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Austria — Prosperity and Inflation
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Austria — Prosperity and Inflation

J. Herbert Furth

In 1951, Austria's industrial production and employment reached record peaks, about 65 per cent above 1937. Real per-capita earnings of industrial workers approached prewar levels and unemployment was reduced to little more than 5 per cent of the labor force. The volume of foreign trade continued to expand and slightly exceeded the 1937 figure. According to official data, the budget was virtually balanced.

The monetary aspects of the economy, however, were less reassuring. Commercial bank credits and money supply, wholesale prices and the cost of living rose sharply during the year, with the rate of increase varying between 22 and 38 per cent. The balance of current international payments showed a deficit of $176 million, 33 per cent higher than in 1950, and ERP aid financed 30 per cent of all imports. Much of Austria's seeming economic progress was thus in reality a consequence of domestic inflation and foreign assistance; even if the collapse of the inflationary boom could be postponed for some time, the approaching end of ERP aid would threaten to spell the end of the country's prosperity.

Effects of inflation

To management and labor alike inflation appeared as a blessing with few of its usual shortcomings. It was not so rapid as to threaten demonetization of the currency. While it kept liquid savings at a nominal figure, it encouraged investment in inventories and equipment, especially by the use of bank credit. The expansion of commercial bank credit proceeded at exactly the same rate as the rise in wholesale prices; in real terms, the debt burden on enterprises, therefore, remained unchanged and the increase in inventories and equipment accumulated by the enterprises represented a net gain to the debtors. This diversion of resources from consumption to investment could not be assailed from the point of view of the national welfare since it contributed to a more rapid reconstruction of the war-ravaged economy.

While inflation thus swelled real profits, it did not lower real wages. Under the auspices of the Government, trade associations and labor unions concluded another "wage-price agreement" that prevented wage rates from falling behind the increase in prices and, in fact, led to a slight rise in real wages. Management could endorse wholeheartedly the agreement, since it not only kept the inflationary process within bounds but also removed the threat of labor opposition interfering with the high level of inflation-generated profits. In fact, most labor leaders have become convinced that inflation has been responsible for the high level of employment and they have become suspicious of any effort aimed at monetary stabilization.

Inflation has not produced overfull employment and has not hampered the rise in productivity or created labor bottlenecks. Moreover, it has not seriously disturbed the distribution of personal incomes: the class of rentiers, which is always the group most seriously hurt by a continuous drop in the purchasing power of money, had already been wiped out by wartime inflation and postwar currency conversions; the recipients of public pensions and social insurance payments -- a very important group in Austria -- have been able to secure almost the same revaluation of their claims as the active wage and salary earners.

Nevertheless, the Austrian authorities have come to realize that inflation cannot be permitted to continue forever. They know that inflation has contributed to the deterioration in Austria's balance of payments and that this deterioration would have seriously harmed the country's economy if it had not been for the large amount of U. S. aid. They also know that this aid will be severely curtailed in the very near future, and that the continuation even of reduced aid could be expected only for a limited period and only if the authorities immediately made sincere efforts in the direction of monetary stabilization.

Problems of stabilization

The task of stabilization is paradoxically made more difficult by the relatively moderate character of inflation in Austria. If inflation had led to overfull employment, it would be possible to stop the wage-price spiral by curtailing the demand for labor without causing serious unemployment. In Austria, a reduction in the total volume of employment would not only create temporary hardship; it also would immediately bring up the memories of the dreaded permanent unemployment of the interwar period and make inflation appear as the incomparably lesser evil. Such a development would fatally compromise the idea of monetary stability; moreover it would lead to social and political unrest which would be particularly dangerous in view of Austria's exposed position within the outskirts of the Soviet empire.

It is highly doubtful whether either investment or consumption in Austria is higher than the country's resources would permit. Under these circumstances no useful purpose would be accomplished by reducing investment or consumption even if such a reduction were socially and politically tolerable. Equilibrium between money incomes and the supply of goods and services at prevailing prices should be achieved by raising the real supply without increasing money incomes and not by cutting money incomes to the level of real supply; this task is far more difficult than the customary handling of an inflationary situation.

The observer in Washington cannot attempt to present a complete program for stabilizing the Austrian economy. However, since he views the situation from a distance and is not subject to the influence of conflicting parties and pressure groups, he may be able to discern the strategic factors of instability and to point out the general direction of possible action. The present paper discusses the level of consumption, the volume and direction of investment, and the value, composition, and use of the national product and national income; and then suggests possible anti-inflationary policies. The estimates of consumption, investment, and income are extremely rough and tentative; the policy suggestions, which are based on these estimates, inevitably are of the same tentative character, and should be considered proposals for further discussion rather than for immediate realization.

Level of consumption

Available figures on total consumers' expenditures suggest that total consumption in 1951 was not substantially higher than in 1937. Consumers' expenditures in 1937 were estimated at 6.5 billion schillings, equal (on the basis of the changes in consumer prices) to 39 billion at 1951 purchasing power.1/ Total retail turnover in 1951 was 26 billion schillings; adding the value of farm products consumed on farms and of services not included in the retail data, the Austrian Institute for Economic Research has estimated total consumers' expenditures at 40 billion or 2-1/2 per cent higher than in 1937.

In comparing the situation in those two years, it should, however, be remembered, first, that the population since 1937 had increased by about 5 per cent, and second, that 1937 — although less bad than the preceding years — was a period of depression rather than prosperity, with unemployment equal to 20 per cent of the labor force. Despite the virtual elimination of unemployment, average per-capita consumption between 1937 and 1951 apparently dropped by 2 per cent.

This estimate is supported by the data on consumption of specific commodities and services. Vienna market statistics show that the population of that city, which includes one-fourth of the entire population of Austria and had dropped only about 5 per cent between 1937 and 1951, consumed in 1951 one-half of the fruit and vegetables, three-fourths of the dairy products, and one-third of the amount of pork consumed in 1937. In all of Austria, the supply of shoes was 10 per cent below 1937; the supply of textiles was about 25 per cent higher than in 1937, but this increase in quantity took place at the expense of quality since 30 per cent of the supply consisted of staple fiber, which was hardly used at all in 1937.

1/ $1 equals 21.36 schillings at the official "commercial" rate, 26 schillings at the official "premium" rate, and about 30 schillings at the Zurich free-market rate.

Domestic tourist traffic -- an important measurement of welfare since even the poorest city dweller tries to spend a few days in some modest Alpine hut or inn -- was almost 20 per cent below 1937 although the government-owned railroads kept fares at an uneconomically low level. Total consumption of tobacco was about as high as in 1937 and the consumption of beer had risen by about one-third. Movie attendance was substantially higher than in 1937, but at the expense of the attendance at "legitimate" theaters. On the other hand, housing remained far below the interwar level since many war-damaged dwellings had not been replaced or repaired, not to speak of the pressing need for replacing overage buildings and providing for the increase in population.

Volume and direction of investment

In 1937, gross domestic investment was estimated at 0.6 billion schillings, equal (on the basis of the change in wholesale prices) to 4 billion at 1951 purchasing power. In 1951, investment was estimated by the Austrian Institute at 200 per cent above 1937 or 12 billion schillings. This figure places investment at 30 per cent of consumers' expenditures, a ratio below the postwar standard of most Western European countries. Austria must not only repair extensive war and occupation damage but also has a huge pent-up demand for industrial equipment. There was virtually no net investment during the interwar depression -- which in Austria lasted from the middle of the 'twenties without interruption to the time of the Nazi occupation in 1938 -- and virtually no net investment in the civilian industries during the subsequent period of the Nazi regime. From this point of view, investment in 1951 was too low rather than too large. This conclusion is supported by the fact that labor productivity barely reached the 1937 level, which in itself was low enough; the lag is obviously due to the lack of modern equipment.

Some observers feel that investment, while not too large, has been misdirected. No doubt, such misdirection has occurred; indeed, misdirection is inevitable under a system that "plans" investments according to a vague combination of compromises among political and economic pressure groups with government blueprints, originating partly in Washington, partly in Paris, and partly in the offices of U. S. and Austrian authorities in Vienna. It would be sheer coincidence if the result of such "planning" corresponded either to the standard of private profitability or to the requirements of a well-integrated public program.

Recently, the eminent Economic Adviser of the Bank for International Settlements (Mr. Per Jacobsson) attempted to explain inflation in Austria by the fact that investments have been directed largely to capital rather than consumer goods industries. Leaving aside the problem of investment in export industries, it may be conceded that the inflationary impact of investment will the sooner be overcome, the shorter the "period of production" is which separates the original investment from the eventual increase in the output of consumer goods. In the long run, however, the anti-inflationary effect of the increase in the supply of consumer goods may well be greater if the investment leads to a large increase in output at a later date rather than to a small increase at an earlier date; moreover, the length of the "period of production" depends on many factors other than the type of industry in which the investment is made.

Investments made in a capital goods industry may lead rather quickly to an increase in the output of consumers' goods; for instance, investment in a machine tool plant may result within a relatively short period in the production of more or better textile machines and consequently of more textile goods. On the other hand, investment in a textile firm, say, requiring the building of a new factory, may take a longer time before yielding the same increase in output as the investment in the machine tool plant. Furthermore, some "heavy" industries, such as coal mining and electric power plants, produce commodities used in both production and consumption. For these reasons, it appears doubtful whether the direction of investment has been a major cause of inflationary pressure in Austria.

Mr. Jacobsson suggested that in recent years Germany suffered less from inflation than Austria because it concentrated more of its investments in consumer goods industries. It is questionable whether this difference, rather than the difference in efficient central bank action, was mainly responsible for the divergence in the monetary development of these two countries. Moreover, even if the direction of investment actually made for less inflationary pressure in Germany, it also severely hampered economic development. Germany is experiencing serious bottlenecks in the production of electric power, coal, and steel, and has had to pass stringent measures forcing industry to divert investible funds to those branches of the economy.

National product and national income

In 1937, gross national product was estimated at 8.5 billion schillings, equal to 51 billion at 1951 purchasing power. Deducting depreciation of 4 billion — about equal to gross investment, since net investment probably was negligible —, net national product (national income at market prices) was about 47 billion (1951 purchasing power).

For 1951, the preceding estimates of consumption (40 billion) and gross investment (12 billion) plus government services estimated by the Austrian Institute at 9 billion indicate an available gross product of 61 billion schillings. With depreciation estimated by the Austrian Institute at about 5 billion, the available net product was therefore around 56 billion. Since industrial production was almost 65 per cent larger than in 1937 and output in the other sectors of the economy probably not much below prewar levels, a rise in the gross and net products from 1937 to 1951 by about 20 per cent appears moderate. According to the preceding estimates, this rise went overwhelmingly into net investment, with only slight increases in consumption, depreciation allowances, and government services.

The Austrian Institute assumed that more than 3 billion schillings of the available net national product was derived from foreign aid, covering Austria's deficit in the current balance of international payments, and less than 53 billion from domestic incomes. However, available data suggest that domestically produced national income amounted actually to about 56 billion, thus equalling the sum of consumption, domestic investment, and government services.

Agricultural income -- In 1937, agricultural income was probably around 10 billion schillings (1951 purchasing power). In 1951, agricultural production was not much higher than prewar, but the obvious prosperity of farmers indicated that there was at least a slight rise in their incomes; agricultural income may therefore be estimated at around 11 billion.

Labor income -- In 1951, the average annual earnings of an industrial worker in Vienna were 13,000 schillings. The average earnings of wage earners in other occupations, and of workers outside of Vienna, were somewhat lower. Average earnings of salaried employees were about twice as high as those of wage earners. Total earnings of the country's 1,400,000 non-agricultural wage earners and 550,000 salaried employees were thus about 30 billion. This estimate is consistent with the changes in employment and wage rates between 1937 and 1951. In the former year, non-agricultural labor income was probably in the neighborhood of 25 billion at 1951 purchasing power. In 1951, real wage rates of industrial workers almost reached the 1937 level, but real earnings of employees belonging to less well organized labor groups were as much as 20 per cent below prewar. On the average, real incomes of wage and salary earners were at least 85 per cent of 1937. Since total employment increased 40 per cent between 1937 and 1951, total payrolls (at 1951 purchasing power) must have risen at least 20 per cent in that period.

Capital income -- In view of the social pattern of Austria's economy, total capital income in 1951 was at least half of total labor income, or at least 15 billion schillings. This assumption is again consistent wth the changes that occurred in the economy between 1937 and 1951. In the former year, capital income was probably in the neighborhood of 12 billion (at 1951 purchasing power), of which perhaps about one-half was profits and one-half net rent and interest. Since the liquid assets of the economy had been wiped out by wartime inflation and postwar currency conversions and most rentals were reduced to nominal amounts by strict rent controls, net rent and interest in 1951 were probably cut in half. Profits, on the other hand, must have increased by a higher percentage than industrial production (65 per cent): the better utilization of capacity had reduced average fixed costs, and real wage and salary rates were still below prewar although labor productivity had virtually reached the prewar level. In view of these facts, it seems reasonable to assume that profits were about 100 per cent and total capital income about 25 per cent higher than in 1937.

Use of national income -- Available data suggest the following hypothesis as to the purposes for which the recipients used their income. Farmers paid perhaps 1 billion schillings in payment of taxes and spent about 10 billion for consumption. Wage and salary earners paid about 4 billion in taxes and spent about 26 billion on consumption. Recipients of capital income also paid about 4 billion in taxes, spent about 4 billion on consumption, and invested the rest of their income, or about 7 billion.

Since domestic net investment was estimated at about 7 billion schillings, these calculations seem to suggest that this investment was entirely financed out of domestic capital income. However, this was not the case since most of the foreign aid, amounting to more than 3 billion, was used for (public) investment purposes; domestic net investment financed out of domestic income could therefore amount to no more than 4 - 5 billion. The difference between total and domestically financed domestic net investment, or 2 - 3 billion, apparently represented foreign net investment, or in less elegant words, capital flight. If this hypothesis comes near the truth, capital flight would thus have been almost as large as foreign aid to Austria.

The official estimates of the Austrian Institute for Economic Research avoid this conclusion by underestimating the domestically produced national income for 1951. According to the Institute, the net national income (net national product minus indirect taxes and subsidies) would have been only 44 billion schillings. In 1937, net national income was 7 billion, equal to about 42 billion at 1951 purchasing power. However, with industrial production at almost 65 per cent above prewar and all other components of the national income only slightly below prewar, total net national income must be more than 5 per cent above prewar. If the calculations of the Institute were correct, labor income would have failed to rise significantly despite the 40 per cent increase in employment and the relatively modest fall in per-capita earnings, and profits would have failed to rise substantially despite the 65 per cent increase in industrial output. In other words, the Austrian Institute seems to suggest that the Austrian economy, working at reasonably full capacity, produces a hardly greater income than in a period of deep depression. This suggestion can be explained only by the fact that a more realistic treatment would inevitably have revealed the presence of large-scale capital flight, which the Austrian authorities can hardly be expected to acknowledge in the official computation of their national accounts.

This assumption of a large-scale capital flight is consistent with the suspicion, shared by most observers of the Austrian scene, that overinvoicing of imports and underinvoicing of exports are a common practice in Austria's foreign trade. Assuming that these practices made up only 10 per cent of exports and commercial imports, about 2 billion schillings annually could be accumulated in foreign exchange by Austrian traders by this method alone. In addition, the prevalence of barter and compensation transactions, the lack of supervision of exchange transactions of foreign tourists and of the members of the occupation forces, and the possibility of all kinds of transactions through the "open" border between Austria and the Soviet Empire, give ample opportunity for further illegal accumulation of foreign exchange. Under these conditions, an estimate of capital flight of 2 - 3 billion per year seems moderate.

The assumption of large-scale capital flight is also supported by the incongruity between Austria's data on value and volume of foreign trade. In 1937, Austria's trade was virtually in balance. In 1951, exports exceeded the 1937 volume by 10 per cent, but imports exceeded the 1937 volume by only 6 per cent. Under these conditions, the trade deficit exceeding 30 per cent of imports could be explained only by a deterioration in the terms of trade of 35 per cent. A deterioration of such magnitude appears unlikely. Half of Austria's exports consist of lumber, woodpulp, and steel, or commodities for which prices have risen in the world market as much as that of any commodity imported into Austria. On the import side, foodstuffs account for a sizeable part of all imports and prices of these goods have risen less for Austria than for most other countries: in the interwar period, Austria purchased most foodstuffs at prices substantially above world-market levels from the Danubian countries, with which it had preferential tariff arrangements, while it now receives its food imports at world market prices from the Western hemisphere. A substantial part of the alleged deterioration in the terms of trade is thus probably due to the practice of over and underinvoicing.

There is a strong connection between the great increase in profits and the prevalence of capital flight. If profits were moderate, entrepreneurs would need virtually all of them for their consumption expenditures and necessary domestic investment; they could spare only small amounts for capital flight without ruining their enterprises. On the other hand, capital flight provides an opportunity to hide a sizable part of profits not only from the foreign exchange authorities, but also from the tax collector; it therefore acts as a strong stimulant towards increasing profits over and above the amount considered normal and therefore difficult to conceal.

Proposals for anti-inflationary policy

These estimates furnish a basis for tentative proposals to consider an integrated anti-inflationary program. As usual, inflation means that the recipients of money income attempt to purchase, for consumption and investment, a larger amount of goods and services than is available at the prevailing price level. The per-capita amounts purchased for consumption, primarily by the agricultural and the non-agricultural labor population, are so small that any attempt to combat inflation by cutting back these purchases would lead to intolerable social tension. The amounts purchased for investment are hardly large enough to satisfy the country's requirements for industrial rehabilitation. The goal of anti-inflationary policy in Austria should therefore not be to discourage attempts at purchasing more goods and services than presently available, but to make it possible for increased availabilities of goods and services to meet the marginal demand, which remains unsatisfied under present conditions and thereby causes a rise in prices. The establishment of such an equilibrium requires an increase in output in such a way that money incomes are not increased at the same time. The absence of "overfull" employment indicates that a further increase in production is feasible. This increase might be achieved by the following measures: the productivity of agriculture might be improved by restoring the rule of the market mechanism over farm prices; labor might be shifted from "unproductive" to "productive" occupations and labor productivity improved without changing wage rates, thus raising output without substantially increasing payrolls; and — most important — profits might be kept from rising by reducing profit margins in proportion to the rise in output.

Since we have seen that profits doubled between 1937 and 1951, the reduction in profit margins should be possible without impairing management incentives.

Agriculture — In contrast to manufacturing, agriculture has not yet significantly increased its output over the interwar level. This fact is readily explained by the price policies of the Austrian authorities. In order to keep the good will of farmers, the Government has subsidized fertilizer and other agricultural producers' goods; however, in order to keep the good will of urban workers, the Government has also enforced rather low maximum prices for agricultural produce, and has heavily subsidized imported foodstuffs in order to prevent food prices from rising to world market levels. Under these circumstances, farmers have little incentive to maximize output and especially deliveries to the urban population.

If the Government stopped its efforts to keep farm prices below world market levels, farm production would be stimulated; at the same time, the Government budget would be relieved, especially so since such a move would make it possible also to abolish the subsidies for agricultural producers' goods. The lower-income consumers could be compensated, e.g., by reducing the burden of the wage tax. The expansion of farm production on the basis of profitability would naturally be largest in the case of those crops in which the Austrian mountains offer the least comparative disadvantage, i.e., in livestock and dairy farming. This expansion would be particularly valuable since it would raise the dangerously low level of consumpion of protective foodstuffs; at the same time, it would reduce the balance of payments deficit by putting an end to the absurd situation that Austria, which in the interwar period was a heavy exporter of butter and cheese, now has to import dairy products despite the serious decline in domestic consumption.

Labor — The shift in labor could affect,for instance, those government employees whose work, according to the saying of a well-known Harvard economist, consists in reducing rather than increasing the national product. An unorthodox but perhaps effective method of bringing about such a shift might be devised in the following way: under present rules, some pensioners — including especially the recipients of social insurance rents — are threatened with losing their pension if they accept other employment; it may be preferable instead to adopt the system used in unemployment insurance, namely, to threaten such persons with the loss of their pension unless they accept such suitable other employment as may be offered to them. Such a change in rules, together with a ruthless dismissal of excess government personnel, might permit a substantial expansion of activity in the private sector of the economy.

Equally important would be the continuation of the present trend toward higher productivity of labor but without periodic adjustment of wage rates. Such a policy would, no doubt, be severely criticized by labor leaders; it could prove acceptable to labor only if it was made clear that profits would be permitted to rise no more — and preferably much less — than wages. The success of such a policy is, therefore, inseparable from measures taken to keep profits from rising.

Profits — The main effort of anti-inflation policy must be concentrated on preventing profits from rising. This means that profit margins must be lowered at the same rate at which output is increased. This lowering may be brought about by monetary, fiscal, and administrative measures.

a) Monetary measures must aim at reducing profit margins indirectly, by curtailing the expansion of bank credit. In view of the special situation in Austria, these measures might have to depart somewhat from orthodox methods. The discount rate mechanism is all but useless under prevailing conditions. The annual rise in prices has become such a permanent fixture of economic development and the magnitude of this rise is so large that even the high existing interest rates have actually been negative. As long as entrepreneurs have to calculate with an annual increase in wholesale prices by at least 20 per cent, any rate of less than 20 per cent will actually mean that borrowing commands a premium rather than inflict cost. On the other hand, an increase in interest rates to a figure higher than 20 per cent would probably be politically unfeasible. Open-market operations are out of the question because of the lack of broad market for government securities.

Reserve requirements were introduced in 1951 but at a very cautious pace and on a purely voluntary basis. A reserve ratio of 30 per cent (of which 20 - 25 per cent may be in the form of government securities) has been established. However, as long as the banks can raise the level of their reserves virtually at will, e.g., by rediscounting bills with the National Bank, reserve requirements would have to be increased continually in order to limit effectively the expansion of credit and deposits. Developments during the first quarter of 1952 showed the validity of this argument: on December 31, 1951, the commercial banks had excess reserves of 0.5 billion schillings, equivalent to a credit potential of about 1.6 billion. During the first quarter, they expanded credit by 0.2 billion, but their excess reserves rose to 0.6 billion; on March 31 their credit potential had thus risen to about 2.0 billion, despite the intervening utilization of part of their previous credit potential.

Actually, however, the use of these traditional means of credit policy should not be necessary in Austria. All major commercial banks in the country have been nationalized, and the Government should be able to enforce its policy of stabilization by simple orders to the government-appointed bank officers. If the Government does not want such a high-handed procedure -- although it would be the only one which might justify nationalization --, it could reach the same result through the operations of the central bank, upon which the commercial banks are utterly dependent for loanable funds. It should be made clear to the commercial banks that even the presentation of eligible paper would give them no right to accomodation as long as they did not follow the policy recommendations of the central bank. The Bank statutes (Art. 61) would amply justify such a procedure; however, if a more specific statutory basis were considered advisable, provisions could be enacted similar to those of the Federal Reserve Act which give the central bank authorities explicitly the power to declare any commercial bank ineligible for central bank credit if it abuses such credit or follows unsound banking practices.

The reduction in bank credit would contribute to a reduction in profit margins, first, by disturbing the inflationary atmosphere in which windfall profits are confidently expected and just because of such general expectations actually earned; second, by hampering speculative transactions and thereby preventing the diversion of resources from production to speculation; and third, by making capital flight and thus the concealment of profits somewhat more difficult and costly: enterprises can afford to shift an abnormally large part of their profits abroad only as long as they know that they can easily make up for the resulting lack of liquid means by taking up more bank credit.

b) Fiscal measures should aim, first, at enforcing existing profit tax legislation, and second, at devising methods by which profit taxation might encourage the earning of profit by expanding output rather than by increasing profit margins.

It is true that the first problem is complicated by the tax privileges of nationalized enterprises and the illegal, but effective, tax exemption of all enterprises seized by the Soviet authorities. However, nationalized and Soviet enterprises together probably do not account for more than 10-20 per cent of the capital income; effective taxes on the remaining capital income could easily be increased by 50 per cent without causing undue hardship -- and without equalling the tax rates of U. S. enterprises.

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More important, the system could be changed so that entrepreneurs could maintain their present high profits only by raising the turnover of their industries; e.g., if profit taxes were made progressive according to the ratio of profits to total turnover and not according to the absolute size of profits. The ratios would have to be set at different levels in different industries; however, this legislative task is no more difficult than a similar adjustment of the rates of the turnover tax -- the mainstay of Austrian budget revenues--which under Austrian law has to take into account the average number of transactions preceding the retail sale in each industry.

c) Administrative measures would help especially in the fight against capital flight and against tax evasion. Capital flight can not be completely eliminated as long as the Soviet occupation makes for political and economic uneasiness; however, it can be curbed by improving the methods used in examining the price data in foreign trade documents, and especially by abolishing all trade practices that facilitate the concealment of the true value of imports and exports, such as barter and compensation deals and other multiple currency practices.

The struggle against profit tax evasion requires most of all a rise in the level of integrity and ability of the fiscal authorities to the standards prevailing in the days preceding the first world war; the cost of such a reform in terms of increased salary schedules would be far more than offset by the resulting rise in revenues.

Finally, administrative measures could reduce profit margins directly by breaking up the cartels that infest the Austrian economy from top to bottom. The goal of such a procedure would not be the establishment of a system based on perfect free competition, but the reintroduction into Austrian practice of the idea of any competition at all, even if it be highly monopolistic and imperfect. Such a revolutionary innovation, however, could not be expected to be achieved in the short run.

Conclusions

The merits of the specific actions advocated in this paper may be subject to reasonable doubt. However, such doubts would not invalidate the general conclusion that the anti-inflationary measures in Austria should be concerned mainly with the reduction of profit margins rather than with the reduction of consumption and the reduction or redirection of investment. The struggle against overrapid credit expansion and large-scale capital flight and the efforts toward a further increase in production should form part of this general pattern. If the measures are successful, they would simultaneously reduce and perhaps eliminate Austria's dependence on foreign aid.

In contrast to most other countries suffering from chronic inflation, anti-inflationary policy in Austria does not require the creation of transitory unemployment: enough unutilized resources of capital and manpower are available to fill the needs of industries, which should be expanded in the course of financial stabilization, and it would be unnecessary, and in fact harmful, to draw for this purpose on labor already employed in other industries.

Developments in the first quarter of 1952 support the view that stabilization is possible, but also that care should be taken lest stabilizing measures hurt economic progress more than inflation. Wholesale prices and the cost of living have fallen slightly and the expansion of credit has slowed down. However, industrial production has simultaneously stopped rising, and unemployment (seasonally adjusted) has increased; moreover, the over-all trade balance has shown an even larger excess of imports than in the same period of 1951. Stronger measures, aimed exclusively at further reducing the price level and stopping the credit expansion, would aggravate the output and employment situation and thus eventually defeat themselves. Austria's economic problems can be solved only by a stabilization policy that manages to avoid any deflationary detour.