" to other industries, and that they should not be an addition to, but should be absorbed as far as possible, in over-award payments. From previous experience the Commission should have known that these two stipulations had no possibility whatever of being observed. The decision completely overturned the whole pattern of relativities and precipitated a torrent of wage demands backed by work stoppages.

The situation was worsened by the Commission's judgement in the 1970 National Wage Case. The Judgement awarded increases averaging over 6 per cent, where previous judgements had been in the realm of 3 per cent. Meanwhile, other tribunals, infected by the lavish generosity, were granting unprecedented rises. For instance, increases of the order of 21 per cent were awarded to salaried officers in the P.M.G. and the Melbourne and Metropolitan Board of Works. In August, 1971 the Arbitration Commission persisted in its over-generosity by granting a further \$6 to the Metal Trades and followed this up with a \$6 consent award in September, 1972.

In 1971 salary increases of 15 per cent were given to senior public servants by the Commonwealth Public Service Board and then, to cap it all, politicians themselves decided to join in the fun and have a piece of the action. The Commonwealth Parliament provided for increases of \$5,000 a year to its back-bench members, along with, of course, substantial additions to the salaries of Ministers. A kind of competitive madness had set in. Everyone, fearful of being left out in the cold, joined in the chase.

Blue and white collar unions began to make utterly irresponsible claims of the order of 20 per cent or even more.

By the end of the Gorton-McMahon years the fires of inflation were burning

vigorously. Along came Mr. Whitlam, viewed this ominous scene, proceeded to pour petrol on the blaze and turned it into a raging inferno. The petrol was high-octane stuff — a compound of government-supported extravagant wage and salary rises, including "equal pay", and large, unprecedented increases in public expenditure — in one year, of a mere 46 per cent. This was of course precisely the reverse of what was needed. "Those whom the Gods wish to destroy they first make mad."

Australia has been suffering from the economic insanity of the Whitlam years ever since. The four years of mild therapy administered by the Fraser Government have not sufficed to restore balance or stability to the economy: nor "sweet reasonableness" to the public mood.

Indeed, at the moment the situation threatens to worsen. Hardly had substantial rises been granted by the Arbitration Commission in the recent Metal Trades Work Value Case and in the Building Industry Consent Award — rises which are certain to spread far and wide throughout the industry — than the Commission began its hearing on November 14th of the Wage Indexation Case.

And, if that was not enough, the Government has itself inexplicably reversed its previous opposition to wage increases and is now supporting full indexation for price rises other than those induced by government policies. This must inevitably give people the impression that the Government has weakened in its determination to do battle with inflation. Inflationary expectations will be strengthened and all sections of the community will be encouraged to take further inflationary action to protect themselves.

Meanwhile the militant unions, as would be expected, remain unappeased

and the mood of other sections of the community shows little sign of becoming responsible and reasonable.

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1980 will clearly be a critical year for the Fraser Government. If inflation is not decisively curbed by the latter half of the year — and on present signs it could even accelerate — then it could well destroy Fraser just as it destroyed Whitlam.

What should be crystal clear to the Government is that it must, in one way or another, take control of the incomes situation and act to prevent the spiral which threatens. It cannot afford to wash its hands of responsibility for the movements in wages and other incomes on the grounds that these are matters decided largely by Wage and Salary Tribunals and beyond its jurisdiction.

The Government must intervene decisively to prevent the threatened upsurge from occurring. For this purpose it must use all the weapons of political leadership at its command.

One of the most eminent and respected economists in the world, Arthur Burns, recently questioned whether policies of "gradualism" can succeed in the battle against inflation.¹ (This echoes a viewpoint put by the I.P.A. in its assessment of the last Commonwealth Budget in the July/September "Review".) Burns argues that "drastic therapy" will be needed. Within the coming weeks the Fraser Government needs to make up its mind on the constituents of a "drastic therapy".

For a start, the Government needs to re-establish full public confidence in its capacity to lead and to control the deteriorating situation through some eye-catching, decisive manoeuvre. For

instance, the Prime Minister could announce that in 1980 no increases in the pay of parliamentarians, senior public servants and others of the like ilk will be granted. This is the kind of spectacular gesture needed to bring home to the people the madness of the present competitive grab for larger and larger shares of a near stationary cake. The Prime Minister could make a frank confession of the inability of the Government, indeed of any Government, to defeat inflation unless there is a period of stability in the incomes of all sections of the Australian people: that without a return to moderation, the Government will be impotent.

It should, if necessary, confront the Communist-led unions. It should demonstrate that the intransigence of their leaders is primarily designed not to benefit the members of their unions — let alone those of any other — but to wreak havoc in the economy and undermine the confidence of the Australian people in themselves. If necessary, the Government, by enlisting the support of the States, may have to consider the re-introduction of an incomes and prices standstill. It must attempt to restore sanity to the public mood through an urgent, widespread campaign of education and communication to reach the hearts and minds of the people.

The Australian people, at present bewildered and disturbed, are crying out for guidance, for strong leadership. It is up to the Government to provide it. It could be surprised at the response.

1980 will present a supreme test for the Government, a challenge to demonstrate its ability to lead, to inspire, to re-assert its mastery of events: in brief, to do the job it was elected to do four years ago.

¹ See article on page 84.

Annual Meeting Address

Challenge and Opportunity for British Industry

by

Mr. W. B. M. Duncan, C.B.E.

Deputy Chairman, I.C.I. Limited., U.K.



Born in Scotland, and graduating from Glasgow University with First-Class Honours in Mechanical Engineering, Mr. Duncan's wide experience in senior management has ranged across almost 30 years in the U.K. and North America. He was the first president of I.C.I. America Inc. and later of I.C.I. North America Ltd., co-ordinating I.C.I. interests in Canada and U.S.A.

His C.B.E. came in 1973 for services to British commercial interests in U.S.A. In April, 1978, he became a Fellow of Engineering and received an honorary Doctor of Law from Strathclyde University. In August, 1978 he was made a visiting Professor at Strathclyde University.



Introduction

Fortune magazine quotes a longtime American resident of Puerto Rico: "You can feel patriotic about statehood, and you can feel patriotic about independence. But Commonwealth is an affair of the mind" — a perceptive comment, which underlies the friendly welcome I have received in Australia. The welcome has been no less friendly when my accent reveals that I am a Scot, although I am aware that some of you

may feel that Scotland has recently only produced shop stewards who emigrate to Australia. I am reminded of the Scot visiting an Australian cattle station many years ago who asked his host if there were many Scots in Australia. "Yes," he replied, "but our real plague is rabbits."

A major pre-occupation of the UK since the end of World War II has been how to create the conditions for a shared prosperity — a Common Wealth, if you like. The years since 1945 have seen great

changes at national and international levels. We in Britain have experienced three. In the '50s, the big **social** changes: the creation of the welfare state, the provision of a health service, equal opportunity in education, recognition of the principles of collective bargaining; in the '60s the big **political** adjustments: our Imperial past behind us — before us, a new trading partnership with Europe; in the '70s the big **economic** changes: the oil and energy crises, the concern for conservation, the prospects of lower economic growth.

Industrially, such matters at a minimum have preoccupied us and some even slowed our post-war recovery. Economically, Britain lags behind most of Europe and many other countries of the world, and yet I firmly believe that our stability may still serve us well. I am fortified in this by a recent comment by the American ambassador who said, "For the foreign investor, Britain has the great asset of being more moderate and stable than any other industrial country. If I had to predict over the next 20 years which country was least likely to become unstable, I would have no doubt at all that it would be the United Kingdom."

After three decades of social, political and economic upheaval, this compliment is all the more encouraging for being forward-looking.

The Challenge to British Industry: Wealth Creation

I would like now to talk about how parts of British industry are dealing with these changes in a realistic and responsible way.

The major element of social change since the Second World War is undoubtedly the shift in the relationship between industry and the community. It is right and proper that a civilized society should aim to ensure that all its sectors —

including industry — behave in a responsible way. But I believe those attitudes are mistaken which concern themselves with constraining industry's social behaviour but do nothing to encourage financial performance. However broadly we define the term industrial 'accountability' it must surely include the obligation to create wealth.

How wealth is to be shared out is quite properly the responsibility of democratic government but it is, of necessity, a **consequential** consideration. Its allocation rightly drives the swings of political programmes and the roundabouts of social conscience. But profit-making industry always has to pay for the ride.

Relationships with Government

Another major influence on us in Britain has been the intervention of Government. This is partly a reflection of social pressures and partly a consequence of major economic and political changes. The important lesson is how to build a relationship such that policies which might harm industry are effectively modified before they become law. The relationship must involve mutual understanding and yet be robust enough to surmount party politics; indeed, it serves industry best when it is least political.

In the UK the chemical industry, and ICI in particular, have developed a working relationship with government and the civil service which opens the way to sensible discussions on prospective regulations and their practical implementation, even where there are differences of opinion on basic principles.

One current example is the Competition Bill which Mrs Thatcher's Government is introducing. This effectively abolishes the Price Commission but strengthens the powers of the regulatory agencies of

competition, the Office of Fair Trading and the Monopolies and Mergers Commission. The Price Commission was a facet of Government intervention which was ill-conceived, whereas a reasonable competition law helps to maintain public confidence in the working of a free economy.

However, although I understand the broad purpose of the Bill, I am worried by its failure to reflect adequately the dimension of international competition. We trade and compete on an international basis; our home market is now Western Europe, and we think that these realities ought to be recognised.

The second important point is the power of the Director-General of Fair Trading to investigate the practices of businesses: should he be able to investigate arbitrarily, or should he first have to have evidence of malpractice? In our view some reasonable safeguard for industry should be built into the legislation.

Nevertheless, successive UK Governments have been prepared to pay attention to industry's reactions, albeit with different degrees of responsiveness. Such relationships contrast markedly with those we are obliged to have with the parallel regulatory authority in Brussels. Here flexibility in discussion which could lead to progressive, practical measures is seriously hampered by the uncompromising limitations of the Treaty of Rome.

Counting the Costs

Even when the dialogue between government and industry is constructive the cost burdens may greatly outweigh the social benefit, and the public must be made aware of this.

For example, in 1955 the UK was spending 40% of the GNP on government expenditure: by 1975 this had risen to

60%. Between 1943 and 1976 about 55,000 pages were added to our statute book; we are doubling the volume of statute law once in every fifteen years. A single example from my own company will illustrate the enormity of the charges such legislation inflicts.

In 1978 the salary cost alone for the work we in ICI undertook to satisfy the requirements of the Price Commission's regulations was £250,000. We can clearly count the cost of this exercise, but can anyone truly claim to have gained?

But times are changing. We are now recognising that the pendulum of government intervention has swung too far. As Sir Geoffrey Howe said in 1977: "It should be the first duty of Parliament to resist the temptation to add any more laws."¹

International Legislation: The Environment

One reason for this reassessment is the growing aversion to legislative impositions from outside the UK, notably from America. It is easier to see the mote in another's eye! In the United States the Congressional Directory lists forty major regulatory bodies. There are also 30 government departments with direct access to the President's Office. Just 10 days ago in New York I heard Professor Paul MacAvoy of Yale say that the regulatory agencies of US Government had been responsible for "a veritable explosion of controls".

Is it not a little ironic, in this context, to find support in Ralph Nader, when he draws attention to "regulatory policies which often frustrate rather than promote economic competition".² But the EEC doesn't lag far behind.

¹ From 'Too Much Law?' by the Rt. Hon. Sir Geoffrey Howe, M.P. (p.14)

² From Yale Law Journal 1973

(i) EEC

Consider, for example, EEC legislation on water pollution. The UK approach is pragmatic. Our statutes do not specify standards for particular emissions. Instead, practical consultation between the controlling water authority and the discharger determines what should be done. Control is carried out with regard to local circumstances, taking into scientific consideration the nature of the discharge, the nature and condition of the receiving water, and the intended use to which it will be put. Technical and financial implications are also considered, to make sure that available resources are effectively employed to give real improvement.

The alternative unhappily favoured in most other countries (especially Germany and Holland) is the uniform approach, in which all discharges, irrespective of their location, the nature and quality of the water to which they are made, and the economic effect upon the industry involved, are compelled to conform to fixed emission standards, frequently arbitrary and even ill-considered from a scientific point of view.

Such rigid standards divert scarce resources from areas where they could be used to greater effect. Moreover they frequently impose upon industry a burden which is both uneconomic and unnecessary.

(ii) U.S.

In the United States, too, the tendency is to regulate first and ask questions afterwards. Let me quote the example of the regulations already banning fluorocarbons for aerosols, and shortly to be extended to essential applications such as air-conditioning and refrigeration, where their replacement is proving extremely difficult and will undoubtedly be costly.

In 1974 two American researchers

postulated on the basis of a laboratory mathematical 'model' that over a long period the very stable fluorocarbons rise slowly through the stratosphere, where they are decomposed by the sun's rays, releasing chlorine which attacks the ozone layer.

Early evidence reveals that the chemistry in the upper atmosphere is much more complicated than was allowed for in this model. However, even accepting the worst estimates of the hypotheses — that the ozone is being depleted by a fraction of a per cent per year — the natural variation we all experience day-to-day and across latitudes is far greater, and demonstrates beyond all doubt that no risk would have been involved in withholding regulatory action until the results of scientific research become known — in 3 to 5 years' time.

As an international industrialist who has to deal with the world as he finds it, what do I conclude from all this? Perhaps Lord Zuckerman, former chief scientific adviser to the British Government, came closest to my thinking when he observed: "The world is far from ready for the application of uniform environmental and consumer standards."³

International Trade: The Challenge to International Companies

Mention of world-wide activity leads me to another major change: the withdrawal of Britain as a world power and its entry into the Common Market.

Although there have undoubtedly been many changes in trading patterns as a result, it is important to realise that Britain is still a world trader, seeking business wherever there are markets.

You might be excused for not

³ From an article based on an address by Lord Zuckerman to the British Industrial Biological Research Association of which he is President.

understanding this, since so much has been made of the declining competitiveness of firms such as British Leyland. I make no apology, therefore, for speaking about the international success of Britain's private enterprise chemical industry, with particular reference to my own Company. The British chemical industry employs 430,000 people, 5% of our industrial production, and accounts for 10% of our national manufacturing output. It contributes about a third of the trade surplus achieved by UK manufacturing industry while exporting more than one third of its UK production. Despite the strength of sterling, ICI alone is exporting from Britain this year chemicals and related products at a rate in excess of £1,000 million per annum.

How do we succeed internationally? I believe a key factor is that, wherever we operate in the world, we strive to develop a progressive working relationship with governments, authorities, customers, trade unions, employees and the general public. Our success is founded on the principle 'good practice precedes good law'.

A second principle is to respect individual expertise, and delegate wherever possible. Overseas subsidiaries are seen to be national companies of the countries concerned, and run by nationals. Indeed we delegate significantly to all our operating units, be they divisions in the UK or companies like ICI Australia. Let me expand a little. In 1928 we formed a manufacturing company here in Australia and we did so in a commercial agreement, negotiated at arms' length, which I believe has been good for ICI, for ICI Australia and indeed for Australia. We contracted to provide technical know-how whenever a sound economic case could be made for replacing imports by manufacture. Five

decades ago we chose a policy of progressive international distribution of research, and that agreement with ICI Australia provides a broad and simple framework for technology transfer and **local** development of science and technology which may well have been the most important single factor in the growth of the chemical industry of Australia.

So much ill-informed and biased criticism is made of multinationals and private enterprise that I make no apology for quoting from a Business International Report: "Multinational corporations have fashioned new techniques of financial management to cope with capital shortages, rampant inflation, and floating exchange rates. They have developed wholly new marketing concepts and practices to fit a world shrunken by communications satellites. And they have been far in advance of the chancelleries of this world in opening a dialogue and creating economic intercourse between capitalist and socialist countries as a major step toward peaceful accommodation."

The Way Ahead: Energy

I believe this entitles us to comment cautiously on the future, beset as it will be by the energy crisis.

It is already clear that the '80s will continue as a period of limited economic growth, at least for the developed nations, or we must find ways of growing without extra oil. The free world consumes 50 million barrels of oil every day and the OPEC countries produce 34 million barrels, with no intention currently of increasing that quantity. Britain, despite the current riches of North Sea oil, and the whole Western world will face an energy gap by the year 2000 unless positive alternative sources to oil are developed.

Here governments have an increasingly responsible role to play, not only to frame policies which conserve resources and encourage economies, but also internationally to act cohesively to accommodate the economic repercussions which result from fluctuations in the flow of Mid-east oil. As consumers we cannot afford to bury our heads in the sands until the oil runs dry.

You, in Australia, are particularly well placed to develop an industrial economy which is progressively less dependent on oil. But it is more than that. The ratios of reserves to consumption for all fossil fuels are more favourable in Australia than in Japan, UK, West Europe and North America with the single exception of British oil. It is already evident that your large reserves of easily won and conveniently located coal will serve as the basis for major, energy dependent, industrial developments. Your uranium reserves are very large by world standards and even your natural gas and oil reserves taken together are appreciable.

Obviously your Governments, Federal and State, are well aware of this happy situation and anxious to share with established industries the task of

developing these resources in the national interest. I hope that industry's practical knowledge and experience are sensibly used in pursuing these important national objectives.

Conclusion

What are my conclusions? First, that in spite of three decades of great change, the '80s will surely see even more. Second, that greater efforts are needed at the interface between industry and society to develop better understanding. Third, that relationships between governments and industry, particularly at international levels need to be conducted in an increasingly mature and practical manner, such that legislation does not inadvertently act against the public interest by unnecessarily inhibiting or penalising industrial activity.

Finally, that in a world of shrinking resources, there is an obligation for successful companies, particularly those operating on an international scale, to spell out more clearly than ever the real contribution that healthy, competitive, efficient industry can make to our common wealth and standards of living throughout the world.

NEW SPECIAL BOOKLET

“A Test of Character”

Can We Beat Inflation and Unemployment — and Reduce Taxes?

The I.P.A. has just published an eight page illustrated booklet which comes to grips with our economic problems in **simple but precise terms.**

“A Test of Character” rejects the view that Australia’s major problems — inflation and unemployment, high taxes and “big government” — can be solved by Economists or by Politicians.

Rather, the booklet promotes the view that each Australian can contribute to the nation’s economic recovery, **if only we all begin to understand and act upon some basic principles of our market economy.** These include the following:—

*Inflation and unemployment will continue while our money incomes rise faster than our production.

*The key to more employment is restraint in **all** incomes — including those of senior management, professionals and politicians.

*We cannot expect less taxation while we request government to do more. The two don’t go together.

*Good profits are the only **lasting** means of securing higher wages and more jobs.

*Unless all of us start exercising self-restraint in the demands for higher incomes, **our problems will intensify.**

I.P.A. hopes that many companies and other organizations will order “A Test of Character” in bulk to ensure that the widest possible circulation of the booklets can be achieved, especially amongst employers, employees and students throughout Australia.

The price per copy is 25 cents, less the following reductions in price for I.P.A. contributors:

- 10 to 100 copies — 10%
- 101 to 500 copies — 15%
- Over 500 copies — 20%

A CHALLENGE TO WELFARISM

One of the least endearing features of government welfare in Australia is the system's resistance to change. It is **especially resistant** to any reduction in the size or scope of programmes currently being undertaken.

Marvin Stone, the Editor of U.S. News and World Report described precisely the intractable nature of state welfare in a recent editorial:—

“Welfarism, once planted sinks deep roots that are difficult, if not impossible to dig out.”

In Australia the roots were well and truly established by the mid 1970s. Since that time growth has continued unabated.

Once politicians discover votes in welfare schemes and the loss of votes in cutting them back, the whole welfare apparatus (cash payments, paperwork, social workers and the rest) begins to sprawl. Cutting out excess in administrative procedures, eliminating waste and inefficiencies, become tasks too “politically impossible” or too “administratively impracticable” for the Government to execute. Thus the Welfare State mushrooms. And the Government of the day finds it increasingly difficult to disqualify certain categories of recipients — who provide jobs for bureaucrats — no matter how undeserving they may be. The granting of universal rights to welfare too often results in the expansion of government programmes in response to

population changes, new lifestyles, inflation, recession and other “uncontrollable” causes.

When it comes to government hand-outs politicians and bureaucrats play the same game, called “How much more can we expand the system”. The interests of those responsible for the maintenance of the Welfare State are best served by open-ended programmes. Over the last ten years all categories of social security have increased at a faster rate than our economic growth. The extraordinary growth in some categories has principally been a response to the demands of influential groups of voters in the community, whose interests may appear to be directly served by rising government assistance. Unhappily we are discovering that politically-determined welfare distribution brings gross inefficiency and inevitable waste — and the poor get no richer.

There should be noticeable (and real) differences in the approach to welfare by Australia's two major political Parties. On paper, at any rate, Labor is far more concerned with “The Government” righting the wrongs of society through universal schemes and public sector intervention. For instance, in the current A.L.P. platform there are firm commitments to introducing a no-fault (i.e. no liability for negligibility whatever) compensation scheme and a national

superannuation scheme for all Australian workers. The Liberal Party, on the other hand, places greater emphasis on directing welfare to those most in need and less emphasis on the Government acting on behalf of all of us to redress inequalities and injustices in income distribution. **The compulsory removal of choice** in Labor's proposed universal schemes clearly distinguishes its platform principles from those of the Liberal Party.

Despite the apparent differences, however, the present Government has failed dismally to reduce the Welfare State erected in the Whitlam years. The collective grip of the state on the individual remains strong. The principle of universal coverage regardless of recipients' incomes, assets or needs seems firmly entrenched. The election pledge to transfer income from the public to the private sector — by way of substantial tax and "social" expenditure reductions — is buried and forgotten. In practice, the Fraser Government has progressively increased its responsibility for maintaining and increasing the scale of social welfare benefits.

Social security is the area of Commonwealth Government spending which has shown by far the greatest increase in recent years. In each of the last four Commonwealth Budgets, there have been steady rises in expenditure on welfare. The coverage of welfare has greatly expanded. This is the case even after allowing for the unavoidable impact on welfare spending of non-discretionary factors such as the "ageing" of the population and the historically higher levels of unemployment.

We are spending more on welfare, **in real terms**, than ever before. In recent years costs and claimants have spiralled — facts clearly shown in the following trends:—

* Between 1975-76 and 1978-79 Commonwealth Government expenditure on social security rose by 60 per cent from \$5,000 million (7 per cent of Australia's Gross Domestic Product) to just over \$8,000 million (8 per cent of our GDP). In 1979-80 the estimated expenditure is \$9,000 million or over 8 per cent of our GDP.

* Expressed in another way, social security has increased its share of total Commonwealth Budget outlays from 23 per cent in 1975-76 to 28 per cent in 1978-79. Even after deducting expenditure on family allowances and unemployment benefits, welfare outlays have still risen from \$4,000 million (18 per cent of outlays) to \$6,600 million (21 per cent of outlays) in three years of the Fraser Government.

* From 1975-76 to 1978-79 cash benefits to social security recipients increased by over 70 per cent — from \$4,500 million (on average \$325 per Australian) to \$7,700 million (on average \$534 per Australian).

Even after allowing for inflation cash benefits for social security per head have risen 22 per cent in only three years.

Unhappily we have reached the stage where most Australians are, in one way or another, affected by welfarism (whether they like it or not!). The present system is a commitment in perpetuity to assist a great mass of people, many of whom could easily look after themselves if only taxes and inflation were not destroying unmercifully their capacity to earn and save. This state of affairs will persist so long as the present Government scatters willy-nilly the benefits and the public provision of social services throughout the community. Lord Harris, Director of the London Institute of Economic Affairs, recently expressed his opinion on the "blunderbuss" method of welfare distribution in the following way:—

“The best thing that can be said for the ‘universalist’ policy of free services is that it operates like a blunderbuss: by scattering benefits widely it aims to miss no one who may be in need of them.”

One ought to add, as a Liberal Member of Parliament, Mr. John Hyde, is on record for saying, that the worst aspect of universal benefits, is the fact that it “generally means bleeding the poor to pay the rich.” In other words the taxes on low income earners are being used to subsidize the provision of government benefits to higher income groups in the community. Free tertiary education (a product of the welfare state, although outside the restricted scope of this article) is a glaring example of the basic inequity of state subsidized higher education. Tax subsidized growth in higher education has effectively transferred resources away from lower income households to those persons who will eventually come out near the top of the income ladder.

Lord Harris believes, as I.P.A. does, **that state-imposed welfare “encourages everyone to draw as much in benefits as he can, and contribute in taxes as little as he cannot evade.”** This appears to be the case in Australia where there is a growing resentment (partly reflected in the increasing incidence of tax evasion) to the size of government spending on the “social wage”.

This resentment has been aggravated by the perceived shortcomings of our welfare system. Despite the high tax levels required to sustain the Welfare State, the Government does not appear to be any closer than was its predecessor in “curing” our more glaring social ills. Welfare agencies are always quick to point to the poverty and destitution that exist beneath the great affluence of the nation. According to Professor Henderson and the Australian Council of Social Services, there is an urgent need for

income support to unorganized but needy groups in the community. Unable to command any electoral punch, these groups include the unemployed without dependants, those living below the (Henderson) poverty line and single low income households with large families and few assets.

Given the system’s failures, it is hardly surprising that a growing number of Australians are concerned about the ways in which their taxes are being spent on welfare, and for that matter, on the other state-imposed “public” services. The expanding eligibility for welfare has locked the Government into distributing a rising share of Australia’s national income to all and sundry. Close to 78 per cent of total Commonwealth expenditure on welfare is **indexed periodically and automatically to the inflation rate.** Thus as long as inflation continues we are stuck on an interminable welfare escalator. The escalator will bring us mounting bureaucracy, rising government spending and higher taxes. But it won’t cure our worst social ills.

The solution to welfarism — the alternative to spiralling government expenditure on welfare — lies in the diminution of people’s expectations of their rights to government hand-outs. Hereupon the Government must take the lead by severely pruning the social and economic entitlements that Australians now expect — and accept — if only because they have no other option. The alternative of “opting out” of the system, looking after oneself as it were, is not a realistic proposition for most people, without the incentive of significant reductions in personal income tax — and without lower inflation.

The accepted notion that the State should maintain the welfare and living standards of all its citizens must surely now be brought into question. The

Government has a responsibility to look after those in need, to take care of people unable to look after themselves or their children. It has an unquestionable obligation to protect the members of our society on whom misfortune has fallen heavily. In the provision of welfare, however, the Government must have a defined role, a limited responsibility. That is not to say that entitlements to the needy in society shouldn't be raised substantially. To the contrary! The means of achieving Professor Henderson's desired guaranteed minimum income (i.e. ensuring that no one's income falls below a basic standard of living) will be found by Government directing welfare resources to the needy while leaving the rest to look after themselves. The spiralling cost of open-ended hand-outs is presently preventing the introduction of direct income subsidies to the deserving welfare recipients.

The "social experimentation" of the '70s, which in the beginning promised the "Great Society" but in the end only produced more government, has given us a salutary lesson. This lesson is, that Government, no matter how beneficent its intentions, cannot achieve its "social"

promises by expanding state responsibilities and powers. During the next decade "the market" — the real engine of progress — should be used to a much greater extent to allocate resources in areas previously the exclusive domain of the government — i.e. the public sector's goods and services. Policy-makers, politicians and economists ought now to be proposing ways in which resources can be transferred to the private sector, particularly resources presently being used inefficiently in state welfare.

The means testing of the greater part of social security payments would put an effective brake on rising welfare entitlements. The end of "universal" schemes and their substitution with direct subsidy programmes would bring us closer to concentrating welfare on those in real need. Opting out of the system could then be encouraged by the Government reducing income taxes and cutting its spending on the "social wage". New ways of transferring responsibility for income maintenance from Government to the individual need to be examined. The present system urgently requires radical surgery. The Government must bravely take up this challenge.

Resistance to “Big Government”

The I.P.A. Presidential Address

by

Sir Wilfred Brookes, C.B.E., D.S.O.

I intend to use this address to say something about a matter that is causing grave concern not merely to businessmen but to most of the community — that is, the ever-increasing size of Government.

Everywhere I went on a recent trip overseas, I found the topic of “Big Government” to be uppermost in people’s minds.

Over the last few decades, Government has come to occupy a larger and larger role in the economies of most Western countries, and political parties, even those of a non-socialist persuasion, have been able to do little to curb its growth. This is as true of Australia as of other countries, notwithstanding our deep-rooted tradition of individualism and the well-known Australian resentment of being pushed around.

Twenty-five years ago total public sector spending — including Commonwealth, State and Local Government expenditures — had reached about 25 per cent of national expenditure. Ten years ago it was around 30 per cent. Now, believe it or not, it is approaching 40 per cent of total national spending. To its credit, the Fraser Government has arrested the growth of the Commonwealth public sector which, in the Government’s own words, became “bloated beyond belief” in the Whitlam years. But, after four years in office it has not succeeded in cutting back the size by so much as one per cent.

The progressive expansion of Government cannot just be attributed to power-hungry politicians or to “empire-building” bureaucrats. In recent years, there has been a tendency, exacerbated I think by the media, for the people to expect far too much of Government as such, to look to Governments to solve all problems, big and little, and to castigate them if they don’t. It was once held that the job of democratic Government was to provide a basis for law and order, to even up opportunities and to look after the weak, but beyond that to leave us free to go about our own concerns and to manage our own lives as best

we can. Now we have come to expect Government to watch over us from the womb to the tomb, to act as if it were a charitable foundation with its own funds, to guarantee us with a job of our own choice, to improve our living standards without fail every year, to cater for our health needs, to educate our children, to rescue our business if it threatens to sink in the stormy waters of competition: and, of course, having thus brought about galloping inflation to be castigated for not instantly being able to solve the problem. How it is possible for any Government to do that while most sections of the community are clamouring for increases in their incomes of 10 and 20 per cent per annum, and even more in some quarters, every year, I do not know. Perhaps some economist or politician or union leader will tell us.

However, I am glad to say that at last there are some encouraging signs that the tide is beginning to turn. The battle against "Big Government" is now being joined. One can detect three reasons accounting for this all-important change in the public mood.

First, there is the resistance to ever-increasing taxes resulting from the natural desire of people to spend more of their own earnings in the ways they wish, instead of handing it over to governments to spend for them. Most of you will be aware of "the tax revolt" in the United States. But you may be surprised to know that in 1978 no fewer than 12 States decided to impose constitutional ceilings on taxation. In Australia, we have our own species of "tax revolt" — seen in the huge and reprehensible tax evasion "industry", if one can call it that — and in the growth of the cash economy.

The second reason for the mounting opposition to "Big Government" lies in the growing realisation that it simply doesn't work, that it doesn't achieve the objectives it sets for itself, and that in many areas the intervention of Government creates more problems than it solves. I suppose the most spectacular example of this is the monstrous situation that has developed as a consequence of Government control over the provision of Health care. In a few short years expenditures on Health have escalated from \$149 per head of population to an unbelievable \$500 per Australian (or \$240 per head after allowing for inflation) and from 6 per cent to 8 per cent of the Gross Domestic Product. The basic reason behind this explosion of health costs lies quite clearly in the fact that "market" principles were abandoned over the great part of medical, hospital and pharmaceutical services. Without checks and balances in any area, whether Government or private, the "sky is the limit" particularly if the other fellow pays the bill.

The third reason for the increasing opposition to "Big Government" is the growing alarm, even fear, of insidious unnecessary bureaucratic intrusion into our everyday business and private affairs. Apart from the constant irritation and time-consuming frustration of having to comply with a multitude of government regulations, to keep endless records, to obtain permission from some government department before we can make a move, there is the chilling fear of an omnipotent,

omnipresent, sinister "Big Daddy" overseeing our lives, intruding even into our most private personal concerns and instructing us what to do.

Over 40 years ago, a few far-sighted people such as the Nobel Prize winner, Professor F. A. Hayek (who spoke at this meeting three years ago) warned us of the dangers of more and more Government. This Institute, I am glad to say, also contributed its quota over the years to those warnings. Now these fears are being vindicated. I believe that the 1980 decade will see the resistance to "Big Government" grow stronger and stronger and, in the economic sphere at any rate, people will come increasingly to see that the only effective efficient way of conducting our affairs lies in the operation of the free market. In fact, I suggest that the major function of the I.P.A. in the decade ahead will be to contribute to this resistance.

Let me conclude by quoting some words that appeared in an editorial in the Institute's "Facts" in 1970.

"Government in a free society does not exist primarily to do things for those whom it governs: it exists primarily to help them to do things for themselves.

The dignity and development of the individual person is the ultimate objective of the free society. But the only kind of development worthy of the name is self-development. Men grow big only through their own efforts."

“THE POLITICS OF TAXATION”

The 1980 Summer School of the Australian

Institute of Political Science. To be held in

Canberra from Saturday, 26th January

to Monday, 28th January, 1980.

Few Australians are satisfied with the present tax system? Many of us want less tax. But at the same time we want what the tax money provides — and more!

Has the limit to taxation been reached? Or alternatively can our national objectives be met only by expanding the public sector and the tax base?

These important questions and other relevant issues concerning the “Politics of Taxation” will be the subjects to be addressed by speakers and participants at the A.I.P.S. Summer School.

Several well-known people will address the Summer School.

They include:—

*Lord Ralph Harris, General Director, Institute of Economic Affairs, London. Topic: “The Role of Taxation and Public Expenditure in a Modern Democracy”.

*Mr. Hugh Stretton, Reader in History, the University of Adelaide. Topic: “Future Patterns for Taxation and Public Expenditure in Australia”.

*Professor Russell Mathews, Director, Centre for Research on Federal Financial Relations, the Australian National University. Topic: “The Structure of Taxation”.

*Professor David Kemp, Department of Political Science, Monash University. Topic: “The Politics of Change”.

The Summer School will be held in Melville Hall at the Australian National University, Canberra. It is open to anyone interested in an important issue which should concern all of us. We commend it to our subscribers.

For further information and details concerning enrolment, all correspondence should be directed to:—

Ms. Susan Smith,

Secretary,

Australian Institute of Political Science,

2nd Floor, Archway House,

32 Market Street,

SYDNEY, N.S.W., 2000. Phone: (02) 29 7340.

“DRASTIC THERAPY” NEEDED

by

Arthur F. Burns

We have received the kind permission of Dr. Arthur Burns to republish extracts from his Per Jacobsson Memorial Lecture, “The Anguish of Central Banking”, delivered in Belgrade on September, 30th this year. (The sub-titles are ours.) Arthur Burns, a former Chairman of the President’s Council of Economic Advisers (1953-56) and later the Chairman of the Board of Governors of the Reserve System in the United States (1970-78), is one of the most eminent and respected economists in the world.

In his lecture, Dr. Burns throws doubts on the efficacy of the conventional “gradualist” approach to the curbing of inflation and suggests that “drastic therapy” will be needed.

This is also the view of the I.P.A. — the view expressed in the July/September 1979 issue of this publication.

(Per Jacobsson won world acclaim for his outstanding work as the Managing Director of the International Monetary Fund and the World Bank some twenty years ago.)

The anguish of central banking

Why is the world-wide disease of inflation proving so stubborn? Why is it not yielding to the various efforts of the affected nations, including some determined efforts, to bring it to an end? Why, in particular, have central bankers, whose main business one might suppose is to fight inflation, been so ineffective in dealing with this world-wide problem?

Despite their antipathy to inflation and the powerful weapons they could wield against it, central bankers have failed so utterly in this mission in recent years. In this paradox lies the anguish of central banking.

Great expectations

By way of introduction, I might note that during much of the period since the end of World War II, over-all economic developments were, in the main, satisfactory. By prewar standards, recessions were brief and mild through the mid-1960’s, both in the United States and in other industrial countries; world trade expanded rapidly under a beneficent regime of stable exchange rates; and living

standards rose impressively throughout the developed world. In most industrial countries inflationary pressures were troublesome from time to time — as in the immediate postwar years, during the Korean hostilities, and for a couple of years after the mid-1950’s. These pressures were more substantial in some countries than in the United States, but in none did inflation appear to be out of control.

This experience of economic progress strengthened the public’s expectations of progress. What had once been a quiet personal feeling that the long future would be better than the past, particularly for one’s children, was transformed during the postwar years into an articulate and widespread expectation of steady improvement in living standards — indeed, to a feeling of entitlement to annual increases in real income.

But the rapid rise in national affluence did not create a mood of contentment.

Demands on Government

In the innocence of the day, many Americans came to believe that all of the

new or newly discovered ills of society should be addressed promptly by the Federal government. And in the innocence of the day, the administration in office attempted to respond to the growing demands for social and economic reform while waging war in Vietnam on a rising scale.

When the government undertook in the mid-1960's to address such "unfinished tasks" as reducing frictional unemployment, eliminating poverty, widening the benefits of prosperity, and improving the quality of life, it awakened new ranges of expectation and demand. Once it was established that the key function of government was to solve problems and relieve hardships — not only for society at large but also for troubled industries, regions, occupations, or social groups — a great and growing body of problems and hardships became candidates for governmental solution. New techniques for bringing pressure on Congress — and also on the State legislatures and other elected officials — were developed, refined, and exploited. Congress responded by pouring out a broad stream of measures that involved government spending, special tax relief, or regulations mandating private spending. Every demonstration of a successful tactic in securing rights, establishing entitlements or extracting other benefits from government led to new applications of that tactic. Even government employees, particularly at the state and municipal levels, discovered the pecuniary rewards of shedding genteel notions of public service and pressing economic demands with a strident militancy.

Government and inflation

Many results of this interaction of government and citizen activism proved wholesome. Their cumulative effect,

however, was to impart a strong inflationary bias to the American economy. The proliferation of government programs led to progressively higher tax burdens on both individuals and corporations. Even so, the willingness of government to levy taxes fell distinctly short of its propensity to spend. Since 1950 the Federal budget has been in balance in only five years. Since 1970 a deficit has occurred in every year. Not only that, but the deficits have been mounting in size.

"Full" employment

The pursuit of costly social reforms often went hand in hand with the pursuit of full employment. In fact, much of the expanding range of government spending was prompted by the commitment to full employment.

Inflation came to be widely viewed as a temporary phenomenon — or, provided it remained mild, as an acceptable condition. "Maximum" or "full" employment, after all, had become the nation's major economic goal — not stability of the price level. That inflation ultimately brings on recession and otherwise nullifies many of the benefits sought through social legislation was largely ignored. Even conservative politicians and businessmen began echoing Keynesian teachings. Fear of immediate unemployment — rather than fear of current or eventual inflation — thus came to dominate economic policy making.

The impotence of monetary policy

Nowadays, businessmen, farmers, bankers, trade union leaders, factory workers, and housewives generally proceed on the expectation that inflation will continue in the future, whether economic activity is booming or receding. Once such a psychology has become

dominant in a country, the influence of a central bank error that intensifies inflation may stretch out over years, even after a business recession has set in. For in our modern environment, any rise in the general price level tends to develop a momentum of its own. It stimulates higher wage demands which are accommodated by employers who feel they can recover the additional costs through higher prices; it results in labour agreements in key industries that call for substantial wage increases in later years without regard to the state of business then; and through the use of indexing formulas, it leads to automatic increases in other wages as well as in social security payments, various other pensions, welfare benefits, also in rents on many properties and in the prices of many commodities acquired under long-term contracts. On the other hand, unintended central bank effects of a restrictive type do not ramify in similar fashion. To develop any significant momentum in unwinding inflation, they would need to be both large and repetitive — a combination that can hardly occur under prevailing conditions in the industrial democracies.

My conclusion that it is illusory to expect central banks to put an end to the inflation that now afflicts the industrial democracies does not mean that central banks are incapable of stabilising actions; it simply means that their practical capacity for curbing an inflation that is continually driven by political forces is very limited.

New climate of thought required to end inflation

The persistent inflation that plagues the industrial democracies will not be vanquished — or even substantially curbed — until new currents of thought create a political environment in which the difficult adjustments required to end

inflation can be undertaken.

There are some signs, as yet tenuous and inconclusive, that such a change in the intellectual and political climate of the democracies is getting under way. One of the characteristic features of a democracy is that it encourages learning from experience. Recent disturbing trends in economic and social life, particularly the persistence and acceleration of inflation, have led to much soul-searching by leaders of thought and opinion. Among economists, the Keynesian school has lost much of its erstwhile vigor, self-confidence, and influence. Economists are no longer focusing so exclusively on unemployment and governmental management of aggregate demand. They are paying more attention to the management of aggregate supply — to the need to strengthen incentives to work and innovate, to ways of stimulating saving and investment, to the importance of eliminating barriers to competition, to ways of reducing the regulatory burdens imposed on industry, and to other means of bolstering business confidence.

Many economists now recognize that much of reported unemployment is voluntary, that curbing inflation and reducing involuntary unemployment are complementary rather than competitive goals, that persistent governmental deficits and excessive creation of money tend to feed the fires of inflation, that the high savings rate that usually prevails in the early stages of inflation is eventually succeeded by minimal savings, and that when this stage is reached it becomes very much harder to bring inflation under control.

Government spending not producing the expected social benefits

The intellectual ferment in the world's democracies is having its influence not only on businessman and investors, but

also on politicians, trade union leaders, and even housewives; for all of them have been learning from experience and from one another. In the United States, for example, people have come to feel in increasing numbers that much of the government spending sanctioned by their compassion and altruism was falling short of its objectives; that urban blight was continuing, that the quality of public schools was deteriorating, that crime and violence were increasing, that welfare cheating was still widespread, that collecting unemployment insurance was becoming a way of life for far too many — in short, that the relentless increases of government spending were not producing the social benefits expected from them and yet were adding to the taxes of hard-working people and to the already high prices they had to pay at the grocery store and everywhere else. In my judgement, such feelings of resentment and frustration are largely responsible for the conservative political trend that has developed of late in the United States. And I gather from the results of recent elections elsewhere that concern about inflation and disenchantment with socialist solutions are increasing also in other industrial countries. Fighting inflation is therefore being accorded a higher priority by policy makers in Europe and in much of the rest of the world.

Inflation: the number one problem

In the United States a great majority of the public now regard inflation as the Number One problem facing the country, and this judgement is accepted by both the Congress and the Executive establishment. Some steps have therefore been taken within the past year to check the rapid rise of Federal spending, to lower certain taxes in the interest of encouraging business investment, and yet

bring down the still large budget deficit. Pressures to augment the privileges of trade unions have been resisted by the Congress. Some government regulations — as in the case of airlines and crude oil — have been eased. And even restrictive moves by the Federal Reserve, which not long ago would have stirred anger and anxiety in government circles, have been accepted with equanimity. Symbolic of the changed political atmosphere was the announcement of an increase in the Federal Reserve discount rate on the very day this July, when a sizable decline of the nation's over-all production was being reported for the spring quarter.

Doubts about the "gradualist" approach

The present widespread concern about inflation in the United States is an encouraging development, but no one can yet be sure how far it will go or how lasting it will prove. The changes that have thus far occurred in fiscal, monetary, and structural policies have been marginal adjustments. American policy makers tend to see merit in a gradualist approach because it promises a return to general price stability — perhaps with a delay of five or more years but without requiring significant sacrifices on the part of workers or their employers. But the very caution that leads politically to a policy of gradualism may well lead also to its premature suspension or abandonment in actual practice. Economic life is subject to all sorts of surprises and disturbances — business recessions, labor unrest, foreign trouble, monopolistic shocks, elections, and governmental upsets. One or another such development, especially a business recession, could readily overwhelm and topple a gradualist timetable for curbing inflation. That has happened in the past and it may happen again.

“Drastic therapy” needed

If the United States and other industrial countries are to make real headway in the fight against inflation it will first be necessary to rout inflationary psychology — that is, to make people feel that inflation can be, and probably will be, brought under control. Such a change in national psychology is not likely to be accomplished by marginal adjustments of public policy. In view of the strong and widespread expectations of inflation that prevail at present, I have therefore reluctantly come to believe that fairly drastic therapy will be needed to turn inflationary psychology around.

The precise therapy that can serve a nation best is not easy to identify, and what will work well in one country may work poorly in another. In the case of the American inflation, which has become a major threat to the well-being of much of the world as well as of the American people, it would seem wise to me at this juncture of history for the government to adopt a basic program consisting of four parts. The first of these would be a legislative revision of the Federal budgetary process that would make it more difficult to run budget deficits and that would serve as the initial step toward a constitutional amendment directed to the same end. The second part would be a commitment to a comprehensive plan for dismantling regulations that have been impeding the competitive process and for modifying others that have been running up costs and prices unnecessarily. The third part would be a binding endorsement of restrictive monetary policies until the rate of inflation has become substantially lower. And the fourth part would consist of legislation scheduling reductions of business taxes in

each of the next five years — the reduction to be quite small in the first two years but to become substantial in later years. This sort of tax legislation would release powerful forces to improve the nation's productivity and thereby exert downward pressure on prices; and it would also help in the more immediate future to ease the difficult adjustments forced on many businesses and their employees by the adoption of the first three parts of the suggested program.

Painful adjustments unavoidable

I wish I could close this long address by expressing confidence that a program along the lines I have just sketched, or any other constructive and forceful program for dealing with inflation, will be undertaken in the near future in the United States or elsewhere. That I cannot do today. I am not even sure that many of the central bankers of the world, having by now become immured to gradualism, would be willing to risk the painful economic adjustments that I fear are ultimately unavoidable. I would therefore not be surprised if the return to reasonable price stability in the industrial democracies and thereby to an orderly international monetary system is postponed by more false starts. But if political patience in individual countries is severely tested as that happens, the learning process will also be speeded. The conservative trend that now appears to be under way in many of the industrial democracies will then gather strength; and unless political leadership falls into irresponsible hands, the inflationary bias that has been sapping the economic and moral vitality of the democracies can finally be routed.