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ECONOMIC DIGEST

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Economic Digest

The presentation of *Economic Digest* in a slightly different and, it is hoped, a more convenient form, is an occasion for restating its objects and aims. They are firstly to summarise articles taken from the daily and weekly Press, and from Periodicals and speeches which are of general interest and importance from the economic standpoint ; secondly, to reproduce matter which has appeared in publications not readily accessible, especially from foreign sources ; thirdly, to review books published at home or abroad which have a bearing on the economic and monetary problems of the day.

Economic Digest is non-political and non-Party ; so far as possible it concentrates on all economic aspects, but since it is impossible to isolate the political from the economic, every care is taken to keep a balance between different political doctrines and different schools of thought.

THE EDITORS

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U.N. Trade Conference at Work

By ERIC WYNDHAM WHITE

The three main problems which confront every country, and possible lines of compromise for special difficulties.

THE main new factors regarding the representation at Havana are first the practically complete attendance of the Latin American countries of which there are seventeen at Havana as compared with two—Cuba and Brazil—which participated at Geneva. Secondly, there is the wide representation of the Middle East countries. These new factors will undoubtedly tend to shift the balance of the Conference toward the interest of the less developed countries. On the other hand the participation of European countries has been substantially increased. The U.S.S.R., Ukrainian S.S.R., Byelorussian S.S.R., Bulgaria, and Yugoslavia did not accept invitations to attend.

It may be helpful to regard the Draft Charter as six interrelated agreements: one on trade policy, one on employment and production, one on economic development and international investment, one on commodity arrangements, one on restrictive business practices, and finally one on the constitution of the proposed International Trade Organization which would be a new United Nations specialized agency in the field of international trade.

A short analysis of the main aspects of the Charter will help to suggest which of them are likely to prove the most controversial at Havana. The organization of the proposed ITO contains several contentious problems—in particular the method of voting to be used in the ITO and the trading relations to be established between ITO members and non-members. The section of the Draft Charter dealing with Restrictive Business Practices (such as certain types of Cartels), will attract considerable discussion.

But the three vital sections of the Draft Charter are those dealing with Employment and Economic Activity, with Economic Development, and with Commercial Policy respectively. National interests will be most concerned at Havana with the principles and practices proposed in these chapters of the Draft Charter.

Without going deep into economic theory, the main problems can be posed in a series of questions which each country must ask itself.

There is first, the basic question; if we accept a Charter which imposes certain rules on our commercial relations with other countries and which may force us to diminish or abandon our traditional methods of trading, do we stand to gain or lose, either in the short run or in the long run? In other words, will ITO

membership bring benefits that will compensate for giving up certain rights? The answer to this question is fundamental; and it is largely the responsibility of the countries which sponsored the Draft Charter to show that the answers must be in the affirmative.

A second question is being asked by some delegates who regard their economies as relatively well developed but as nevertheless dependent on slumps and booms in the main industrialized countries. Can the smaller or middle-sized countries reasonably be asked to remove barriers against imports—and would they be able to do so—if depressions are likely to occur in the great industrial countries and if these countries are likely to attempt to "export their unemployment"?

The third main question has already been posed by as many as half the delegates who spoke in the opening plenary sessions of the Conference. How, they asked, can the proposals of the Charter for reducing or removing national protection of trade, whether by tariffs, quotas, or other devices, be reconciled with the needs of the under-developed or less developed countries to protect their young industries and so to approach the ideal (a fundamental ideal of the ITO Charter) of full employment and maximum production? How is the balance to be struck between, on the one hand, the promotion of economic development of undeveloped countries by the use of such devices as quotas and, on the other, the reduction of barriers to world trade and the subsequent increasing flow of goods between countries? This is the key question facing the delegates today at Havana. The immediacy of the problem has been stressed by the holding of the Conference on Latin American soil and by the participation of practically every Latin American country, all of which in one way or another are faced with the need to develop and protect their industries and to raise their standards of living.

They are joined, in principle, by the underdeveloped states of the Middle East, and by the vast areas of India, China, and other Far Eastern states with their huge population living at a low level of subsistence. The very urgency of this problem has, in fact, brought forth accusations that the Geneva draft represents the views of the older, fully developed countries and of their implicit desire to limit the industrial and commercial development of the "younger" countries. The clash of national interests on this vital question and the efforts of the Conference to devise an acceptable formula for encouraging the expansion of trade by the less developed countries while allowing a restricted use of protective devices, may well provide the clue to the main discussions.

The most controversial type of protective device is probably the quota, which lays down an absolute maximum amount of a particular product or raw material which may be imported. But quantitative restrictions offer in many instances the most effective device for the protection of a new industry, more effective than a tariff or a subsidy, for instance, for the following reason. A new industry, comparatively small in itself, may contribute only a small part of the total domestic consumption of the

type of goods it produces. In these circumstances, a high tariff will simply penalize the home consumer of the product, most of which has to be imported, and will throw a burden on the community as a whole for the sake of protecting one industry. Similar objections can be made to subsidies. A rich and highly developed country can afford to subsidize a new industry or a new agricultural development, whereas a less developed country by its nature is less well equipped to provide the funds to make the subsidy effective.

Faced with this fundamental problem the Draft Charter as it now stands offers a compromise. It recognizes that protective measures such as quantitative restrictions "may be required to promote the establishment, development, or reconstruction of particular industries or particular branches of agriculture, and that in appropriate circumstances the grant of such assistance in the form of protective measures may be justified." At the same time, the right of a country to impose quantitative restrictions would be subordinated to the jurisdiction of ITO and, except in emergencies, would not be embarked upon without full prior consultation with ITO members. This would enable ITO to determine whether the objective should be sought through quantitative restrictions, whether possible injuries to other countries would outweigh the benefits to the undeveloped industry in question, and in particular, whether the benefits could be obtained some other way. In other words, the judgment of ITO would be concerned not with whether the young industry should be developed, but with what would be the least harmful method of protecting it in the interests of the world as a whole.—UNITED NATIONS BULLETIN, *December* 16, 1947.

Subsidies for U.K. Industries

FINANCIAL YEAR 1947-48

	£
Iron and Steel	7,500,000
Ferro-chrome	100,000
Magnesium	250,000
Aluminium	750,000
Watch-making and jewel manufacturing	320,000
Cotton spinning	1,500,000
Coal stocking	350,000
Fuel oils and kerosene	25,000
Canals and canal carriers	810,000
Coastal shipping	710,000
Agriculture	17,981,000
Herring Industry	98,000
Civil Aviation	7,662,000

HANSARD, *November* 18, 1947

"Great Britain in World Economy"

By ALFRED E. KAHN*

The purpose of the book here reviewed is to study the changes in Great Britain's international economic position with the aid of the theory of International Equilibrium.

"THE British balance of payments (says Mr. Kahn) charts the changes in her international economic position in a changing world. No economic change of the period is alien to it. The bulk of our study therefore consists of an investigation into the British balance of payments and into the numerous factors determining it and determined by it. In such a study it soon becomes clear that the internal and the international are completely and inextricably linked in mutual casual relationship."

Mr. Kahn is an American economist. It is evident that he has made an exhaustive study of official publications and of the writings of British economists. His work contains thirty-one statistical tables and a nine-page selected bibliography, besides copious notes on almost every page. Whatever may be said of his conclusions, the data on which these conclusions are based is presented fully and lucidly by an admirable example of documentation.

Mr. Kahn's analysis is mainly concerned with the period between the two world wars. Between 1919 and 1939 the decline of British exports was great and continuous, because the world was learning to dispense more and more with her manufactures. This, Mr. Kahn thinks, was Britain's major single problem. It was due in part to the seriously diminished competitive power of her industry, especially the staple industries coal, iron and steel, and textiles. But for British industry as a whole the period was not simply one of stagnation and decline. The staple industries were organising in response to the new competitive situation. In addition, other groups arose to compensate in part for the decline of the old. British industry was slowly adapting itself to its new place in the world. "The growth of 'new' industries during the years 1919-1939 in the fields of power (electricity), transportation (automobiles, airplanes), engineering (electrical machinery), metal manufacture (aluminium), textiles (rayon), and chemistry (synthetic nitrogen and dyes, coal hydrogenation), permeating the entire industrial structure, belies any facile generalizations about Britain's industrial decline, about her lack of adaptability or ingenuity."

Part III, *The British Balance of International Payments* and Part IV, *The Shifting Geographical Patterns of Great Britain's International Economic Transactions* are the most important sections of the book. A detailed review is made of the various aspects of the powers

*Pitman, London, (15/-)

of adjustment and of the different phases through which it passed. The conclusion reached on the British economy in transition is summed up thus:

"The most vital changes in the international economic position of Great Britain in the years 1919-39 were the improvement in her barter terms of international exchange, the decrease in her exports of capital, and the deterioration in the competitive power of her industry. The first was a windfall addition to real income, to the extent that the economy was able to take full advantage of it. The second offered an increased potentiality for consumption or domestic investment, without involving a change in income, strictly defined. The third meant a real decline in income, the extent of which depended mainly upon the elasticity of Britain's demand for foreign goods, services, and securities. All imposed upon the British economy a need for enormous readjustments, which were in continuous process during the entire period.

"The old world economy could not possibly be restored intact, but its destruction had been in large measure the result of conscious government policies, and these were coming increasingly into question. The inadequacy of empire preference was becoming more and more apparent. There was evidence that the cheap-money policy had become dangerous, once recovery turned into a boom based almost entirely upon the domestic market. There was little economic excuse for agricultural protection, from a short or long-run point of view. A government policy which intensified the rigidities could not obliterate the necessity for economic flexibility and easy adaptation in a country as inevitably subject to the vagaries of the international competitive struggle as was Great Britain. The tariff and the governmentally encouraged combination movement in industry created entrenched vested interests who were content to exploit the protected domestic market and, as the price for being undisturbed at home, to leave to foreign producers the exploitation of foreign markets urgently required by the British economy as a whole. Trade policy and the restrictions on foreign lending likewise thwarted a very necessary recovery of British exports.

"This necessity for foreign markets would increase if, as it appeared, private domestic investment was reaching a point of rapidly diminishing returns. Only technological advance and lower prices could have prolonged the absorption by the domestic market of more automobiles, houses, and even electricity. The problem of investment outlets promised to become a pressing one for the British economy, and undoubtedly threatened to result in heavy unemployment, when the war opened up more than enough opportunities and postponed its resolution."

The final chapter, *The Position of Britain in the Post-War World*, was written before the end of the war. The forecasts of probable tendencies are interesting, though some of them have turned out to be mistaken at least in part: the estimate of Britain's adverse balance of payments, for example, is far below the mark. Mr. Kahn concludes with specific recommendations:

"Within the framework of what-

ever new world order and British policies emerge after the war, the real incomes of the British people will depend upon their own productivity and adaptability. What can be accomplished in this direction by public policy? A few suggestions may be in order. Heavy subsidization of industrial research and of education for modern business management would seem to be obviously desirable first steps in a country which appears to have been relatively backward in these respects. But the progressive ossification of British business organisation under the control of vested interests must also be attacked more directly. It must be the function of public policy to restore freedom of opportunity for superior men and methods and thus to see that the unfit, however strong in a business sense, are weeded out. Where free competition provides a suitable method of industrial organisation, the government must assume the responsibility for recognising, fostering, and protecting certain defined rights of actual and potential competitors. Where it does not, the government must see to it that whatever alternative schemes are adopted meet certain standards of social performance—among other ways, possibly, by insuring that control be exercised by managers responsible to consumer and public as well as to producer and labour interests. Thus the government must assert the public interest by supervising and controlling international cartel agreements, which divide markets, protect domestic business interests, and often seriously retard technological progress. For the same reason it must take definite steps to prevent the use of patents as instruments of business aggression instead of as means for fostering invention. And for precisely the same reasons it must assert and exercise jurisdiction over certain aspects of employer-employee contracts, in so far as they also may impair business efficiency or hinder the introduction of superior technological expedients.

"The British people have a vital stake in their industry. They have a basic right, superior to the rights of property or of collective bargaining, to demand that it meets certain basic standards of performance. This right may, perhaps, be effectuated partly by a rigorously enforced 'antitrust' law or by appropriate stipulations in charters granting the privilege of incorporation. In the case of the nucleus firms chosen in wartime plans for concentration of industry, the public may be in an especially favourable position to demand corresponding reciprocal benefits.

"However the British people decide to exercise their 'rights in industry' they must be exercised. Effectuation of even the few inadequate recommendations suggested above will involve the flouting of powerful interests, who have behind them not merely their own power but also the dead weight of social acquiescence in their inveterate practices and prerogatives. But Britain is faced also with difficult problems. Neither the people nor their leaders do themselves any service by refusing to recognise that serious problems often require drastic remedies."

G.B.

Undeveloped Nations and I.T.O. Charter

From U.S. NEWS SERVICE

MAJOR controversy at Havana has been the insistence by economically undeveloped nations upon rights to preferential trade agreements and restrictive import quotas, with the United States and most Preparatory Commission members holding out for no preferential agreements (excepting several already in force) and a ban on protective import quotas except through prior agreement with ITO.

U.S. Acting Chairman Clair Wilcox warned the Conference that the United States could not agree to proposals which he said amounted to "prescription for economic anarchy."

Disclaiming any desire to voice threats, Mr. Wilcox outlined briefly the probable consequences upon other nations if the United States should be forced into economic nationalism rather than international co-operation. He said in part:

"Other countries may be told that they can sell to us but only up to a certain limit, regardless of quality. They may be told that they cannot sell to us unless they agree to take specific quantities of specific goods in return.

"They may be told they cannot sell to us until they modify policies we do not like. They may discover, when they attempt to sell in other markets, that we have been there first to freeze them out. . . ."

Mr. Wilcox emphasised that general imposition of trade restrictions around the world would be merely an inconvenience for a large country of great resources and relatively minor dependence on foreign trade, but it might mean disaster for smaller countries.

The *New York Herald Tribune* editorially agreed with the Wilcox statement saying in part: ". . . One wonders how even the most jealous of nationalistic sovereignties could escape its logic. However there will always be those whose fear of reciprocity, whose suspicion of strong neighbours, will incline them to a course devoid of common sense. . . . One is encouraged by the hope expressed by one of our delegates that the consequences of insistence on 'Q.R.' (quantitative restrictions) had been made clear and that enough delegations in the 'Q.R.' camp would change their views. It seems to us extremely important to the world that they should."

On the same subject, the *New York Sun* said: "It is essential that any means adopted at the Havana Conference to permit protective action by small countries against foreign rivalry shall be fair in protecting other countries which have slashed their tariff rates to encourage foreign trade generally."
—*December* 30, 1947.

Problem of Unrequited Exports

By R. F. KAHN, C.B.E.

What is the prospect of dealing effectively with exports for which we get no return? And how will Marshall aid affect the dollar gap?

THE problem of "unrequited exports"—*i.e.*, exports for which we receive neither goods nor convertible currency in return—as it may present itself in the course of 1948, begins now to assume quantitative form.

In his speech in the House of Commons adjournment debate on December 18, the Chancellor of the Exchequer stated that the realization of the export programme would for 1948 leave a deficit with the Western hemisphere of nearly £300m., "which, of course, cannot be set off against our surplus with the other areas." In response to an intervention by Mr. Eccles, the Chancellor said that this expected deficit related to the sterling area as a whole (though later in the debate Mr. Macmillan expressed doubt whether the figure might not after all represent the deficit of the United Kingdom alone). Perhaps, therefore, we might take some £200 m. as a very rough estimate of the prospective "dollar gap" on the United Kingdom's trading account for 1948. This has to be read in conjunction with the prospect of an "overall balance" for 1948, and leads to the conclusion that the unrequited exports, included in the export programme for 1948, amount to some £200m. This estimate is for 1948 taken as a whole. But we shall begin the year with unrequited exports running at a very low rate, and we must end it, therefore, if the estimate is to be even approximately realized, with unrequited exports running at the rate of some £300m. or £400m. a year.

Such exports, though unrequited in terms of goods or the means of acquiring goods, must of course be paid for. If it in fact turns out to be true that our dollar deficit cannot be set off against them, they can be paid for only by means of credits advanced by the United Kingdom or by the running down of the sterling balances held with us. It is against this background that the serious restrictions imposed by the Government on our programme of internal investment must, in part, be judged. And the difficulty (if not the undesirability) of financing these unrequited exports will be the counterpart of the unwillingness (and perhaps the inability) of many oversea markets to accept large quantities of additional exports from us—a factor which will play its part in determining the actual outcome of the export programme.

But Marshall aid may alter the picture. The difficulty which here stands in the way of the "criticism and constructive suggestions" about our economic difficulties which (as opposed to "irresponsible and misleading assertions") the Chancellor of the Exchequer declared to be "welcome and helpful", is that we are still in the dark as to the manner in which such aid might reach this

country. If the intention is that our dollar gap should be bridged by direct Marshall aid and that through our unrequited exports we should pass on some of this aid to other countries (not perhaps entirely confined to participants in the Marshall plan), well and good: credits to enable some of our customers to buy from us more than we buy from them will then form part of an intelligible plan. But if that is not to be the solution, it is clearly important that we should earn convertible currency with our excess of exports to the other recipients of Marshall aid. Convertibility of sterling was a serious issue in 1947; inconvertibility of other currencies may prove as serious in 1948.—(*Letter to* THE TIMES, *December* 30, 1947.)

U.K. Imports and Consumption of Wheat

QUANTITIES (THOUSAND TONS)

Source of Supply	1934-1938 Annual Average	1938	1946	January-October, 1947
Australia	1,160·0	1,549,761	—	—
British India and Burma	142·5	219,856	—	—
Canada	1,935·0	1,441,526	2,885·7	2,965·0
Union of South Africa and I.W. Territory	3·9	—	—	—
Other British Countries	0·5	1	—	—
Argentina	800·7	290,533	111·5	358·2
Belgium	36·0	49,257	—	—
Bulgaria	17·1	686	—	—
Czechoslovakia	3·0	—	—	—
Denmark, (including Faroe Islands)	3·6	1	—	—
France	159·4	62,344	—	—
Germany	26·2	13	—	—
Hungary	7·2	—	—	—
Iran	4·2	—	—	—
Iraq	10·4	300	—	—
Latvia	2·9	—	—	—
Lithuania	14·8	—	—	—
Morocco	6·0	—	—	—
Netherlands	21·5	10,181	—	—
Poland	20·6	—	—	—
Portugal	14·3	—	—	—
Roumania	137·2	180,318	—	—
Soviet Union	268·4	477,155	—	—
Sweden	19·8	6	—	—
Uruguay	7·8	5,931	—	—
United States of America	200·7	790,264	392·4	336·6
Yugoslavia	6·0	2,875	—	—
Other Foreign Countries	1·4	310	—	22·4
TOTAL	5,031·1	5,081,318	3,389·6	3,682·2

	1934-1938 Average	1946	Year to June, 1947 (a)
Civilian consumption of flour in lb. per head per year	194.5	221·3	219·1
In oz. per head per week	59·8	68·1	67·4

HANSARD, *December* 8, 1947

Switzerland and the World Trade Charter

Extracts from BULLETIN FINANCIER SUISSE, translated for "Economic Digest"

SWITZERLAND would have more to gain than to lose from a return to true free trade. It is argued that, even if the general level of prices were lowered, certain branches of her economy which are essential politically and militarily—agriculture for example—could not withstand, without tariff protection, the competition of foreign producers more favoured by Nature. The answer to this is that in a healthy economy there is a market for every producer. The countries with favourable climates cannot produce enough to feed the world. Even inside Switzerland conditions vary greatly between one district and another, but the regions do not have to be separated by Customs barriers. In the last resort, subsidies borne by the National Defence Budget seem preferable to tariffs and quotas.

The real danger to Swiss economy lies, not in the measures proposed for the re-establishment of freedom of exchange, but in the exceptions to this freedom, from which the soft currency countries will benefit. In order to husband their monetary resources, these countries will be able to restrict their imports from hard currency areas, especially of luxury goods. As a result, Swiss exports will be doubly handicapped, since the Swiss franc is the hardest currency in the world, and luxury goods form the greater part of her traditional exports. At the same time Switzerland would no longer be able to obstruct the entry of foreign products. Soft currency countries would no doubt seek to sell high value finished products, earning the maximum of exchange, rather than raw materials. Many Swiss industries would thus see their export markets diminish, while foreign competition in the Swiss market would increase. Large sections of the economy are thus threatened with unemployment, and the difficulty of obtaining raw materials would still maintain retail prices at too high a level.

The present system of bilateral economic agreements enables a market to be assured for Swiss products, even in soft currency areas. We are the first to deplore the many restrictions imposed by the barter system ; nevertheless a system under which Switzerland must renounce nearly all import and payment restrictions, while the majority of other countries could take measures to exclude most of her exports, would demand an excessive sacrifice.

In our opinion, this sacrifice would be quite useless.

There can be no freedom of international trade while planned economies, by a series of measures, maintain the official purchasing power and international parity of the majority of currencies above their real level.—*December* 12, 1947.

The Price Mechanism

By ROY F. HARROD

According to the "Economist", the best statement of the case for free choice versus allocation since Adam Smith.

MONEY is one of the greatest human inventions, comparable to the wheel or the steam engine. Its rise was contemporary with that of civilisation itself. In periods when it went out of favour, such as the age of high feudalism, the mass of people were in a condition literally of serfdom, and the arts and sciences and civilisation itself were stagnant. And we ought therefore to view with alarm the modern tendency to displace money by fixed prices, import programmes, bilateral commercial arrangements, hard and soft currencies, etc. It is sometimes said that the social sciences are not keeping pace with the physical sciences. But here is a symptom of an actual deterioration in our social arrangements. It cannot surely be thought by a reasoning person that the methods of a central material allocations committee can possibly be an improvement on this marvellous product of man's inventiveness—money. Re-education in the understanding of the basic principles of money and pricing is now needed.

Voices have indeed been raised, by reaction to the prevailing trend, in favour of a free pricing system as safeguarding the consumer's liberty of choice. Money is represented as a bulwark of liberty, as indeed it is. Poor and depressed as the working-classes of this country were a hundred years ago—Socialists are apt to say that freedom of choice is only valued by the rich—they instinctively rebelled against the "truck" system by which rations instead of freely usable money were supplied by employers. The "truck" system, which is what we have now, is not so much better for being arranged by a democratic Government. But it is not only as a bulwark of liberty that money should be valued, but also as an instrument of efficiency. It is money that ensures the smooth working of our highly complicated productive processes.

There is no doubt a case for continuing the system of rations for essential commodities which are in short world supply. For the rest we should favour the free movement of prices, not only in the sphere of the productive process, but also in the market for consumer goods. It is feared that a general rise of prices would be oppressive to the poor. But once inflationary pressure was removed, there would not be a general upward movement of prices. There could not be. But people are so obsessed now with the virtues of control that they would deprecate rises in the prices even of particular articles only. Why, they argue, should the poor have to pay more even for these articles? I suggest, on the contrary, that so long as there is no general rise of prices they would have nothing to complain of. How otherwise

secure the supply to those who really wish to have a share of it most? If the existing control system is continued for much longer, these matters may sort themselves out in black markets. But this is not a desirable system either. Much better eliminate the official price and make the free market the whole market. It must be remembered that there are infinite gradations between the very poor and the very rich. The question of the distribution of income should not in general be settled by interfering with the prices of particular objects, but by using the weapons of taxation and allowances to ensure that the distribution of the national income among the classes is, on the whole, just. Once that is done, it should not be allowed to stand in the way of the increase of a particular price that it might put the article out of reach of the poor man. It is impossible for the authorities to gauge individual preferences. If a particular poor man has a great love for a certain type of article, he will save up for it and outbid a richer man.

Looking at the matter just a little more broadly, one sees that it is not true that the poor man has less to gain from the free working of the price mechanism than the rich. The reverse is true. What is the alternative? Arbitrary cuts in various items of consumption by the authority.

Now if circumstances give rise to some reduction in the national standard of living, say one of 10 per cent., for whom is the need greater to have freedom to make the cut in his own expenditure just where it hurts him least? Clearly for the poor man. If the adjustment is made for him—as it is now—by rationed allocation, this may amount not merely to imposing hardship, but to downright brutality. This may well be the result of further food cuts. If people must go without, let them at least choose what they will go without. For this freedom of choice they would certainly be willing to accept stiff rises in the prices of certain particular articles. Why are we being asked to go without food, beyond what is necessitated by the world shortage? Why do the people not rise in their indignation? No doubt they are gulled into the belief that those things that cost dollars in particular have to be cut—as though there were any validity in this crudest piece of mercantilist fallacy. We need another Bright to rouse the people to appreciate that there is no need for the injuries that are inflicted upon them.—*From* ARE THESE HARDSHIPS NECESSARY? *Published by* RUPERT HART DAVIS, LONDON, 5s.

ECONOMIC DIGEST

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Einaudi's Italian Experiment

By PARIS CORRESPONDENT of THE STATIST

A bold anti-inflation plan, the outcome of which is still in doubt. The fact that France also has adopted the pattern, adds to its significance.

AN experiment in economic and financial reform, bold, ingenious and comprehensive, was started in June in Italy by a septuagenarian economist, Luigi Einaudi, and has now advanced so far and with such effect as to attract the attention of the many other States on the Continent faced by problems similar to those of the new Latin Republic. Governor of the Bank of Italy Signor Einaudi assumed the control of the national economy in the Ministry formed by Signor de Gasperi from elements in his own party after abandoning the attempt to work with the Communists and a later attempt to form a Ministry representing all the non-Communist parties. In six months he has succeeded in stemming the tide of inflation which was sweeping over his country. He has caused a sensational fall in the prices of stocks, and the decline of commodity prices, if so far confined to certain foods, is beginning to affect industrial products, whose advance in any case has been halted. He has also introduced and developed an elastic system of exchange rates with the countries embraced by the dollar and sterling blocks and offered privileges of entry to Italian capital abroad, refugee and other, and to foreign capital likely to seek investment in Italy. In a nation which has not yet got a constitution, which is deeply scarred by the material and moral wounds of war between foreign nations and between its own citizens, which, already poor in all but numbers and capacity for work, was left immeasurably poorer by loss of its colonies, shipping, tourist traffic and emigrants' remittances, Einaudi's task would have been a formidable one in any case. It was the more formidable in that things had drifted from bad to worse from the moment of the Allies' landing. When Einaudi set to work Italy was on the brink of economic and financial collapse. At least she has now recovered hope.

The first definite move by the new Vice-Premier was credit restriction in almost ruthless measure. During the war, the German occupation and the war of liberation the currency expanded rapidly, until it was twenty-eight times the figure of 1938, while potential currency in the form of deposits increased over elevenfold. At the same time stock markets boomed and commodity prices soared. On the basis of 100 being the 1938 average the share index in April last almost touched 3,000 and the wholesale price index was over 4,500, since rising to nearly 6,000. There was a rush to buy not only stocks and goods but gold coin and hard currencies. Thus between May, 1946, and 1947 the sovereign rose from 6,785 lire to 10,395 and the dollar bill from 350 to 795. The demand for industrial and com-

mercial credits threatened to dry up liquid banking assets. Therefore in August last the Government was compelled to act. It acted boldly.

A special board was established to supervise currency and credit. Commercial banks were obliged to place with the Central Bank or in gilt-edged securities a considerable proportion of their deposits in excess of tenfold their capital and declared reserves up to a fixed maximum percentage of deposits. Central Bank advances to the State were made conditional on legislative act and the bank rate was raised from 4 per cent. to 5½ per cent. Last but not least commercial banks were ordered to be selective and parsimonious in financing industry and commerce. The immediate idea was to divert into legitimate channels funds which would otherwise have fed a dangerous boom. The ultimate idea was readjustment and stabilisation of the entire wage, profit and price structure, more especially through decline of the general price level by adjustment upwards of prices unduly depressed by artificial means—rents, public service tariffs, etc.—and downwards of prices and profits unduly exaggerated. Signor Einaudi has himself written that if average prices have multiplied by fifty since the war began, some have gone up 150 and 200 times and others twice or ten and fifteen times. "It would be a foolish policy to lower prices that are too high and maintain prices artifically depressed at an inferior level."

The restriction of credits pricked the boom on the bourses. From the 3,000 of April the share index is down to 1,000. Market leaders like Fiat, Montecatini and Snia Viscosa, which quoted 3,450, 2,685 and 25,850 at the end of April, stood at 812, 308 and 6,450 on December 11. Commodity wholesale price indices are published with considerable delay, but by the end of September the average decline for farm products was 5 per cent. and in certain cases had ranged as high as 10½ to 20 per cent. The fall has continued since then and has begun to influence both industrial and retail prices. If the cost of living falls also, a delicate situation will arise, for industrial wages are determined by the sliding scale and it remains to be seen whether wages can be reduced.—*December* 27, 1947.

Indirect Taxation in U.K.

Cigarettes—about 2s. 8d. on a packet of 20 of the kinds sold at 3s. 4d.

Beer—about 8d. a pint on beer of average strength.

Pipe tobacco—about 3s. an ounce, but varying from one brand to another.

Cinema admission, price 1s. 9d. including tax—8½d.

Football match admission, price 2s. including tax—4½d.

Lipsticks and face powder—125 per cent. of the wholesale value.

Whisky (at the usual strength of 30 degrees under proof) to be sold at 30s. per bottle—22s. 3d. a bottle.

HANSARD, *November* 20, 1947

Towards A Wage Policy

By STANLEY COOK and ROBERT JAMES

The case for job specification and a fair wage—or points rating—is stated in this article.

SUPPOSE that, instead of the present haphazard method of fixing wages by bargains based on power, we prepare for each job a specification, considering carefully all the requirements of it and all the conditions involved in it; and work out the relation of those requirements and conditions to those involved in all other industrial occupations; we should then be able to arrive at something approaching a fair wage.

By requirements of the job, we mean all the qualities needed in a man to fit him for the job considered. These fall under two headings—those acquired by some form of training, and those which are innate; although a rigid division between the two is neither possible nor advisable. Clearly, initial expenditure on training, whether at school, university, or special course (especially where such training makes the simultaneous earning of a living impossible), or training under apprenticeship, must be recognised and paid for in the man's wage. But recognition should also be made of qualities which may be innate or acquired through experience. We therefore suggest four headings under which requirements may be assessed: Expenditure on Training, Technical Skill, Capacity to take Responsibility, and Command Qualities. The responsibility may be for machines, processes, property or men; command qualities are involved wherever a man is in charge of others or in control of an organisation.

In passing, it must be noted that the requirements paid for are requirements *for the job*, not qualities in the man. A particular job requires a certain standard of skill, training, etc. If the man doing it has skill or training beyond what is required, he would still only be paid on the basis of what he needs for the job. However, it might well be possible to leave a margin of wages within which the wage paid could fluctuate in accordance with such things as length of service, keenness or proficiency.

By conditions, we mean everything necessarily connected with the job, which is mentally or physically difficult, uncomfortable, unattractive, dangerous or actually harmful. We emphasise the word "necessarily", since it must be assumed that conditions are made as nearly ideal as the job itself allows. There are very few jobs, for instance, in which lighting cannot be ideal, so that allowance would be made in the wage-packet only if the job itself inevitably involves bad light. At the same time we must assume that the worker is normally fit and has an average standard in faculties such as eyesight, etc.

Tentatively, we suggest twenty different kinds of conditions, to

which, no doubt, many others can be added. These fall under five group-headings—Physical Discomfort, Danger, Time Factors, Money Factors and General Conditions.

Under the heading Physical Discomfort, we place Atmosphere (*e.g.*, dust-laden air); Temperature, which should normally be ideal except where special work (as in the cotton industry) requires a particular temperature, or where out-door work is involved; Dirt (it is assumed, of course, that washing facilities after work are adequate); Noise; and Bad Light. In the case of the last two, special allowance would be made for types of work (*e.g.*, intricate mental calculation, reading or writing) which would normally have to take place under such conditions. Where the conditions would lead to more than discomfort, that is to say, disease or permanent strain, allowance would also be made under Danger.

Danger factors include Risk of Accident (which in many cases cannot be entirely eliminated); Risk of Disease, that is to say, of disease contracted as the result of the type of work being done (allowance could not be made for risk of infection run in the ordinary course of contact with others, though in the case of a nurse this might be said to be involved in the actual job); and an item which we term Permanent Physical or Mental Injury. In the case of Accident or Disease, it is the risk which is paid for; an actual casualty would normally receive separate compensation. Permanent Mental or Physical Injury is a separate item from Accident or Disease, and is that applied to a human being which, in the case of a machine, would be described as "wear and tear" or "value-depreciation"; for example, permanent eye-strain, deafness or abnormal mental strain resulting from the work and likely to be more than temporary.

Time Factors include, first, Length of Hours. In most industries there is a difference in hours between Offices and "Shop" which would be allowed for; but "overtime", if paid for separately as such, would not be considered, on the ground that, except in emergencies, it should be unnecessary. Second, we include Monotony, so far as it is possible to measure it. Third comes Shift-Work (which upsets meals, sleep and other domestic arrangements) and Night-Work. Fourth, Emergency Calls, especially those demanding continuous availability. Fifthly, Inconvenience of Travel, where the work necessarily involves living at times away from home or periodic moving of one's home (no allowance would be made for distance of home from work, which is, normally, a matter of choice).

Money Factors include, first, Lack of Security, which will usually be greater for unskilled than for skilled workers, and for general workers than for specialists; allowance would be based on length of notice required for dismissal, pension schemes, etc. Secondly, Lack of Opportunity of Promotion; if a man's work is not doing anything to qualify him in skill or experience for a better job, he may be said to have little or no opportunity; but general, rather than specialist, work may give opportunity of betterment in another sphere, taking industry as a whole. It is worth noting that in the highest posts there is little or no chance of promotion. Thirdly, Lack of Bonus Opportunity;

assuming firms are not normally profit-sharing, this applies to piece-rate and group-bonus workers, any who get "tips" during the course of their work, etc.

There remain three General Conditions. First, Strain of Responsibility, involved in doing any delicate work, work involving danger to others or open to costly mistakes ; and involved to a high degree for anyone in charge of others. Secondly, Lack of Social Status, often under present conditions involved in a name or type of work (*e.g.*, "manual" as contrasted with "white-collar" workers); but this may well be eliminated as a result of the new wage-system. Thirdly, an item which may be considered redundant —that is, Distaste, the emotional or instinctive dislike for certain jobs, as, for example, lavatory-attendant, many types of foundry-worker, police, rate-fixer, etc.

It is clear that many conditions are overlapping with regard to each other ; and where such cases occurred, allowance would be made under one or other heading.

The requirements and conditions would have to be very carefully balanced in importance in relation to each other, and each job would be analysed and allocated points under the various headings, and the points awarded would be totalled up. To do this on a nation-wide scale will be an immense task taking many years. Clearly, however, it would have little value on a scale less than national. We therefore suggest a Royal Commission composed of men and women of wide and expert knowledge, with power to call witnesses and make detailed inquiry. Employers and Trade Unions should be represented on the Commission, but it is vital that assessments should be based on expert knowledge, rather than on the bargaining basis that has led to so much unfairness and absurdity in the present wage-systems.

Having allocated to each job a total number of points, the Commission's next step would be to interpret those points in terms of money. Various methods might be used for this ; we suggest that the lowest paid jobs should be related to the cost of living index-figure, and the relation of the higher ones assessed by the allocation of a money value to each point of difference. Thus, if the lowest paid job under consideration is awarded a total of 100 points and it is decided that the wage for it, based on the cost of living, be 60*s.* ; a job assessed at 150 points will receive 60*s.* + an allocation of *fifty* times the sum of money represented by one point (if 1 point = 6*d.*, 150 would receive a wage of 60*s.* + (50 × 6*d.*) = 85*s.*). The important thing, be it noted, is not therefore the total points so much as the difference between the totals for the various jobs.

Once the various point-totals and money-wages had been assessed, the whole would then be stabilised in relation to the cost of living index-figure, with which they would move. As the cost of living went up or down, so the basic rate (by which the lowest paid jobs are fixed) and *also the money-value of the points representing the difference* in the higher rates could be automatically adjusted, preserving the same relative value of the wages.

A permanent organisation would be necessary to make revisions in view of possible changes in requirements or conditions ; and there should be some form of Court of

Appeal to which individuals or craft-groups could bring cases for special consideration.

The result of such a system would be to remove wages from the influence of supply-and-demand factors in labour. Granted a plan of full employment, the long-term effect of this method of assessment should be that the supply of workers in each industry and trade is sufficient for the trade's requirements. Movement between trades would only occur where temporary unemployment leads a man to seek steady employment elsewhere ; and such a man would naturally tend to seek it where there was need for an increasing number of workers. A possible exception to this incentive would occur where *conditions* in a particular firm fell short of a normally attained standard ; and this would have the effect of encouraging all firms to improve conditions. In other words, *ideally* a differential wage incentive would no longer be necessary to adjust the supply of workers in each trade.

While, however, expert research and adjustments based on experience are taking place, there would be considerable movement between trades. Where outstanding shortage or surplus of labour occurred, the answer would be found in a re-examination of the points and wages assessed, and a more careful adjustment of them in the light of further research. —*From* ECONOMIC JOURNAL, *September*, 1947.

U.K. Trade with Russia

Before the war these were the main things we bought from Russia : Dairy Produce. Barley (£1,195,000 in a year). Wheat (£2,194,000). Hides and Skins (£3,338,000). Flax—now very much needed here—(£1,532,000). Soft Wood, in which we have now a famine, (£7,303,000). Pit Props, in very short supply (£1,893,000). Sleepers, for which our railways are crying out (£289,000). Petrol (£1,618,000).

We sold to Russia in return : Machinery (£3,348,000). Iron and steel manufactures. Nickel, tin, lead, and copper. Tea (£533,000). Raw rubber, of which we have now a great supply available (£2,818,000). Raw Wool, of which we also have plenty (£1,115,000). In addition, we did a large trade in pre-war days with Estonia, Latvia and Lithuania, now incorporated in Soviet Russia.

We bought £1,589,000 worth of butter from Latvia in 1939, and sold her in return coal, wool, cotton, and even herrings.

Lithuania sent us £1,268,000 worth of butter, £1,331,000 of bacon, and much timber.

Isn't it worth a great effort to get that food back on our tables, and the timber for our much-needed houses ?

Russia wants from us machinery, electrical equipment, steel rails, locomotives, and sawmill equipment.

Our production of these goods is now near the highest figures ever reached.

So let us give the trade agreement a great welcome.—JOHN GORDON in SUNDAY EXPRESS, *December* 14, 1947.

Can "Dirty" Work Be Made Attractive?

By STEPHEN SWINGLER, M.P.

In a free society with full employment, who will choose to do the "Dirty" Work? Can we give status to essential jobs?

THERE is no solution along the road to complete direction. "Regimentation" certainly does mean lowered productivity, disputes, disagreement. It means swollen bureaucracy. And this is a formidable combination of evils.

Can we give the undermanned trades powers of attraction? Can we give essential jobs a really essential status?

Society will have to pay more dearly for dirt and danger, not merely in cash, but in amenities and special priorities. What was the scale of financial inducements in 1945? For men over 21, we find that the average weekly earnings in shipbuilding were 145s. 6d., in vehicle-building 143s. 4d., in the rubber trade 135s. 9d., in steel-smelting 135s., in electrical engineering 129s. 4d. In coal-mining they were also 129s. 4d., in iron-founding 119s., in the cotton trade 107s. The average weekly earnings of women over 18 in road transport were 83s. 6d., in vehicle-building 78s. 2d.; but in cotton, 64s. and in pottery, 49s. The rate for surface workers in the coal mines today is 90s., which is also the basic wage of the farm workers, and, with a 1½d. more, the pay of the foundry labourers. These figures may be judged in the light of average earnings by men of 123s. 5d. per week. There is still a lot to be done about wages—as there is about profits.

Another power of attraction is the shorter working week, which was introduced in the coal industry in May, 1947. Generally in industry there is today a shorter week than in 1938, but clearly a shorter week has to be justified by increased productivity or by its power of attraction in recruiting new workers. We may still have to consider the case on its merits in other trades.

Thirdly, there is the question of priorities, in food, houses, and consumer goods. More canteens, special housing for particular workers, special schemes of housing for particular districts, and special allocations of goods are inducements and in some cases necessities. Some of these "attractions" are being tried, but with insufficient dramatic force and emphasis to stimulate the flow of recruitment.

No less important are industrial relations. The development of Joint Production Committees and consultations between managers and workers on the "shop floor level" should be foremost in the undermanned trades. The necessity in all these trades is to get new drive and the feeling that there is a future in the job. Workers need to be convinced that new

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machinery is coming, new buildings will be erected, that the future will be different from the past. We must evoke the enhanced sense of social responsibility. Does every miner feel that he is a potential Chairman of the National Coal Board?

These are the things which are incentives. Rewards, amenities, social status, opportunities for learning and living, are all bound up. And the only way to maintain freedom of choice effectively under conditions of full employment is to ensure that in the social scale of values, where men are most needed, there they are best rewarded and best regarded.

This is a permanent problem to be faced. There is no escape from it if we move towards a planned economy. The profit motive and the *laissez-faire* direction of labour must be replaced by a consciously designed order of values which will produce a balanced manpower budget. And people must understand what it is. Are we going to tackle this problem or is Sir Stafford Cripps merely going to produce new variations on the old theme "work or want"?

We could, of course, evade the dilemma quite simply for a little while more—by halving the size of our Armed Forces.—*Extract from* TRIBUNE, *December* 5, 1947.

Simultaneous Equations

ONE hour's use of an electric iron equals a pair of shoes.

One hour's use of a single-bar electric fire equals four pairs of fully-fashioned stockings.

Using an electric washer one hour equals 42 *pieces of underwear.*

Six minutes' gas-poker power equals a pound of biscuits.

These, said Mr. C. I. England, of the Ministry of Fuel, were samples of domestic economies' effect on production.

(NEWS CHRONICLE, *October* 28, 1947)

Schacht had Views on U.S. Gold

The Dutch weekly paper, *The Haagsche Post*, has published a most interesting article in which an English writer, captured by the Germans, described a journey he had taken in a prison van in company with Dr. Schacht in the later days of the war to a concentration camp—I think Dachau. The two talked freely of every aspect of the war and of post-war prospects such as they might be. On the financial aspect the former President of the Reichsbank, as might be expected, held definite views. On one point he was particularly emphatic—that it would be essential for America to release a large part of her stored gold and use it as backing for European currencies, which could maintain their stability in no other way. American financiers seem now to have reached precisely the same conclusion.—SPECTATOR, *November* 7, 1947.

Social Security in Belgium

By PETER McCAIG

Belgium rejects a flat rate system, and grades both contributions and benefits.

THE Belgian Social Security Scheme was worked out by members of the Belgian Underground movement during the German occupation. Copies of the Beveridge report were flown to Belgium by the R.A.F. in 1943 and dropped at pre-arranged points, where they were picked up by members of the Resistance movement. But the plan which emerged is based on quite other principles. The first major difference from the British system is that the primary responsibility for financing and running the scheme is borne by employers and workers, the State's role being mainly supervisory. Another—the most original feature of the Belgian plan—is that both contributions and benefits are based on percentages of wages.

There are five kinds of insurance; health insurance, unemployment insurance, old age pensions, family allowances and paid holidays. These are financed by a joint contribution from employers and workers of 23½ per cent. of wages or salaries, up to a ceiling of 4,000 francs per month. For comparative purposes, the prevailing rate of exchange may be taken as fr. 176 to the £. The manual worker contributes 8 per cent. and the salaried worker 8¼ per cent., the remaining 15½ per cent. or 15¼ per cent. being added by the employer. Contributions are paid to a central National Social Security Office, which is managed jointly by employers and workers under State supervision. Administration of the scheme is decentralised on a functional basis. The N.S.S.O. acts mainly as Banker, allocating the income among the five funds responsible for the five sections of the scheme, in the following proportions:—

	% of Wages	% of Salaries
Health Insurance ..	6	5
Unemployment Insurance	2	2
Old Age Pensions ..	7	10½
Family Allowances ..	6	6
Paid holidays ..	2½	0
	23½	23½

Health Insurance

There are five types of benefit:

1. *A General Health Service*, including medical and pharmaceutical care and special surgical hospital and maternity services. These are paid for by the fund according to a fixed scale.
2. *Invalidity Benefit*, for 300 days, at the rate of 60 per cent. of the average wage of the wage category to which the worker belongs.
3. *Disability Benefit* payable without limit of duration. For a worker with dependents the benefit amounts to 50 per cent. of the average wage of the appropriate category, and 33·3 per cent. for a worker without dependents.
4. *A Maternity Grant* of 60 per cent. of the appropriate wage,

payable to an insured woman or to the wife of an insured man, for a period of 6 weeks before and 6 weeks after the birth of each child, provided that the mother is not at work.

5. *A Funeral Grant* of 30 times the actual daily wage, payable on the death of a worker, who has not reached pensionable age, to the person who has paid the Funeral expenses.

Unemployment

The basic allowance for an adult unemployed person amounts to 50 per cent. of the wage of an unskilled worker, with the addition of family allowances, provided that the total does not exceed 66·6 per cent. of the wage of the worker's appropriate category.

Pensions

The retirement age in most industries is between 60 and 65 for men, and between 55 and 60 for women. The pension then payable for an insured man and wife is 50 per cent. of the average prevailing wage. Widows of insured workers receive 25 per cent. of this average on reaching the age of 55.

Family Allowances

The scheme provides for two kinds of benefit: monthly allowances, and lump sum birth premiums. Both types are paid on account of the first child, and the scale of benefits is progressive.

The actual amount of the family allowance varies according to the number of days worked by the parent, up to a maximum of 23 days, when the following scale applies :—

	per month
1st and 2nd children ..	fr. 115
3rd child	fr. 160
4th child	fr. 210
5th and subsequent ..	fr. 300

The allowances are variable from time to time, the full rate for the first and second child being based on 6 per cent. of an unskilled worker's wage, increased by specified percentages for subsequent children. For orphans a monthly allowance of approximately double the rate for the 5th child is paid to the guardian.

Birth premiums are paid at the rate of 8½ times the full monthly allowance for the first birth and half this amount for subsequent births. In addition to cash allowances, certain "family advantages" are provided through the scheme, including a maternity nursing service and ante-natal and post-natal care.—*From* JOURNAL OF THE INSTITUTE OF PERSONNEL MANAGEMENT, *October* 1947.

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Australia's Changing Economy

Extracts from BANK OF NEW SOUTH WALES CIRCULAR, VOL. X., No. 2

THE important basic facts are to be found in Australia's geographic position. It is still mainly an agricultural and pastoral country with a large export surplus of primary products, still dependent to an important degree on imports of manufactured goods. It has a small population in a large territory, of which the greater part is semi-desert and not suitable for intensive cultivation. Oversea trade is still predominantly with British countries, and the prosperity of its export industries largely remains dependent on demand in the United Kingdom.

But a complex system of economic planning and direction built up during the war was speeded up and the former trend towards a modified socialism, strengthened the authority of the Commonwealth Government by increasing its powers, and built up bureaucratic direction of development, thereby narrowing the field of free enterprise.

The other great change which the war has brought is found in the impetus given to manufacturing industry. This is not due so much to wartime controls as to actual war needs. The curtailment of imports made it necessary for many new things to be manufactured here, and there were new needs caused entirely by the demand of the armed forces. The latter demand has gone, but it has left behind plant that can be used for other purposes, and skilled labour which we did not previously have. This gives us a unique opportunity of increasing and diversifying our output of manufactured goods, and even of competing in foreign markets with exports of manufactures from the older countries of the world.

A third important change is the move towards uniform taxation. The taking over of the income tax by the Commonwealth has probably reduced the powers of the States more than any other single act.

By the very simple means of using a power included in the original Constitution, the Commonwealth has increased its financial powers at the expense of the States.

If power to levy income tax henceforth remains the sole prerogative of the Commonwealth, and the States therefore have left to them powers of raising revenue far too slender for their general needs if their functions remain as wide as they now are, one of two things must happen. Either the States must permanently be in the position of having to accept grants from the Commonwealth, or they must hand over to the Commonweath some of the functions they now perform, so that they can once more make ends meet at a lower level of expenditure.

There is no doubt that in the long run more functions will be transferred to the Commonweath, further narrowing the activities of the States.—*Extracts from* BANK OF NEW SOUTH WALES CIRCULAR, VOL. X, No. 2, *May* 1947.

3.18

Economics in One Lesson

A digest review by Sir Geoffrey Bracken of a new book which, among other points, compares the classical economists with the new economists.

"THE art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy ; it consists in tracing the consequences of that policy not merely for one group, but for all groups." This is the lesson of *Economics in One Lesson*, by Henry Hazlitt.

The author confesses that his essay is unblushingly "classical, traditional and orthodox". He acknowledges his indebtedness to Bastiat, Wicksteed and Ludwig von Mises, and more than once quotes Adam Smith and John Stuart Mill.

He admits, however, that the concentration of the classical economists on the long run results of economic policy to the community as a whole "resulted in a certain callousness toward the fate of groups that were immediately hurt by policies or developments which proved to be beneficial on net balance and in the long run." But, in his view, the new economists make the far more serious error of ignoring, or slighting, the long run effects. "They overlook the woods in their precise and minute examination of the trees. Their methods and conclusions are often profoundly reactionary. They are sometimes surprised to find themselves in accord with seventeenth century mercantilism. They fall, in fact, into all the ancient errors (or would, if they were not so inconsistent) that the classical economists, we had hoped, had once for all got rid of."

This is the theme on which he harps with slight variations in every chapter of the book. Chapter XV, "How the Price System Works", is typical of his method of approach.

"It is on the fallacy of isolation, at bottom, that the 'production-for-use-and-not-for-profit' school is based, with its attack on the allegedly vicious 'price system'. The problem of production, say the adherents of this school, is solved. (This resounding error, as we shall see, is also the starting point of most currency cranks and share-the-wealth charlatans). The problem of production is solved. The scientists, the efficiency experts, the engineers, the technicians, have solved it. They could turn out almost anything you cared to mention in huge and practically unlimited amounts. But, alas, the world is not ruled by the engineers, thinking only of production, but by the business men, thinking only of profit. The business men give their orders to the engineers, instead of *vice versa*. These business men will turn out any object as long as there is a profit in doing so, but the moment there is no longer a profit in making that article, the wicked business men will stop making it, though many people's wants are unsatisfied, and the world is crying for more goods.

"There are so many fallacies in this view that they cannot all be disentangled at once. But the

• (*Ernest Benn, Ltd.*, 6/-)

central error, as we have hinted, comes from looking at only one industry, or even at several industries in turn, as if each of them existed in isolation. Each of them in fact exists in relation to all the others, and every important decision made in it is affected by and affects the decisions made in all the others.

"Prices are fixed through the relationship of supply and demand, and in turn affect supply and demand. When people want more of an article, they offer more for it. The price goes up. This increases the profits of those who make the article. Because it is now more profitable to make that article than others, the people already in the business expand their production of it, and more people are attracted to the business. This increased supply then reduces the price and reduces the profit margin, until the profit margin on that article once more falls to the general level of profits (relative risks considered) in other industries. Or the demand for that article may fall; or the supply of it may be increased to such a point that its price drops to a level where there is less profit in making it than in making other articles; or perhaps there is an actual loss in making. In this case the 'Marginal' producers, that is, the producers who are least efficient, or whose costs of production are highest, will be driven out of business altogether. The product will now be made only by the more efficient producers who operate on lower costs. The supply of that commodity will also drop, or will at least cease to expand.

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"This process is the origin of the belief that prices are determined by costs of production. The doctrine, stated in this form, is not true. Prices are determined by supply and demand, and demand is determined by how intensely people want a commodity and what they have to offer in exchange for it. It is true that supply is in part determined by costs of production. What a commodity *has* cost to produce in the past cannot determine its value. That will depend on the *present* relationship of supply and demand. But the expectations of business men concerning what a commodity *will* cost to produce in the future, and what its future price will be, will determine how much of it will be made. This will affect future supply. There is therefore a constant tendency for the price of a commodity and its marginal cost of production to *equal* each other, but not because that marginal cost of production directly determines the price."

Other economic theories which Mr. Hazlitt criticises as fallacies are dealt with under the headings 'Spread the Work Schemes', 'The Fetish of Full Employment', 'Who's Protected by Tariffs', 'Parity Prices', 'Stabilising Commodities', 'Government Price Fixing', 'The Function of Profits', 'The Assault on Saving', and so on (see page 9).

The longest chapter of the book is given to 'The Mirage of Inflation'. "So inflation turns out to be merely one more example of our central lesson. It may indeed bring benefits for a short time to favoured groups, but only at the expense of others. And in the long run it brings disastrous consequences to the whole community. Even a relatively mild inflation distorts the structure of production. It leads to the over-expansion of some industries at the expense of others. This involves a misapplication and waste of capital. When the inflation collapses, or is brought to a halt, the misdirected capital investment—whether in the form of machines, factories or office buildings—cannot yield an adequate return and loses the greater part of its value.

"Nor is it possible to bring inflation to a smooth and gentle stop, and so avert a subsequent depression. It is not even possible to halt an inflation, once embarked upon, at some preconceived point, or when prices have achieved a previously-agreed-upon level; for both political and economic forces will have got out of hand. You cannot make an argument for a 25 per cent. advance in prices by inflation without someone's contending that the argument is twice as good for an advance of 50 per cent. and someone else's adding that it is four times as good for an advance of 100 per cent. The political pressure groups that have benefited from the inflation will insist upon its continuance.

"Inflation itself is a form of taxation. It is perhaps the worst possible form, which usually bears hardest on those least able to pay. On the assumption that inflation affected everyone and everything evenly (which, we have seen, is never true) it would be tantamount to a flat sales tax of the same percentage on all commodities, with the rate as high on bread and milk as on diamonds and furs. Or it might be thought of as equivalent to a flat tax of the same percentage, without exemptions, on everyone's income. It is a tax not only on

(*continued on page* 28)

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every individual's expenditures, but on his savings account and life insurance. It is, in fact, a flat capital levy, without exemptions in which the poor man pays as high a percentage as the rich man.

"But the situation is even worse than this, because, as we have seen, inflation does not and cannot affect everyone evenly. Some suffer more than others. The poor may be more heavily taxed by inflation, in percentage terms, than the rich. For inflation is a kind of tax that is out of control of the tax authorities. It strikes wantonly in all directions. The rate of tax imposed by inflation is not a fixed one ; it cannot be determined in advance. We know what it is to-day ; we do not know what it will be tomorrow ; and tomorrow we shall not know what it will be on the day after.

"Like every other tax, inflation acts to determine the individual and business policies we are all forced to follow. It discourages all prudence and thrift. It encourages squandering, gambling, reckless waste of all kinds. It often makes it more profitable to speculate than to produce. It tears apart the whole fabric of stable economic relationships. Its inexcusable injustices drive men toward desperate remedies. It plants the seeds of fascism and communism. It leads men to demand totalitarian controls. It ends invariably in bitter disillusion and collapse."

Mr. Hazlitt's conclusion in the last chapter, 'The Lesson Restated' is: "Economics, as we have now seen again and again, is a science of recognising *secondary* consequences. It is the science of tracing the effects of some proposed or existing policy not only on some *special* interest *in the short run*, but on the *general* interest *in the long run*.

"Now few people recognise the necessary implications of the economic statements they are constantly making. When they say that the way to economic salvation is to increase credit, it is just as if they said that the way to economic salvation is to increase debt ; these are different names for the same thing seen from opposite sides. When they say that the way to prosperity is to increase farm prices, it is like saying that the way to prosperity is to make food dearer for the city worker. When they say that the way to national wealth is to pay out government subsidies, they are in effect saying that the way to national wealth is to increase taxes. When they make it a main objective to increase exports, most of them do not realise that they necessarily make it a main objective ultimately to increase imports. When they say, under nearly all conditions, that the way to recovery is to increase wage rates, they have found only another way of saying that the way to recovery is to increase costs of production.

"It does not necessarily follow, because each of these propositions, like a coin, has its reverse side, or because the equivalent proposition, or the other name for the remedy, sounds much less attractive, that the original proposal is under all conditions unsound. There may be times when an increase in debt is a minor consideration as against the gains achieved with the borrowed funds ; when a government subsidy is unavoidable to achieve a certain purpose ; when a given industry can afford an increase in production cost, and so on. But we ought to make sure in each case

that both sides of the coin have been considered, that all the implications of a proposal have been studied. And this is seldom done."

The book is written in a clear and forcible style with a notable absence of economic jargon. Much of it is elementary and some of the solutions may seem over-simplified, but, as he says, "a little economics can easily lead to the paradoxical and preposterous conclusions we have just rehearsed, but that depth in economics brings men back to commonsense. For depth in economics consists in looking for all the consequences of a policy instead of merely resting one's gaze on those immediately visible."

Food Subsidies

The following figures were given by the Minister of Food in answer to a question in Parliament :—

SUBSIDIES ON INDIVIDUAL FOODSTUFFS, 1947-48

	Unit	Subsidy per unit Pence	Estimated Total Subsidy £ million
Bread } (Including Wheat) (acreage payment) ..	3½ lb.	5	52·3
Flour }	7 lb.	11¼	35·9
Shell Eggs	Doz.	24¾	27·1
Carcase Meat	lb. average	4¼	61·1
Milk	quart	1¼	37·5
Sugar	lb.	2	27·0
Cheese	lb.	11½	22·5
Butter	lb.	11	24·0
Margarine	lb.	2¾	7·1
Lard	lb.	9¼	1·6
Compound Cooking Fat	lb.	1¾	1·0
Bacon and Ham	lb.	10	17·3
Tea	lb.	5¾	9·0
Potatoes (including acreage payment)	7 lb.	2¼	19·8

Vegetables, other than potatoes, and fruits are not subsidised.

There are also subsidies on animal feeding-stuffs, welfare foods, milk in schools and national milk schemes, borne by the Ministry of Food, on fertilisers borne by the Board of Trade, and payments made for agricultural purposes by the Agricultural Departments.

On a dozen shell eggs the cost to the Government of keeping the retail price at 1s. 9d. is no less than 2s. 0¾d. Bread to be sold at 4½d. a 2 lb. loaf costs just under 3d. in subsidy ; butter at 1s. 6d. per lb., 11d. subsidy ; cheese at 10d. per lb., 11½d. subsidy ; flour at 1s. 5d. per 7 lb., 11¼d. subsidy ; bacon at 2s. per lb., 10d. subsidy ; and sugar at 5d. per lb., 2d. subsidy. It would appear from Mr. Strachey's figures that the total cost of the food subsidies for 1947-48 will considerably exceed the estimate of £392 million which he gave in the summer. The subsidies on animal feeding-stuffs, national milk and milk in schools schemes, other welfare schemes, and fertilisers, were then stated at £42·7 million, £33·4 million, £3·6 million and £8·2 million respectively. The total subsidy on individual foodstuffs as shown in the above table is £343 million, so that without any subsequent increases in the other subsidies referred to the present outlay would be of the order of £430 million.

Mr. Dalton was assuredly right in recognising that the time had arrived to call a halt to the continued uptrend in this burden on the Exchequer, and it is to be hoped that in this respect in particular his successor's next Budget will courageously face up to realities.—STATIST, *December* 6, 1947.

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Tabloid Digest

Resurgence of Holland

Holland lost a third of her wealth and productive capacity during the War, and the Indonesian strife has taxed her resources further. Yet, by hard work and sober living, she aims at full recovery by 1953. Goods and housing are short, and pre-war exports halved, but production is already 90 per cent. of pre-War, and the 6-year plan anticipates a 43 per cent. increase by 1952.—TIMES REVIEW OF INDUSTRY, *November-December*, 1947.

Ten Per Cent

Dr. C. C. Garrard, Resident Director of the Witton Works of G.E.C., points out that the proportion of the national income produced by industry in four selected pre-War years averaged only 45.8 per cent. If we speak of an increase in production of 10 per cent., it would be wrong to think that we thereby obtain an effective increase of tangible goods of 10 *per cent. of the national income* (£757 million a year). To secure this the increase needed from works and farms would be 20 per cent. or more.—INDUSTRY, *December*, 1947.

The Nations' Incomes

A United Nations' Survey has analysed the real level of national incomes, now universally disguised by inflation. Canada and the U.S.A. have greatly increased real incomes compared to 1938. France and Holland show a fall, but the U.K. has enjoyed an increase of about £300 million—although this is "not due to any corresponding rise in production".—THINKING AHEAD, *December*, 1947.

Britain and France

Rene Dabernat outlines steps to the integration of French and British economies as (1) Public consultation ; (2) Organisation of supplies of raw materials ; (3) Specialisation of production, entailing, in each country, the disappearance of some industries and development of others ; (4) Re-division of export markets on the most rational basis. Major obstacles exist, and the objects might more easily be attained within the framework of a United Europe.—CAHIERS DU MONDE NOUVEAU, 1947.

France's Taxes

Gilles Gozard, member of the Finance Commission of the National Assembly, attacks France's over-complicated taxation system, which does not work. He recommends an entirely new scheme similar to that in Britain. A small five-yearly tax on all enrichment would permit a check on tax evasion, and produce an interesting economic census.—PRODUCTIONS FRANCAISES, *December*, 1947.

India Looks to Russia

Rising world food prices have meant heavy subsidies for imported grain and rice, which are beyond the means of the Government of

India. If F.A.O. cannot halt profiteering by price control and rationing in U.S.A., India must look to Russia for grain at long-term prices.—EASTERN ECONOMIST, *November*, 1947.

South American Inflation

Latin America, no less than Europe, is in difficulty with balance of payments. Javier Marquez explains that fear of an American slump has given force to the urge to industrialise and become less dependent on world markets. Development schemes and rising incomes have caused huge demands for imports, while rising prices are expected to handicap exports. Disadvantages of heavy Government spending in times of boom are ignored ; Governments follow the line of least resistance and inflation is accepted instead of taxation.—INTER-AMERICAN ECONOMIC AFFAIRS, Vol. 1, No. 2 1947.

Cost of Progress

British industry in 1946 was spending about six times more than before the War on research, with a total outlay of some £30 million per annum.—SURVEY BY F.B.I. INDUSTRIAL RESEARCH SECRETARIAT.

Pre-view of Britain in 1955

The Fourth Number of FUTURE (4s. 6d. ; 51a Rathbone Place, London, W.1), is devoted to a clever imaginary picture of Britain in 1955. The authors of all the articles believe passionately in Britain's future, and seek to show the success which is the destined end of various current experiments. Naturally every article is debatable. Production is magnificent.

Writers Presented in this Issue

Roy Harrod

University lecturer in Economics, Oxford (Christ Church) ; Joint Editor of Economic Journal.

Henry Hazlitt

Member of editorial board of the *New York Times* ; 'One of the few economists in human history who really can write'. (H. L. Mencken).

Alfred E. Kahn

American economist ; graduate of Yale University.

R. F. Kahn, *C.B.E.*

King's College, Cambridge ; Member of Council of Royal Economic Society.

Stephen Swingler *M.P.*

(Labour, Stafford) ; educated Stowe School and New College, Oxford ; W.E.A. lecturer ; author of 'Political Thought Since the French Revolution' (1938).

Eric Wyndham White

Executive Secretary of the Preparatory Committee of the Havana Conference at work on draft charter of I.T.O.

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