

GROWTH VERSUS INFLATION

The ability of Industrial Investment Banking to channel investment into areas of un- or under-employment offers the potential to expand the productive capacity of the economy to its maximum potential, that is to say, full employment.

Yet despite the clear desirability of full productive use of all economic resources, the ability to expand an economy to full capacity cannot presently be realized, for as the economy expands to near-full employment, the Central Bank puts the economic brakes on by raising interest rates, to counteract the threat of inflation.

Inflation is an increase in price without a corresponding increase in value. If the price goes up for a better product that costs more to make, that is not inflation. But if a producer asks more tomorrow for the same product he sold for less yesterday, that is inflation.

Similarly with wages. More money for more or harder work is not inflation. Inflation is more money tomorrow for doing exactly the same work you did yesterday.

In today's economies, the level of overall economic activity directly affects inflation.

The economy is in recession. Producers and retailers find difficulty in moving their goods; so they respond by offering price reductions, incentives and special offers. Prices remain stable, or more often are reduced to stimulate sales. Similarly with wages. Employees are naturally reluctant to demand more money, or threaten strike action, in a time of high unemployment with a lineup of job applicants outside the door. So wages remain stable, indeed wage rates may even fall overall.

Then, with inflation under control, Government and/or the Central Bank seeks to expand the economy by lowering interest rates, making it easier for both producers and consumers to borrow money to finance production and consumption. So the economy picks up.

As the economy expands and consumer demand expands, shoppers return, willing to spend, so producers and retailers can increase their prices without damaging sales. Soon the "sale" signs and special offers disappear, and prices can be nudged upwards without risking lower sales.

Again, the same upward trend affects wages. When the economy approaches near-full employment and staff are hard to find, now's the time to demand that raise you've been wanting!

So wages go up, prices go up. Inflation sets in. The Central Bank once again attempts to control inflation by slowing down the economy with increased interest rates, thereby reducing the economy to a state of mild recession and a degree of unemployment. Off we go again.

In a free market economy, wages and prices increase in times of economic expansion and can only be held in check by creating a degree of recession.

Recession or inflation? Our economic managers have two choices. Expand the economy to full employment and we get inflation. Or reduce inflation, by slowing down economic activity, creating unemployment and recession. The art of economic management as currently practiced lies in attempting to compromise between the two.

Inflation is not the complex esoteric phenomenon economists would have us believe as they attempt to explain it with long equations and newly-invented symbols. Inflation is not a monetary, but a social factor. In hard times people behave themselves. But when things get easier, producers put prices up for the same product or service, and employees demand more money for the same amount of work.

The underlying economic factor which makes this situation possible is that pay and prices are settled by a form of disputation. The price is as much as the producer can get, or as little as the consumer is willing to pay. Similarly, the wage is as much as the employee can get, or as little as the employer can get away with.

This process is commonly known as *free collective bargaining*. But it is inherently unstable and subject to continuous upward pressure fuelled by the simple human desire for more. While the desire for more wealth and prosperity both personally and nationally is a very reasonable one, an economy and its participants should seek to increase their personal and collective prosperity by becoming more productive – producing better goods and services at less cost – not by demanding more money for the same work or the same product.

The process of establishing pay, profits and prices by disputation results in friction, industrial strife, loss of productivity, inflation, and permanent under-employment. It represents a facet of anarchy, in that it is a process of settling differences by unregulated dispute rather than by a system of debated and agreed guidelines and regulation. And it ensures that we can never achieve and maintain full employment.

STABILIZING VALUE

Free Collective Bargaining on the wage, or pay side, combined with totally unregulated market pricing is the key factor which prevents expansion to full employment. What, if any, are the alternative options?

A potential solution to this problem already exists, and needs only to be applied on a standardized national scale in order to bring stability – and social justice, that essential precondition of stability – to the economy and to society.

For many years, a number of government agencies and corporations large and small, have been using a system of *job evaluation* to evaluate the work each employee contributes. Each job is analyzed, its essential characteristics and demands, such as training, responsibility, working conditions and physical/mental effort involved, are measured on a series of common scales. The job “value” is then directly related to remuneration. In this way, pay is fair, both in relation to the work done, and in relation to the pay and the work of others.

Currently there are several such systems in use, well tried and working successfully. It would not be difficult to analyze and compare their different features in order to establish a single national standard of Work Evaluation, thus ensuring that each person’s remuneration at any level relates directly to the work involved, and to similar work done in different fields by others. A fair day’s pay for a fair day’s work, right across the spectrum of employment.

A national standard would provide a point of reference, of justice indeed. Everyone would know how much they should get for the work they do, without hassle or argument or strike.

Job evaluation can be reflected directly in wage evaluation thus ensuring wage stabilization. This process can be carried through to price stabilization.

A factory's, or a business's total costs consist of three elements. First, the cost of bought-in raw materials and components; second, the direct labour added in the factory; and third, the costs of capital write-off, overheads and finance.

These are the costs of making a product, of supplying a service. From these costs a Unit Production Cost can be calculated for each product or service supplied. If this Unit Production Cost then becomes the Selling Price, there would be a direct and fair relationship between cost and price, and therefore between pay and purchasing power.

But the Unit Production Cost is not normally equated with the Selling Price. The difference between the two is commonly referred to as the net profit. How is the net profit currently disposed of?

The prior destination for profits has traditionally been the investors, or shareholders. But today this is changing, reflecting in turn a new perception of the need to create a greater sense of teamwork.

Investment is vital, as also is the equipment it provides; but the machine is no longer the exclusive source of productivity and indeed its operation can be rendered useless without the intelligent participation of the workforce. The reality today, becoming ever more widely recognized, is that the people who work in an enterprise are equally vital: their inventiveness, their enterprise and initiative, their attention to the job in hand, their commitment to quality, their extra thought and effort... these are the factors which if encouraged and harnessed can turn investment into productivity and prosperity, and which can turn a company's fortunes. Thus an annual workforce bonus reflecting performance of the company may also be included.

Apart from investor dividends and employee bonuses, the other major destination for the disposal of company profit is re-investment, either in research and equipment or increased working capital. The advantage is that in-house or self-generated investment comes without future servicing cost or commitment to repay.

There is one more claimant to a share in the profits, and that is the customer. Profits have to come from somewhere – or someone. In fact it is the customer who pays the price and generates the profit; with this view a further claim on profits would come from the consumer, demanding lower prices.

The stabilization of prices would require the establishment of public policy for profit distribution. This could take the practical form, first, of an overall profit ceiling.

Of the profit made, broad percentage bands could be established and gradually stabilized, distributing profit according to a pre-set formula as between co-workers at all levels, investors, and the internal needs of capital for reserves and re-investment.

As they do today, government revenue departments would continue to require that companies prepare in timely fashion properly audited annual accounts. Company profits would be examined in order to ensure that they are within overall agreed limits, and apportioned according to a consensus formula which respects the claims and contributions of consumers, investors, co-workers, and the future security of the business itself.

It should be noted that price stabilization effected in this way, through annual account regulation, would permit the same degree of latitude in pricing “deals” and special offers. But the profit ceiling would ensure an ultimate price stability.

Pay and price evaluation and stabilization would provide guidelines ensuring fair exchange between employer and employee, as well as between producer and consumer, without the need to argue or strike. More importantly, stable pay and prices would permit economic expansion to full employment without inflation.

Guidelines for remuneration/pay evaluation coupled with profit limitations would replace dispute with rules, and would move to stabilize pay and prices even in times of economic expansion. In such circumstances it would be possible to expand the economy steadily to full employment and hold it there indefinitely without fear of inflation. The results would be seen in full employment, monetary stability, and a high level of productive efficiency and thus prosperity.

“A fair day’s pay for a fair day’s work” – a fine-sounding slogan but hardly a reality today. The vast majority of working people slog away in factories and offices for the best part of their lives with nothing but a meager pension at the end of it – and nowadays even that may be in doubt.

At the other end of the scale, the “fat cats” walk away with millions for having done little but preside over a company’s decline – or worse still, an entire banking system’s demise.

Is inequality a problem? No, not if it is the result of hard work, of training and education, acceptance of responsibility and simple success at what you do. But inequality of remuneration and consequent living standards IS a problem when it is widely perceived that there is no just and fair relationship between work and reward, and when the wealth gap keeps on growing.

The uncounted cost of income disparity

Put a thousand people on an island and they’ll soon sort themselves out. Some will assume command while others do their bidding. Over time, the “commanders” will gradually assume privileges, in accommodation perhaps, or food. Spread that trend over centuries and you have landowners and peasants, factory owners and workers, riches and poverty.

Social conscience has long attempted to eradicate some of the extreme injustices and poverty, but it was with the advent of Socialism at the beginning of the 1900s that the “underprivileged” would strike back.

The word “disparity” derives from Latin and simply means “unequal”. Most people would accept that those who train hard and work hard should be more substantially rewarded than the idle and indolent. Not so acceptable is “disparity” in the form of an absence of relationship between work and reward, where some are paid little for arduous work, while others are highly rewarded without appearing to contribute anything useful to society.

Despite the near collapse of the banking system from 2008 onwards, bankers and financiers drew huge bonuses as what appeared to be the reward for the near-destruction of our entire economic structure. Indeed under the surface, the reality is that in the USA the top 0.1% earn 80 times more than the rest. That is not in itself the problem, rather the clear perception that they do not appear to be working 80 times as hard, nor contributing 80 times as much consumable value to the overall economy.

Socialism made no attempt to address this problem, choosing rather to rob the rich to pay the poor. Thus the perceived injustices remain, and the lower paid become recipients of charity.

This leads to another, quite separate result of our growing income disparity: governance has become less concerned with law-making, and increasingly occupied with income-redistribution. The process of taking from the rich and giving to the poor is highly complex and costly both in terms of administration and of fraud. In the US budget of 2011 welfare costs amounted to 40% of the federal budget. Nor of course does the total apportionment for welfare equate with the total paid out in welfare: the administration costs of income redistribution have been variously estimated at anything up to 30%.

Gross income disparity and the growing wealth gap also has a serious and substantial effect on the overall health of society, from violence and illiteracy to mental illness and life expectancy. In areas of extreme deprivation, low or zero employment opportunities, substandard housing, and an uneducated youth population without prospects, violence can easily erupt.

Social Security in its widest possible sense is the goal of every well-governed society, and the only true “Social Security” is that utopian condition in which there is a rewarding job for everyone who wants one, with the guarantee of a fair day’s pay for a fair day’s work.

Ultimately the bottom line is that a fair and accurate relationship between work and reward across the spectrum is an essential element in any society aspiring to basic social justice. It also gives definition and stability to the monetary unit and facilitates consistent full employment.

AN END TO INFLATION?

Inflation is the depreciation of a currency, where it buys less each year. This is the norm today. It’s something we take for granted, a part of everyday life – unfortunate perhaps, and inconvenient, but inevitable.

In a somewhat inexplicable twist of logic, economists appear to be in a state of denial as to its very existence. Check the first chapter, indeed the first few lines of any first year economics textbook, and there it is: “money is useful as a medium of exchange, **and as a store of value.**” And yet no one, economist, financial advisor, banker... no one would ever suggest putting currency coins and notes under the mattress and hoping that by the time you retire they’ll be worth anything. We can all remember “how things used to be”, and the older you get, the more you see the rapidity with which money – the economists’ store of value remember – is losing its value. Money as a store of value is about as useful as a bucket with a hole in it to store liquid.

With the establishment of Remuneration and Price Evaluation however, the longterm effect of wage and price stability combined with productivity maximization creates the opposite of inflation – your money buys, not less, but more every year. This would become a completely normal, natural process. As productivity increases, the labour-content decreases, goods and services are produced more cheaply and offered at lower prices, thus progressively lowering the cost of living.

“Negative inflation”, where your money buys *more* with time, not less, has already happened in the field of computers and other electronics. Buy a computer today, and it is almost guaranteed that in three months’ time the price will be lower, for a faster machine with more storage space on its hard drive.

This in turn means that as we get older we can look forward to increased purchasing power for our savings. A wild dream? No. This is as it should be, the normal course of events. We should be steadily increasing productivity, producing more and better at less cost. And with a stable monetary unit, increased productivity involving less labour is reflected in lower prices.

Job Evaluation is already an established science and in frequent, regular use. A National Standard could easily and simply be established. The result would be monetary stability, permanent full employment, and instead of inflation, a monetary unit which gains in purchasing power with every increase in national productivity. It would also give us the social stability which comes with a fair day’s pay for a fair day’s work. And the icing on the cake: the money you put under the mattress increases in purchasing power every year.

A PRODUCTIVE, PROSPEROUS NATION

Everybody working, everybody working productively.

Ultimately the prosperity of a nation collectively and its citizens individually can best be guaranteed by full employment, fair remuneration, and increasing productivity in a stable economy. This in turn requires that the nation’s credit flow, its most vital resource, be given stability of value, protected from abuse, and directed specifically towards releasing full productive potential.

Industrial Development Banking has the potential to *increase* employment and productivity across the nation. And with the addition of a stable currency we can *maximize* employment, and thus also productivity, without inflation and the inevitable resort to putting on the economic brakes.

Strip government of any department or service which does not directly contribute to good governance, then subject the rest to the highest standards of productive efficiency and our punitive taxes – which claim 50% of the nation’s production while contributing a maximum 30% of consumable value – could be lowered to more reasonable proportions and held in check.

Jobs, growth, efficient productive industry, full employment, monetary and social stability, a lean efficient government with low taxation, all of this is within our grasp should we chose to reach out for it.