CHAPTER 9

SOUND MONEY, SANE SOCIETY

In the course of 1959 public fear of inflation, and behaviour based on it, became apparent in the leading industrial democracies: in the United States, in Germany, France and Britain. Indeed, the unilateral reduction of the Russian manpower in the armed forces in 1960 was, among other things, an indicator of Mr Krushchev's and his colleagues' anxiety to step up the output of consumers' goods and services, and so to diminish the inflationary and social pressures of too big a saving and investment programme. Gradually the dangers of inflation as an instrument of weak or lazy government are becoming apparent around the world.

The throwing of medium- and long-term government bonds at fixed interest into the discard in one leading industrial country after another is conclusive evidence. As the Radcliffe Committee on money and credit put it in Britain in 1959, 'in so far as people foresee a steady rise of prices of 2 per cent per annum, they will look for a 5 per cent rate of interest instead of 3 per cent.' They might have added, 'and 8 per cent instead of 6 per cent.' The odd position in Britain's market for investible savings was reached in 1959 where the yield on government medium- and long-term bonds (gilt-edged) was far higher than that on good business shares (equities). The level of prices of equities had risen to nearly double that of gilt-edged at the same nominal value because individual and institutional investors—a growing army in industrial countries—reckoned with a continuation of rapid inflation, rapid depreciation of the pound's purchasing power; and equities provide a 'hedge' against such depreciation, by rising profits, prices and yields. No 5 or 6 or even 7 per cent bank rate—which is only a governmental interest rate for 'short' money—will cure such

public distrust of a currency. The cure for a long-standing disease cannot be lightning-like. It must have its effect upon people's attitudes to long-term investment at fixed interest, to the safeguarding of their savings through years to come.

The far-sighted author of *Lombard Street*, Walter Bagehot, saw a century ago that democracy and representative government could only be safeguarded in an industrial age by giving 'the workers' a property stake in the system, a capital stake in a capitalistic society. Such stakes were first achieved by the ordinary working folk of the United States a generation ago. The movement spread, with American industrial methods and the consequent American standard of living, to 'the masses' in Britain, Germany, Scandinavia, Holland and Switzerland in the 1950s. It bids fair to encompass those of France, Italy and Japan before long. Indeed there are signs that the Russian workers are to be encouraged to hold private investments which will be safeguarded for their value in the long run.

Modern communications foster this modern, mass property-owning by wider, simpler exposition of economic issues: radio and television, new publications for 'the masses' of both sexes, new specialist literature on everything from leisure-pursuits to modern equipment for homes or hobbies. Therewith the levels rise for public and private discussion of such important national political and economic issues as inflation, productivity, growth, saving and investment. Therewith, too, the natural behaviour of timid or lazy governments becomes increasingly difficult to 'get away with'. On the other hand the ignorance and indifference of 'the masses' are gradually overcome. Formerly they permitted timid or lazy governments easily to 'get away with' surrenders to successive thrusts from organized pressure-groups, at the cost of others in the society. Such massive ignorance of, and indifference to, everything except the individual's own immediate interests is being slowly ground down by new and widening communications, new social patterns, more leisure, and the gradual social wear-and-tear due to retirement by the aged with old notions and recruitment of the young with new ideas.

All these social changes, concomitants of technical progress, make it harder for lazy or timid governments to pursue inflation as an instrument of policy. At least they make it harder to 'get away with' inflation *without* the increasingly grave social and

political tensions set up by the growing public awareness of its dangers. Pessimists about Western culture, democracy, and the educability of 'the masses' should pause to consider the real lessons of our modern mass-communications. The film did not kill the living theatre: it made it, and made it popular. The gramophone or radiogram did not kill the concert and living performers: it made them, and made them massively popular. Radio and television did not kill reading and going to theatres or concerts or any living spectacle: they made them even more massively popular and stimulated older arts to new achievements.

So, too, in political and economic affairs. Industrial mass-society with its apparatus of mass-culture has not killed, drugged or doped serious public and private debate about its vital problems. It is awakening the mass-public, stimulating its intellectual appetites, and making it infinitely less bamboozlable and bulldozable by authority than it ever was before. It is gradually working, albeit with steady acceleration and cumulative effect, against timid or lazy government. It will get the government, and new social institutions or changes in old ones, which it needs. Time is always on the side of new technique. And all the remarkable new technique in economic affairs today demands smooth and complex social co-operation, steady public administration, sound government, reliable money, and dependable present planning for profitable future performance. Uncertainties and undependabilities of all kinds—of social groups, governmental actions, money and prices, or laws and regulations—are anathema to modern productive techniques, and therefore to growth and progress.

Challenges to Progress

True, time is always on the side of new technique; but that is only another way of saying that time is always on the side of change. Indeed, time *is* change. We can never contract-out of time or change. In modern industrial societies most of the social and economic challenges are thrown down by man's inventiveness and technical progress, in the face of older ways of thinking and behaving. So established trades, business procedures, employers' interests, ways of living, practices of trades unions, productive methods, governmental procedures, fashions of all kinds—all these are constantly being challenged by new and more eco-

nomical methods. That is the only way in which mankind has made any material progress.

Yet pressure-groups have been organized in modern industrial society to protect the immediate, temporary, material interests of their members *against* the material interests of all other such groups, and especially against the material interests—and at the expense—of the society as a whole: farmers, trade unions, associations of industrialists, pensioners, motorists, ex-service men, etc. The political pressures exerted by such occupational or social groups drive timid or lazy governments into courses of action requiring public funds to be spent for the group alone. This is bribery or blackmail. It has always been common in democracies. It is a recognized, built-in political procedure in the great American Republic and has long been so. ('Sure he's cheating: it's his deal, ain't it?') It is not unknown, though more easily disguised, in dictatorships. But it is important to see it for what it is.

What it does we have already seen.[1] It is, in fact, a brake upon growth and progress. It is a political premium, at public expense, keeping in artificially payable existence those economic occupations and pursuits which have already been shown, by technical advances, to be obsolete or obsolescent. Such are the industrial democracies' subsidies to their farmers. Such are also the British £30,000,000 fund of taxpayers' money to cushion the obsolescence of the Lancashire cotton industry (first in Britain's industrial revolution two centuries ago); the £250,000,000 of British tax funds to enable the railways to pay poor wages to too many workpeople and provide poor public services as a result; and the regular subsidies of over £100,000,000 a year from tax funds to cover losses and pay surplus labour in State services. Such, too, are the more concealed subsidies from the public's purse in America, Germany and other industrial countries which keep in payable existence what technical progress has shown up as uneconomic units in older trades like agriculture, shipping, mining, industries making textiles, watches and precision tools and many other lines. Such uneconomic activities are thus protected by both external (published) and internal (concealed) tariffs and subventions. The real costs of all such protection of backward, out-of-date, or inefficient occupations is masked by spreading it

[1] See Chapter 7, p. 118.

over the whole community of consumers. And inflation does the same, but without any planned protection of particular groups.

The Cost of Sound Money

If the government of a modern industrial democracy decides to abjure inflation as an instrument of policy, both that government and its people must face inescapable social and economic consequences. These consequences will not be new. They are always there in any case. Under continuous inflation they manifest themselves differently, often masked in a woolly veil of inflated prices. Under sound money and sound government, costs and prices of everything emerge into public awareness as what they are in reality: not as what they seem in money of tottering worth. It is important at the outset to emphasize the value to a democracy—especially to its government, business leaders, and all other technical specialists—of *knowing the real costs* of doing or not doing this, that or the other, in the present or the future, here or there, with these people or those, and with these or those persons' savings and other products.

Accordingly, the abandonment of inflation as a policy by any government will automatically uncover *real* values, costs, and prices—costs of materials and fuels as well as of services and different kinds of human labour. It will unmask economic and technical realities with one hand—an advantage to all planning and progress—while provoking with the other much loud and humanly natural opposition from occupations now indicated as obsolescent or no longer efficient.

There are ways—economic and even economical ways—of dealing wisely and humanely with the often abrupt indications of inefficiency set up by new techniques. It is more economical to install new techniques and let them produce fully up to their enhanced capacity, and to spend tax funds on re-training or re-settling or re-distributing the former units and workpeople for new productive purposes, than to minimize, postpone, or ham-string the working of the latest techniques merely in order to 'protect' the obsolescent units and workers. It is more economical and more efficient to grant regular, openly published subsidies from the public purse to cushion such sudden socially and economically shocking transitions, due to technical advances or

unforeseeable conditions, than to rig certain wages or other costs arbitrarily and artificially by legislation and/or inflation. For if a government rigs *some* costs that way, it throws a veil over the real values of the goods or services affected. It thus throws out of truth the relationship between those values and all others. Consequently the users of *all* kinds of labour, fuels, materials and services will be to that extent working in the dark, trying to pierce the veils, and striving to bring their own valuations as near to economic truth as possible.

Inflation only does on a grand and *general* scale what arbitrary, artificial, administrative rigging of *particular* costs does to protect anachronisms and inefficiencies on a petty scale. So it will no more do merely to abjure general inflation and then, when the inevitable squeals arise, to have fearful recourse to a series of petty and particular protective devices at public expense, than to abjure such petty and particular protection of inefficiencies and have recourse instead to a general inflation. Humane cushioning of social shocks caused by man's unforeseeable new techniques or other new conditions is a proper charge upon a progressive and progressing society. But the charge should be temporary, estimated, allocated, published, comparable with all other costs, and should fall on shoulders best able to bear it. It should not be allowed to burden those least able to bear it, by holding up the material progress of the entire community—especially not if 'the masses' in their organizations clamour for the protection of obsolescence and retrogression, as in ignorance and communal indifference they generally do. That is the test of both democracy and its leadership.

On this issue employers, investors, farmers and other persons of property must be as clear as the trade unionists and Socialists whom they so often criticize. In the modern State—as many a leading industrial democracy still learns to its apparent surprise—new vested interests are always being built up as old ones are threatened. Once any interest is vested in an established line of conduct or method of procedure, it is vested alike for employers and employed, for trade association and trade union, for men of property in that line and for men without it, for both capital and income, for Tory and Socialist. Clamour and organized action for protection of such vested interests cut across political party lines. That is why in modern democracies the governments of

opposing ideologies are generally at one in surrendering to pressure-groups, abandoning leadership in favour of followership, and falling back upon general inflation as a perpetual temporary expedient to buy time.

Required Realism

Accordingly, if democratic government is to survive by grasping such nettles, by restoring sound money—and through sound money sound economic values and plans for a reliable future—the entire democratic community of employers and employed, men of property and men without it, men of the Right and men of the Left, of town and countryside, of all pressure-groups and of none, must be prepared to face the known and calculable costs of faster material progress. They must realize that no existing investment or property, no trade or calling, no established pattern of social life or behaviour, no way of life or pursuit of leisure can be sacrosanct from the inevitable challenges of advancing technique. Those challenges are being, will increasingly be, accelerated. The social shock of their impact must be minimized here and there, wherever it falls.

Economics, material progress, the accumulation of productive capital, are not everything—even if all in the world want them all at once as quickly as possible, and even though they be the foundation upon which all human development, all realization of the individual's potentialities, must rest. But the true costs of cushioning the impacts of these increasing challenges to established attitudes, ways, ideas and economic interests ought to be measured and published as a duty of democratic government. Those true costs and degrees of humane 'protection' must be openly compared and debated for what they are: namely, the costs of a slower material progress for the entire community than would else be possible. That should be the hallmark of a well-led, educated, modern, industrial democracy as contrasted with a totalitarian State wherein the leaders dare not permit public debate about such alternative valuations. To that extent such a democracy should be able to ensure the most rapid and reliable rate of growth for itself, without meanwhile tearing itself asunder by social stresses and convulsions.

One oft-repeated objection to sound money, and therefore to the abandonment of inflation as a policy, comes very naturally

from those who contend that 'only a little' inflation ensures full employment of all resources, a perpetual boom, and the most rapid rate of growth. Apart from the problems of keeping such a perpetual inflation to 'only a little' and avoiding the pitfalls and crises described earlier,[1] this variety of 'full employment policy' masks a multitude of very high *real* costs. They are veiled in the continual inflationary rise of *money* costs: in the depreciation of the currency. The objection, the argument, turns upon these alternatives: whether it is better to keep money sound, thereby making it measure real costs as nearly as possible, and keeping all prices and costs as stable as possible; or whether it is better to let money depreciate.

If money is kept sound and stable, the impacts of challenges due to technical progress or other unforeseeable changes will be seen and felt at once. The costs of cushioning them will be measurable. All consequent economic changes will be public, costed, deliberated, known. The society, and all its lines of economic activity, will adjust to them in full awareness of comparative and alternative costs. Technical economic progress—the efficiency or productivity of *all* ingredients of production (and not of human labour alone)—will then show up as a downward movement in the money costs per unit of output. Where the greater productivity emerges, the costs per unit will fall.

Whether profits then pile up, are distributed and 'ploughed back', or managements reduce selling prices, the fruits of progress will flow out into the community of producers and consumers. The general average price level—the cost of living—can be kept relatively stable by this means. The falling unit costs in the technically more progressive lines, the lines with rising productivity, will offset rising costs in older or less efficient lines of activity. All progress in people's consumption and leisure will then come through stable or rising earnings—in shorter working weeks—spent on more and more goods and services with stable or falling prices. And profits will come from the most rapid possible extension and expansion of consumption: *i.e.* from the swiftest possible increase in turnover.

The 'social cost' of this automatic, stable, swift progress on sound money is the community's ever-readiness to adopt and adapt. Earners and taxpayers contribute from their rising stan-

[1] See especially Chapter 5, p. 73.

dards to cushion the shocks of adoption of new ideas, and of adaptation to new methods, imparted to the minority of workers and installations: much as unemployment insurance, but accompanied by positive re-training and re-establishment schemes.

The apologists for 'only a little', but a regular, inflation fail to meet the objection that their deliberate depreciation of the currency does not indicate where adoption and adaptation should begin. Masking the relative efficiencies of all industries, firms, farms, trades and installations with a spurious, paper profitability, the policy of regular inflation fails to distinguish between comparative efficiencies. It does not force out into the public gaze those economic activities which are uneconomic, as soon as they become so as a result of adoption or adaptation elsewhere. It protracts and protects inefficiency and waste.

Steps to Sanity

Accordingly, abandonment of inflation as a policy is bound to bring awkward decisions forthwith before governments, State agencies, bankers, industrial associations, trades unions, and both individual and institutional investors. During the transition from inflation as a policy to sound money, new social and industrial stresses are bound to arise, as the older tensions diminish. The vested interests built-in by regular inflation—particularly those of the non-adopting, non-adapting, less economical trades, firms, employers, trade unions, etc, and of those threatened by new and more productive methods—will squeal. There will be industrial unrest, and probably strikes, in this disaffected, dis-vested, uneconomic, minority sector of the society. It is idle and wrong to say such a transition from unsound to sound money can be made swiftly, easily and painlessly. It cannot, for we have to do with human beings long presented, at public expense, with a windfall profit: with uncovenanted benefits derived not from their own competitive efficiency but from an inflation dispensed by the hand of the State. Men do not lightly surrender such boons; least of all in a democracy.

But it is only right to point out that—granted the democracy's ability and readiness to draw up 'cushioning' and transitional programmes as described above—the social jolts and jerks caused by the halting of inflation and establishing of sound money need not be grave, widespread, costly or enduring. The costs of such

a programme will be measurable, known, and allocatable to this or that trade or occupation. The programme itself will be supervisable, its progress calculable, its costs comparable with its achievements. It could be a permanent agency under the aegis of the State, and devolved into local agencies. The progress of regular inflation, on the other hand, is immeasurably confused and its costs severe but unallocatable.

Finally, the automatic indicating of inefficiencies by sound money in a competitive system of private enterprise bears only upon the minority of trades, occupations and persons who are shown to be in uneconomic lines of activity. It leaves the majority alone, to advance their productivity according to the same automatic indicators of efficiency, profitability and progress, and with the greatest reliability and calculability of planning for the future. It does not, like inflation, swathe the entire economy in muffling monetary bands which inextricably tie the economic up with the uneconomic, the unproductive with the productive, the efficient with the inefficient. On the contrary, the system of sound money and free competitive enterprise not only indicates; it also separates and segregates the uneconomic and wasteful from the economic and productive in every line of activity.

The 'social costs' of such a system are therefore well worth bearing. They ensure the most productive functioning, the most rapid technical advance, of the majority of the society's economic activities. Such a swiftly advancing society can better afford to bear the 'social costs' of the swiftest possible adoption of, and adaptation to, new techniques. And its laggard minority will accordingly not lag as long, nor prove as big, as it will under a general, regular, blanketing inflation.

Only Two Ways Ahead

The biggest paradox of inflation is that it brings about the very things which a dynamic society is expected to 'grow out of'. When governments give in to pressure-groups right and left, thus raising costs and prices, they bring about before very long a domestic or international crisis of their currency. From such crises there are only two ways of escape.

The first is the inflationary way. It involves more monetary 'shots in the arm' to cover the rising costs. Before very long this involves devaluation of the currency, which upsets domestic and

foreign contracts and all calculations for the future. Democratic governments therefore try hard not to let inflation bring too frequent crises and devaluations, since if it does the whole society becomes the opposite of dynamic and growing. It lags, limps and staggers along.

Accordingly this paradox emerges: even when democratic governments timidly or deliberately choose inflation, they try most of the time to keep it under control. Now the means of control over the rate of inflation is in essence the second way of escape from it; only in this case the escape is never complete. As long as a government goes on inflating, it will find it will have to use the means at its command to prevent the stream of purchasing power from too rapidly outrunning the stream of things available to purchasers. Those means are mainly of two kinds: monetary and fiscal.

The first consists of all measures controlling the flow of money from its various *sources*: the government's own short-term borrowings, the banks' advances to their customers, the volume of hire-purchase contracts, State undertakings' attitudes to wage demands from their workpeople, the simultaneous or consequent attitudes of employers in private enterprise to theirs, etc. So this first means of governmental control over a continuing inflation entails what is called 'a national (*i.e.* governmental) wage policy', as well as the more familiar controls over the flow of money and credit. And that entails a much greater governmental control over all wages and over all trade unions and their activities than most democracies have hitherto been prepared to consider. (Australia, with her long history of inflation, has had to institute it, though it frequently causes paralytic convulsions of her economy.) It is significant that today more and more voices are raised in America, Germany, Britain, France, Scandinavia, Holland, etc, declaring or demanding that their governments should institute 'a national wage policy' together with extensive new controls over trade unions. This is the logical outcome of continuous inflation. It is dictated by a very natural, widespread, political demand by all other groups in the democracy for social justice, provoked by the obvious preferential treatment secured by trade unions for their members through industrial (and political) organization. Social and political stresses stemming from inflationary injustice thus become increasingly dangerous

the longer the inflation continues. And the longer it continues, the more severely will governments eventually be constrained to control the pressure-groups securing preferential (*i.e.* unjust) treatment.

The second kind of governmental control is not over the various sources of the monetary flow, but over its *spending* once it has become people's incomes. It is therefore in essence taxing people's purchasing power back from them. It is accordingly a fiscal control. It can be imposed on inflationary profits; on weekly pay-packets in workplaces as well as all other incomes; on goods and services as purchase tax, entertainments tax, turnover taxes, etc; and even on capital as a capital levy. Its object is to whisk back from people and businesses part or all of their inflationary gains of purchasing power, in order to safeguard the currency. Thus this second, fiscal kind of control over the rate of inflation really makes nonsense of the whole inflationary exercise. It is only frequent because people do not understand how inflation works; but governments understand it only too well. They get hold of the whisked-back purchasing-power for their own inflationary ends. Those ends include paying deficits or other subsidies to various State undertakings and their employees. Accordingly this second, fiscal means of control over inflation also creates social injustices and political stresses. And it does not make for steady, dynamic growth in a democracy because political pressure is always on the government to disburse its fiscal gains—its whisk-back—as grants, subsidies, deficits, welfare services, and all other forms of consumption by someone or other. In short, the fiscal control further burdens the taxpayers but fails to effect a cure.

Clearly, the least nonsensical, most dynamic, most democratically just procedure is to avoid inflation from the outset, or to halt it in its tracks if it is already under way. It is to preserve sound, calculable, and for the medium-to-long term reliable, purchasing power. It is to keep money as 'neutral' as possible, so that all other factors in society—economic or not—can be assessed and valued without any need to wonder whether the monetary measuring-rod itself is varying, in which way, to what extent, and at what rate. To achieve that, the safest and best way is for the government of a democracy to control the flow of purchasing power at its sources: the first means of control described above.

The second, fiscal means of control over spending should then seldom, if ever, become necessary.

Competitive Efficiency

Inflation means arbitrary favouritism, preferential treatment, and creation of vested interests. It veils natural costs and therefore confuses calculations. Consequently the cure for it involves increasing competition, reducing protection, and exposing vested interests and veiled costs to natural economic breezes. Those breezes will arise inside a country as soon as it starts to remove shields from vested interests. But they will also blow into it from outside. Hence one cure for inflation—recently demonstrated in Australia, but not yet by the United States or Britain—is to reduce tariffs and let more competitive foreign products into the inflation-ridden country. Then natural values re-emerge and reliable calculations can be made.

But this cure for inflation by greater competition must be comprehensive. It is idle to let more foreign goods in, while keeping up inflation and domestic subsidies and other protective devices at home for the vested interests of farmers, trade unions, fuel producers and manufacturers. That way extra competition will only mean more and louder squeals for more and faster protection. More and faster inflation will then probably result. The cure for inflation must therefore comprise from the outset a domestic policy of reducing the degree of protectionism, subsidizing, and tenderness towards vested interests at home.

Such a diminution of protection for vested interests spells some immediate unemployment of economic resources: of men, materials and machines. That sudden, transitional unemployment exactly measures the amount of *uneconomic* activity which went on in the phase of over-full employment. But it need only be sudden and transitional. Once it is completed, and once monetary inflation is stopped, the country's system gets down to the natural economic values, costs and prices. All calculations from then onwards are more reliable, less confused.

Clearly the cure of inflation can more easily be effected in a purely domestic setting. International agreement to halt inflation by simultaneous action is hard even to imagine, though necessary and desirable. Accordingly, countries only involved in foreign trade to a small extent (*e.g.* the United States and France) stand

better chances of overcoming inflation than those (*e.g.* Britain, Holland, Germany, Switzerland, Sweden) in whose national incomes foreign trade bulks large. The reason, of course, is that a government's writ to stop inflation can easily be made to run within its own jurisdiction, but it cannot be made to run in those of foreigners; and they probably will not agree to do the same counter-inflationary things at the same time.

If country A is countering inflation and letting in more of country B's goods, while country B isn't countering inflation, country A's currency at first will be more on offer (to pay for B's goods). A's balance of payments at first will go askew, as it owes more. But if inflation persists in B (and C and D and so on) and is really countered in A, prices in B, C, D, etc will go on rising, while they won't in A. Then people in B, C, D, etc will increasingly buy in A, while the people in A buy less and less abroad (since A prices remain lower). So A's balance of payments difficulties will very quickly be overcome as its currency is more demanded by B, C, D, etc. So A's currency will soon appreciate against those of B, C, D, etc. Thus a country substantially involved in international trade needs a substantial reserve of gold and international currencies to tide it over the initial period when it is stopping inflation. But once the tide-over period is ended, it will tend to buy less, and sell more, abroad (as its currency appreciates).

This is precisely the experience of Germany between 1950 and 1958. Only in 1958 did the pressure increase upon Germany to reduce her unnecessary industrial and agricultural protection (tariffs and quotas), by which time the preferential treatment for the goods of her other five partners in 'the Six' of the European Common Market was beginning. And only in 1959 did it become apparent that in fact Germany had levied a toll on the rest of the world—principally on the United States and Britain—*by not inflating as much as the rest.* What led to the re-emergence of an inflationary threat in Germany in 1959-60 was not her internal process of countering inflation but her continuation, for far too long and at too high rates, of protectionism for her farmers and industrialists. Germany secured great profit from countering inflation; but it largely went to feed an artificial boom behind protective barriers against other countries' goods; and so inflation re-entered by the back door.

The moral is obvious. Freer trade and more competitive enterprise must go with the purely monetary actions to counter inflation. That is why all apologists for inflation demand, with it, State controls, restrictions, and regulations of all trade and enterprise.

Stopping Inflation

There are only two ways to stop continuous inflation. Both are needed at once:

(1) to cut down the pressure of new money and credit, by cutting Government and State expenditure to fit reasonable tax revenues (such as give people of *all* classes and incomes incentives) and to fit the available savings which the State and private enterprise can borrow at free market rates of interest, at medium or long term; and

(2) to raise productive efficiency (productivity) in all walks of economic life, by cutting down restrictive practices of all kinds, by improving managerial techniques and training, and by getting more modern machines *and then letting them turn out all they are capable of producing* (which means revising both trade unionists' and managements' attitudes to shift-work, organization, machinery, managerial methods, etc).

If a country pushed ahead with these two methods of combating inflation at once, its costs would remain stable or fall, not rise. The first is the government's responsibility and within its power. The second is that of trade unions and management and within their power. Once costs and prices were stabilized, the currency would be safer. Savings would increase. So would investment. The overdue improvements its people wanted would begin to come about—modern railways, highways, technical schools, hospitals, etc, and the development of overseas resources in the less industrialized nations. The balance of payments would be assured by more rapidly rising productive efficiency. Reserves would mount. And last but not least—indeed, from our own personal and national viewpoints the prime benefit of all—social, political and industrial tensions would relax. Our natural, justified differences of aim or policy could be argued out and carried out, without wrecking the whole ship in the breakers

ahead. The rot in its timbers would have been stopped.

That is not an impossible task for a democracy. It need not demand longer or harder work—only better work, better organized, better managed, in up-to-date ways. It need not imply falling sales, falling wages, rising unemployment. On the contrary; it is the quickest foreseeable way to get rising sales, rising real incomes all round, and full employment, together with reliable money, stable prices, worthwhile savings, and modernization (investment).

It is a task jointly to be undertaken by State industries, the government, and private enterprise. That means it must jointly and simultaneously be supported by politicians of all parties and the people who elect them, and by trade unionists and managements on the crucial industrial front. It must be understood by the men in the street, so that no one need ever see men on the street again. It must be willed and wanted—this determination and policy to beat inflation—like the winning of a war, *by all people*. For if they do not band together to beat it, it will beat them.

The primary duty is the government's, for they control the spending and programmes of the State, and the supply (and quality) of the money and credit and therefore of the currency.

Let them limit the creation of money and credit. Let them ensure the stability of money by giving non-political monetary authorities independent powers to criticize and to safeguard the currency. Let them stop financing their own programmes by floating debt. Better than having physical controls and ubiquitous rationing leading to widespread inefficiency, let the State cut its coat from available savings. Let the government reduce taxes, but induce individuals and institutions to save more; and then let them borrow all they need at medium or long term in free and open capital markets.

Any shortages of money, savings, etc, would then only be felt 'at the margin'—in a firm or a place here or there, in a section or part of an industry—and not in an entire nation clamped under irons. An enduring, general increase in unemployment need not then occur. Whenever unemployment of the nation's resources then occurred, it would be a true index of inefficiency, waste, out-of-dateness, or unnecessary activity. And it

could be looked after by such national measures as have been outlined above.[1]

If the leading democracies don't or won't stop the inflationary rot in their timbers it will sink them, while other nations sail ahead. It will be poor consolation for their political parties, managements and unions to say as the ship sinks 'Anyway, the leak was at the other end of the boat.'

[1] See pp. 143-8.