

from the banks, and this will further increase inflationary pressures.

Inflation increases the difficulty of getting rid of irksome controls. They have to be imposed, *not in accordance with some development plan*, but to keep the price level effectively in check because inflation leads to shortages. The expanded purchasing power increases the demand for imports, and import and exchange controls are needed to prevent all exchange reserves from being spent. Unless those who receive licences are to obtain monopoly profits, *internal price control* is needed, and it must be imposed wherever shortages appear. . .

I am also inclined to think that there are bad effects on industrial morale. Employers complain that over-full employment greatly increases labour turnover, and makes workers less conscientious. But one may ask also if it doesn't lead to slackness in management and less concern over avoiding waste and improving efficiency, because profits are easy to get.

So we ask whether it is better to have over-full employment and suffer these effects, or aim at full employment as I have defined it and avoid the worst of them.

Sometimes it is suggested that the redundant purchasing power should be taken up in increased production. This is desirable for its own sake, but it is not a solution to the inflationary problem, because it is not possible to increase production fast enough to offset price increases as large as 6 per cent per year compounded. The answer is to be found in control of money supply.

The volume of money rose from £53 million in 1939 to £150 million in 1945, and £277 million in 1953, about five times as much as in 1939 and 80 per cent greater than in 1945. If we allow for greater velocity of circulation of money, purchasing power nearly doubled. Over the past year it has increased further by £58 million. The first main cause of the expansion is an

increase in overseas exchange reserves from £83 million in 1945 to £118 million in June, 1953. . . Another cause is Government borrowing from the banks. This rose from £57 million in 1945 to £84 million in 1953. The third main cause is advances and investments by the trading banks which were over £60 million higher in 1953 than in 1945.

We can approach the problem by increasing the supply of goods and reducing the money supply, or at least preventing it from rising further. As I have said, increasing local production is important, but it can't operate fast enough. We could, however, utilise the increased exchange reserves to buy more imports. However, I don't think imports are unduly prevented by exchange controls at the present time and main emphasis must be on the side of money supply. We could tackle the problem through export receipts by means of stabilisation accounts for farm products, or by appreciating the exchange if export prices do happen to rise further. Internally we have to combine Government financial policy and monetary policy. The one requires budgeting for a surplus and repaying Government debt to the banks or using it for public works so as to reduce borrowing from the public. The other requires tighter control of credit and letting interest rates rise, both to encourage more savings and discourage marginal investments. To prevent wages from rising is an approach of dubious merit unless other measures keep price increases within bounds, for it is asking a large section to bear the brunt because of failure to tackle root causes.

None of the lines of approach indicated is popular; but unless the matter is taken out of our hands by a sharp decline in export prices, we are likely to suffer from the consequences of inflation until we are prepared to follow these routes, not necessarily by deflation to bring prices down, but by holding the position to restrain further increases.

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Peasant girl from the French North-west

N.Z. LISTENER, SEPTEMBER 3, 1954.

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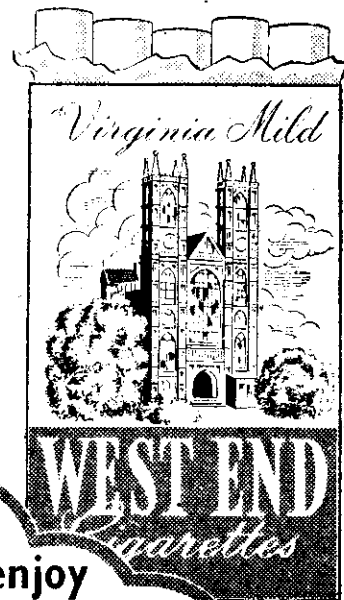
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