

6 A Great Fear Lined - Feb 28 ✓
THE DEPRESSION DOGEY.

Every free country in the world has inherited a great fear from the pre-war period. The depression and unemployment of the thirties left their mark upon men and women of every nation. Since this last war we have often been warned that a recession is almost inevitable bringing with it unemployment and hardship. People thinking along these lines cannot understand why this has not happened. They may point to the Korean and ^{war} say that it was the orders for our armed services that saved the free world from depression in 1950. They say that the depression will come now the war is over. This attitude is both dangerous and wrong. It shows a complete misunderstanding of the changes that have taken place in the economics of government over the last twenty years.

Before the last ~~war~~ great war the economics of trade and of internal credit were governed by the automatic mechanism of the gold standard. You will remember how our gold reserves rose or fell according to the balance of trade. Under favourable conditions gold would come into our country in payment for our exports and internal credit was expanded. ^{making gold available.} On the other hand if we could not sell our goods abroad gold would have to be exported to pay for our necessary imports. This implies an automatic tightening of our credit which would bring deflation and unemployment with it. This system was thought to be automatic in operation and as unchangeable as the natural laws of the universe. In the 19th century it worked reasonably well but the violent disturbances that have occurred since the war of 1914 to 1918 have exposed the inadequacies and the cruelty of the gold standard. The United States was among the first countries to recognise this. She passed financial laws to counteract the effect of the system on her internal credit position. The result of these

laws was to turn the gold standard into a dollar standard as early as 1925.

They were at the same time a contributing cause in the great depression.

By 1930 it was generally recognised that the gold standard was a thing of the past but we had not yet learnt how to get on without it. Only in the middle thirties did Maynard Keynes, who gave his life for England and the world, formally set out the objections to the old system and show how we could do much better without it. He showed us how the gold standard tied internal credit too closely to the balance of trade and how the level of employment varied with the volume of goods we sold abroad. When countries tried to mitigate these ill+ effects by arbitrary measures things were only made worse for people in other lands. We now know that through monetary and fiscal weapons the economy can be kept on an even keel. In times of inflation taxes are increased to reduce purchasing power while if there is any sign of recession taxes can be cut to give further stimulus to trade. Largely due to the efforts of Keynes the International Monetary Fund was established at the Bretton Woods conference of 1944. Its main purpose is to tide countries over their balance of trade problems, to advise when a ~~revaluation of a country~~ currency may be desirable or what internal monetary measures may be suitable for a particular case. The Fund recognises the fact that the internal level of employment should not be dependant on the balance of trade.

We now have the weapons to cure inflation and depression before they become really harmful(it is interesting to know that in 1950 our sterling balances fell more disasterously than they did in the depression of the thirties, that this fact was not born more heavily on Australians is due to our economic knowledge and the sound use made of it). Twenty years ago we did not think there was anything we could do about inflation or depression, we thought the gold standard had to run its cruel course. We have broken away

from all this. We know that we can do a very great deal to cure economic ills and that, granted the ability to work peacefully with our neighbours both at home and abroad, inflations and depressions will never again be allowed to bring real unhappiness to this or any other country.

With this knowledge the development of this country in the next years may be undertaken energetically with faith in the future of Australia for Australians.