After having examined the pros and cons of birth control, a Japanese population expert ended a long article with the following conclusion: 'The undeniable fact is that we have experienced neither economic development nor social progress at a time when population growth comes to a halt.'[4]

Will it be any different in India? It would certainly seem that, for all the justifiable doubts regarding its ends and means, no other socio-political measure has evoked such an eager interest among westernized Indians and their foreign associates as has birth control.

There are several reasons for this. Family planning dangles in front of its advocates a short cut to individual and national welfare and happiness. It puts a premium on selfishness, and sanctions pleasure without responsibility; it confers the exhilarating sense of power over existence and non-existence. In other words, it panders to the human greed for divine might that manifested itself by the eating of the forbidden fruit in the Garden of Eden and by the building of the Tower of Babel.

[4]See 'Population Growth Factors in Economic Developments', by Ryozaburo Minami, Professor of Chuo University in *Asian Affairs*, the English language publication of the Japanese *Asia Kyokai*; October 1959.

A Policy for Economic Growth

J. M. JACKSON

The discussion of the Government's incomes policy has overshadowed discussion of the setting up of the National Economic Development Council. This is hardly surprising. Every individual is not only very concerned with what goes into his pay packet, he is also fully aware of what is happening to it. Economic growth, inflation and a host of other factors, may have just as great a bearing on his standard of living as the amount of cash he actually takes home, but, for all that, it is a less obvious bearing. Nevertheless, the question of economic growth is a vital one for each individual, and for the community as a whole. Moreover, it is a question that is intimately connected with the subject of incomes policy. In the present article, economic growth will be considered under

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three headings. The first is the desirability of economic growth; the second, the facts which account for slow or rapid growth; and thirdly, the possibility of framing a policy for more rapid growth in Britain.

Since the war, Britain has been faced with the problem of inflation. During the war, inflation occurred because of the very heavy Government spending on war materials, a restricted supply of civilian goods for consumption, and a reluctance to raise taxation to the level where it would have left civilians with just enough money to buy the greatly restricted supply of civilian goods available. Many economists thought that the high level of personal savings (which did much to keep inflation from getting entirely out of hand) would prove a useful defence against any post-war depression. In fact, no danger of post-war depression materialized, and the release of a large part of these accumulated savings added to the inflationary pressure of the immediate post-war years. During the war, and for some time afterwards, it was this pressure of demand for a limited supply of goods and services that was the chief cause of inflation. Wages rose, but this was because employers were anxious to get labour in order to increase production, and were therefore bidding up wages. Later, however, the situation changed. Demand came more into line with supply, as industry changed over to a peacetime basis. Even today, however, the threat of inflation is still a real one. The danger comes now from a different source. Trade unions have become accustomed to regularly rising money wages (and rising real wages, too, though a little more slowly), and continue to press for wage increases that go beyond the limit set by rising productivity. If wages rise by more than productivity, it is almost inevitable that prices will rise, for wages and salaries now take about 75 per cent of the gross national product whereas the gross trading profits of companies (that is profits before allowing for depreciation) account for only 10 per cent.[1] There is, perhaps, some very slight scope for gains to be

[1]Gross profits, in this context, include the fixed interest charges which companies have to pay on borrowed capital. A large proportion of the net profits are re-invested, and it would be impossible, if investment is to be maintained at a high level, to change this situation, though one might argue that in some way the workers should be given a share in these undistributed profits (especially through improved pension schemes). It may also be pointed out that in industries where productivity increases rapidly, there is no justification for a corresponding increase in wages. Other workers, where productivity is not increasing, or is increasing less rapidly, will expect similar increases. The rule should be, subject to some necessary adjustments for changes in the general relationships of supply and demand in the labour market, that all wages rise at the same rate as the average increase in producititivity throughout the economy.

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made by labour (and perhaps by shareholders too) at the expense of other sections of the community (the self-employed and the recipients of rent), but this is strictly limited, and of doubtful equity. The only way in which significant increases in real wages can be obtained is from greater productivity. If we want a faster rate of increase in real wages, it is necessary to secure a faster rate of growth in productivity.

At the present time, the trade unions are inclined to submit annual demands for higher wages. These are frequently of the order of 10 per cent, though settlements are often made for less than this. Nevertheless, an offer of say 2 to 3 per cent is often treated as derisory, despite the fact that this is roughly the rate of growth the British economy has displayed in recent years. In other words, the present position is that the trade unions are pressing for general increases in wages that exceed the average increase in productivity. Employers must therefore put prices up. If, however, the rate of increase in productivity could be increased to a level where it equalled the rate of increase in money wages that would satisfy the trade unions, the present wage inflation would be brought to an end.[2]

To this point, it has been assumed that economic growth is a desirable end. Moreover, in so far as a more rapid rate of growth would make it easier to check inflation, with its resulting social evils and its undermining of our competitive position in export markets, it clearly is desirable. We can pursue the target of economic growth without becoming preoccupied with our material well-being: equally, the lack of growth does not ensure our freedom from such preoccupation. Greater material wealth is, in itself, a good thing, but it is up to us to make sure that we put it to good use. There is still much poverty even in this country, but even our poorest citizen is probably better off than the great majority of people in the underdeveloped countries of the world. If we achieve a more rapid rate of growth, we should make sure that part at least of our greater material resources are used for the benefit of those who are in real need and that it does not all go to provide still greater luxury for those whose standard of living is among the highest that this world has ever known.

[2]It must not be thought that this would be easily achieved. First, we have to get the 4 per cent rate of growth that is the target for N.E.D.C. Secondly, we have to induce the unions to accept an average rate of increase in wages of 4 per cent. Since some relative adjustments have to be made, and some groups may be justified in claiming increases of 20 per cent to 30 per cent or more, it follows that others must be willing to accept less than 4 per cent. It is here that the difficulty lies.

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There can be no question of the sluggishness of the British economy. It was, of course, natural that the European countries that had suffered most from the war should have enjoyed a much faster rate of growth than Britain in the immediate post-war years. Nevertheless, this faster rate of growth has continued in more recent years. For example, output per man hour in Britain rose only 10 per cent over the period 1953 to 1957, compared with 32 per cent in France. Critics of the Government have been ready enough to attribute this slow rate of growth to the economic policy that has been followed in this country. There may, indeed, be an element of truth in the suggestion that restrictive monetary policy and high interest rates have checked investment and economic growth as well as helping to slow down the rate of inflation and to protect our balance of payments. On the other hand, inflation and balance of payments difficulties have been very real and serious problems, and there is no evidence that the remedies the critics would substitute would work any better now than they did between 1946 and 1951. The evidence is that price controls, allocation of raw materials, direction of labour, and so on do not succeed in checking inflation. Nor indeed is there the slightest evidence for the common suggestion that there was a faster rate of growth before the return of the Conservative Government in 1951. Over the period 1946 to 1951, the gross national product rose by 10 per cent, but with the aid of a civilian labour force that increased by 25 per cent. In other words, productivity was substantially lower in 1951 than in 1946. Between 1951 and 1959, on the other hand, production rose by 14 per cent with only a 5 per cent increase in the labour force.

Investment is perhaps the biggest single factor in determining the rate of growth of an economy. It is net investment that has the biggest effect on productivity—that is, the provision of additional capital over and above what is needed to replace equipment that is reaching the end of its useful life. Part of net investment consists of equipment destined for the *widening* of capital, that is the provision of additional equipment as the labour force increases. The other part of new investment leads to a *deepening* of capital, that is to the use of more capital per head of worker employed. It is really this part of net investment which is most efficacious, though even the widening of capital can be associated with an increase in productivity. With a growing labour force and the provision of additional capital for its use, many industries will be equipped with a high proportion of relatively modern equipment, which will be more efficient than older equipment. Productivity

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will therefore tend to be higher than when there is no growing labour force. Similarly, it will be seen that even when there is no net investment, productivity would tend to increase as old equipment is replaced, since an old machine is rarely replaced with an exact replica: normally the replacement incorporates some improvements on the old.

The available statistical data suggests that in Britain the yield on gross investment is about 20 per cent. (This means that when investment amounting to £100 takes place, the total output of the country may be raised by about £20. It does not refer merely to the increased profits for those providing the capital.) In other words, if we were to devote 20 per cent of the gross national product per annum to investment, we could expect that product to grow by 4 per cent each year. In the past, our investment level has been low by comparison with other countries. In 1953, it was only 15 per cent, compared with 18 per cent in the case of France, 20 per cent in Sweden and 22 per cent in Western Germany and Italy.

The improvement of productivity depends, of course, on the investment carried out being of the right kind. More efficient machinery for the production of commodities that are not in demand will make no contribution to increasing productivity, because these machines will simply not be used. Neither does investment in housing and the social services make a significant contribution to productivity in an advanced economy like ours, though it might well do so in a backward country by improving the health and efficiency of the workers.

Britain has experienced a slower growth in population than many other countries. Between 1938 and 1958, our population increased by only 9 per cent, as against a 13 per cent increase in population in Italy, 18 per cent in Sweden, 29 per cent in the Netherlands, and 31 per cent in Western Germany. As we have seen, if such increases in population are accompanied by the provision of adequate capital equipment for the needs of a growing labour force, the result will be a modernization of equipment and a consequent increase in productivity. Thus the pessimists who would regard a growing population as a problem are mistaken. Within limits, at least, it can be a help to economic development. The growth of population is particularly advantageous when it consists primarily of increased numbers of men and women of working age. Western Germany has benefited in this way from the flight of refugees from East Germany. A beneficial effect is also felt when there has been an increase in the birthrate and the larger numbers born begin to enter the working age groups. The increase of population through

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the increased expectation of life does not, in an advanced economy, produce a beneficial effect of this kind. Although the working population may increase slightly because fewer people in the working age groups die, the chief effect is an increase in the number of pensioners.[3]

Productivity may also be increased by transferring workers from occupations where productivity is low to those where it is high. It is, of course, difficult to make comparisons of productivity involving more than one industry. There is only one thing in common to all industries—the value of output. If a change in the distribution of the labour force increases the value of production, it means that the new combination of goods and services produced will be more highly prized by consumers than the original one, and, in that sense, the economy has become more productive.

In Britain, as in some other European countries, the productivity of labour engaged in agriculture tends to be low. This is not because European farmers are incompetent, in the sense that they do not know their jobs. It is simply a reflection of the fact that because of different geographical conditions and/or lower wage levels in other parts of the world, these other areas can produce at a lower cost than Europe. It is, moreover, these lower cost areas that largely determine the value of agricultural produce, and account for the low value productivity of European agriculture. This is particularly so in Britain, where there are few tariff restrictions on imported food supplies.[4] If Britain were cut off from some of her normal sources of supply, a shortage of food supplies would develop and prices would rise. As a result, the productivity of British agriculture in value terms would rise. Meanwhile, a movement of labour from agriculture will mean that the productivity of labour is, on the average, substantially increased. A considerable transfer of labour from agriculture to industry has taken place in France since the war, and this is one explanation of the great rise in the productivity of French labour. In Britain, where already only 4 per cent of the population work on the land, there is clearly little scope for

[3]In countries where the expectation of life is very low, an increase in the expectation of life and a falling death-rate will have a considerable effect on the size of the working population.

[4]It is not the whole explanation, however. Something of the same situation exists in the United States. One explanation that has been advanced there is that there has been rapid technological advance in American agriculture and that this has led to over-production, which, with a very inelastic demand, has led to disastrous falls in price. See the symposium on 'The Farm Problem' in *Social Order*, May 1962.

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increases of productivity from this sourse.

We should not be unduly depressed by the fact that countries like France are able to increase their productivity in this way. It means that as the efficiency of their agriculture improves, men are released from the land, are absorbed into industry, where their productivity is much greater than before, and the average productivity of the country as a whole is increased. Except in so far as this movement of labour into industry stimulates investment and leads to a modernization of equipment, it does not mean that countries like France are becoming more efficient in particular industries than we are. We should not be finding it more difficult to sell in competition with French motor manufacturers, for example, because of this change.

To some extent, the foregoing discussion of the causes of economic growth will have pointed the way towards stimulating a faster rate of growth in the British economy. First, it would seem, investment should be increased, and this means primarily investment in industry rather than investment in housing and social services. Investment in these latter fields is certainly desirable, but we should realize that such investment is more akin to consumption. We must decide whether we want to spend our incomes on bigger and better television sets and more holidays abroad or on better housing and health services. If we want the latter, well and good, but we should not fool ourselves that it will make any difference to the productivity of our industries.[5]

There are various ways in which the Government might attempt to stimulate investment. One is for the Government to give special tax free allowances on investment. Usually, the tax free allowance is deducted from the subsequent depreciation allowances, so the effect is really to reduce the tax liabilities of the company in the first year or so and to increase them thereafter—in fact the result is much the same as giving the company a tax-free loan. Low interest rates, brought about by an easier monetary policy, might help a little, though it is doubtful whether investment in capital equipment for industry is very sensitive to the rate of interest. A third possibility which has been advocated is the granting of preferential tax rates on profits that are ploughed back instead of being distributed to shareholders. This method is useful, up to a point, but it has its drawbacks. It might be better for firms to lower prices in some circumstances, and to hope that it would be

[5]In Britain, education is perhaps the only social service that would make a significant difference to productivity. This is especially true of technical education.

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possible to induce more personal savings from those who benefit. Increased industrial pension schemes might absorb some of the present undistributed profits. In the latter case, we would be quite sure that the money would still be available for financing investment, but it would not necessarily go to the firm which formerly earned these profits. The change might, therefore, reduce one of the factors that can make for increasing monopoly power.

One question that must inevitably arise is whether the Government should exercise some measure of control over the pattern of investment. On the whole, it is probable that it is best that investment decisions should rest primarily with private enterprise. This does not mean that all the most necessary, or even all the most profitable, projects will be financed first. A firm with liquid assets available may choose to invest them in developing its existing business. Many firms will do this. On the other hand, the most profitable and perhaps the most desirable project would have used all the resources at the disposal of a number of firms and involved some entirely fresh venture. But this venture may not materialize because no single organization has adequate funds and, perhaps, the necessary freedom from other commitments. The Government should certainly watch the economic situation carefully, and be prepared, on occasions, to take steps to encourage particular projects that appear vital to the wellbeing of the economy as a whole. It may be, for example, that some such enouragement is needed to push a project for removing a bottleneck which is preventing rapid expansion in some industry where productivity is capable of rapid increase. We should, on the other hand, beware of falling into the fallacy of believing that a central plan is 'rational' and that central planning by the Government is all that is needed.[6]

Secondly, the raising of productivity requires that we should employ labour (and also other factors of production) where it is most useful. The expansion of new industries in which there is rapid technological advance will only be possible to the extent that labour is available. The last thing we should do, if we want rapid economic growth, is to protect declining industries. An industry is in decline, and it must be forced to release its redundant labour as quickly as possible. It may be that the industry is not destined to disappear entirely. The Lancashire

[6]It would not be inconsistent to argue that a Government could have a considerable influence in raising the productivity of a predominantly free enterprise economy whereas it would retard the growth of productivity if the Government tried to do too much.

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cotton industry has lost a great deal of ground in the market for the cheaper lines, but nobody denies that it has a role to play in the market for high quality products. But it is better that in such circumstances the industry should contract as rapidly as possible to the size that can be maintained in the long run.

Advocacy of such a policy does not imply a disregard for the interests of labour. One way of forcing the declining industry to release its surplus workers would be to insist that the industry pays wages as high as those in expanding industries. Employers in the declining industry will not be able to afford such wages for more than a small part of the existing labour force. Many firms may have to close. Those that remain will be able to charge prices that enable them to pay the higher wages and to re-equip their factories. The released workers will get higher wages in the new industries than they could have got if the decline of the old industry had been permitted to drag on slowly.[7]

Even in an area where there are adequate alternative jobs available, redundancy may mean at least a short period out of work, and, at present, even such a short period of unemployment may involve hardship for a worker. The remedy is not to fight against the creation of redundancies, but to evolve a policy that will take the hardship out of the loss of a job. At the present time, unemployment benefit only serves to alleviate the worst hardships. One might think in terms of redundancy compensation or unemployment benefit that would be fairly generous, and some development along this line may be desirable. A preferable arrangement would be to think primarily in terms of redundancy without unemployment. In the salaried ranges, there is plenty of mobility but very little unemployment. The reason is that the salaried employee is usually entitled to at least a month's notice, whereas the manual worker may normally get a week and sometimes less. Given a month's notice as a normal requirement, two things might follow. First, firms, would plan their labour requirements more carefully. They would think further ahead ,and make greater use of natural wastage: they would not recruit men they knew would become redundant next week. Secondly, on receiving notice, a man would have a reasonable opportunity to find a new job to which he could go immediately on finishing his present one.

[7]The only qualification necessary is that jobs must be available. If movement of labour to areas where industry would naturally choose to expand is undesirable or prevented by housing shortages and so on, the decline of the old industry should not proceed faster than new jobs can be provided in the area.

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A vigorous anti-monopoly policy would also be a necessary part of a vigorous policy for economic growth. One striking feature of the reports made by the Monopolies Commission before 1956 is the extent to which restrictive practices were employed not so much to make outrageously large profits but to protect the opportunities of established firms to go on earning at least a reasonable profit. A modest profit is not a just profit unless it is properly earned, and firms that are not as efficient as they might have be no right even to the normal level of profit. Quota schemes for sharing the market between existing firms instead of allowing the more efficient and progressive firms to increase their share retard the growth of productivity and are against the interests of the community as a whole.

Finally, we must return to the problem of inflation. If inflation threatens, corrective action will be called for, and this may be detrimental to economic growth. It would be inappropriate, as well as impossible, to discuss here the kind of measures that are best suited to keeping inflation in check. All that can be done is to demonstrate certain relationships between economic growth and inflation. It is commonly assumed that inflation is inevitable if wages and salaries increase, on average, more rapidly than the average increase in productivity. This is, in fact, an over-simplification, but one which may be accepted for our present purpose. Let us suppose, however, that in order to promote economic growth it is intended to step up the proportion of national income devoted to investment. Employers can afford to pay higher wages in proportion to the increase in productivity without putting up prices, but unless wage and salary earners increase their savings on a sufficient scale out of their bigger incomes, the new level of investment cannot be financed without inflation. If the money for the new level of investment is not readily forthcoming, there is only one way in which it can still be obtained. This is for the banks to lend more newly created money to business men. This extra demand leads to increases in prices as individuals and businesses compete for a limited supply of goods available. When prices have risen to a certain level, the value of people's incomes is reduced in real terms to such a point that they are forced to leave sufficient of the community's scarce resources available to enable the desired investment target to be achieved.

So long as the proportion of the community's resources devoted to investment remains constant, wages may not only rise at the same rate as productivity but individuals may, without harm to the community,

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consume the customary proportion of any increased pay. If, however, the rate of investment is to be increased, wages may be increased in proportion to productivity without adding to costs and forcing prices up that way, but unless a sufficiently large proportion of the new incomes are saved, the new investment target cannot be achieved without its being financed in an inflationary manner by bank credit.

One thing is certain. If cost inflation is to be avoided, wages cannot be allowed to increase more rapidly than productivity, and, as we have already seen, the avoidance of inflation may be essential to the promotion of growth. The formulation of a rational wages policy, however, is hardly likely to be an easy matter. Something more is called for than the measures adopted by the Government in the latter half of 1961 and the early part of 1962, when little was done except to hold back the pay of those directly or indirectly paid by the Government whilst the pay of others continued to forge ahead. The result was to distort the whole wage and salary structure rather than to promote those changes in relativities that were called for. A wages policy must allow relativities to change in respond to fundamental changes in the conditions of supply and demand, whilst ensuring that the average increase does not outstrip productivity. At the same time, a policy for wages alone is hardly likely to appeal to labour, and understandably so, notwithstanding that wages are more important than profits since they take such a bigger share of the national income. In other words, we reach a not surprising conclusion that one of the essentials for the promotion of economic growth and the avoidance of inflation is the achievement of social justice.

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