

ECONOMIC DIGEST

Contents

Europe after Marshall Aid ...	<i>The Rt. Hon. Sir Arthur Salter, G.B.E., K.C.B., M.P.</i>
Profit Margins... ..	<i>Institute & Company Meetings</i>
U.S.A. Economic Co-operation Policy	<i>Paul C. Hoffman</i>
Budget Surplus—Implications Examined	<i>R. C. Tress</i>
Income Tax Anomalies ...	<i>S. P. Chambers</i>
1938 as Basic Statistical Year ...	<i>National Provincial Bank Review</i>
Hire Purchase—New Phases	<i>The Financial Times</i>
Hungary's Economic Problems	<i>Blanche Lucas</i>
Redistribution of Purchasing Power	<i>J. R. N. Stone</i>
Joint Consultation Success ...	<i>Robert J. Edwards</i>
The Trends of International Banking	<i>Monthly Summary National Bank of Australasia, Ltd.</i>
Population Policy in Great Britain	<i>P.E.P. Broadbeet</i>
Wanted: Better World Statistics	<i>United Nations Bulletin</i>
Monopoly in Britain ...	<i>Harold Wincott</i>
Europe's Post-War Housing Shortage	<i>U.N. Reports</i>
The Shops of Britain ...	<i>Hermann Levy</i>
National Insurance: Employers' Cost	<i>The Financial Times</i>

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FUTURE PLANS

ECONOMIC DIGEST will be increased from its present 32 pages to 48 pages in the next issue and thereafter. The post-free annual subscription will be increased similarly from 14s. per annum to 20s. per annum.

We hope and believe that these changes will be acceptable to our subscribers, to whom we are deeply indebted for interest and support throughout the fourteen months' life of the magazine.

The following points arise:

- (1) The next number of ECONOMIC DIGEST will be published on August 25 and be dated September, 1948; subsequent numbers will appear at monthly intervals thereafter;
- (2) Subscriptions already paid at the lower rate will be continued to the full period;
- (3) The publishers on behalf of the Economic Research Council are now the Shaw Publishing Company, Ltd., 180, Fleet Street, London, E.C.4;
- (4) There is no change in editorial control or in editorial policy, except that which is implied by the greater scope made possible by the substantial increase in the number of pages.

We believe that these changes will enhance the value of the magazine and widen its scope. From the beginning ECONOMIC DIGEST won the support of a remarkably distinguished body of subscribers, and throughout its short life we have been encouraged by numerous expressions of most friendly help and appreciation. We have welcomed no less the many suggestions and comments that have reached us, and wish to emphasise that criticism is always welcomed.

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461

EUROPE AFTER MARSHALL AID

By THE RT. HON. SIR ARTHUR SALTER,

G.B.E., K.C.B., M.P.

THE policy and action of the next four years (in Europe) will be influenced by what is believed to be the probable position at the end of them. If, for example, it is believed, especially in America, that in 1952 there will be no serious disequilibrium in the balance of payments between the dollar and non-dollar world, there will be much more difficulty in securing assent to the use of Marshall resources in sterling areas outside the 16 countries, or to preferential arrangements, not clearly temporary in character, as an alternative to a full Customs Union. Conversely, if it is recognised that the disequilibrium will at best last for many years, and the appropriate conclusions are drawn, there will be much more latitude in present policy. It is worth while therefore to look at the probable position in 1952.

We must assume that gifts and eleemosynary grants will not be further continued. It is reasonable to expect by that time Europe will supply more of its own needs and produce more exports to pay for what is still imported from the dollar world. The "gap" should therefore be substantially reduced. It is, however, in the highest degree unlikely that it will be closed in the sense that there will be the means to pay for all that is advantageous both for America to sell and Europe to buy. America's industrial development, both its extent and its character, make that extremely improbable.

Even if European manufactures are sufficient, America will not provide an adequate market for them. For her balance of payments problem is radically different from that of 19th century Great Britain, when we were exporting manufactured articles to countries with a complementary production—locomotives for example to the maize - producing Argentine. America, while requiring to import some raw materials, makes almost all she needs, and nearly all of it more cheaply in terms of man-hours. If Europe can compete in price it will be by means of lower wages or longer hours; and, though this is both practicable and desirable on ordinary economic principles, trade of this kind always encounters formidable political opposition. To the home manufacturers in the high-wage country it is unfair competition and though their opposition may not prevent some increase in imports it is likely to keep them down to such a level that, in default of other solutions, America's exports will be much less than either she or other countries would desire.

Imports plus net capital export must, of course, set a definite limit to the amount of American exports that can be sold. The debit and credit items in any country's balance of payments with the rest of the world (including short term credits as well as long term loans and investments) necessarily balance, not only in the long run but at every moment. For many years after 1952 the limit,

to a dollar, of American exports will be set by what other countries can pay. It will probably be in her interest to maintain her exports above this level and to direct her general policy to that end. Economists and exporters will be likely to draw the moral in the next few years; and several important consequences may follow.

In the first place it will be to America's interest to encourage productive foreign investment on a large scale. Such investment, however, requires two conditions; first that the area of the investment shall offer opportunities for economic development, and second that political conditions shall be such as to permit the development and ensure the investor that he will not be robbed of its fruits by confiscation. The greatest countries, however, with opportunities for economic "development" (as distinct from industrial "reconstruction" in Europe)—China, India and Russia—do not, or may not, satisfy the political condition. In the rest of the world the most striking class of territory in which both conditions are satisfied is that of the colonial empires of Great Britain, France, Belgium and Holland. In our own case, for example, it is obvious that we shall not be able to export enough capital to our colonial empire to secure as great and as rapid a development as would otherwise be both practicable and desirable. Here is a possible basis for an arrangement with America which would be of great benefit alike to her, to us, to the colonies and, by its effect on the general balance of payments, to the world as a whole.

With every practicable development on these lines, however, added to such increase in America's imports as may prove possible, the remaining gap, though reduced, will still be sub-

stantial. The level of America's exports will still be determined by her customers' ability to pay. The recognition of this fact may have other important consequences on her commercial policy. She will have, in the first place, no national interest in subsidising any particular class of exports. If, for example, she subsidises shipping, she will not increase total exports by a dollar; the result will only be to reduce her other exports to the same extent as her shipping earnings increase. So, too, if an efficient commercial attaché succeeds in persuading, say, an Italian purchaser to buy an American rather than a British locomotive, the result again will be to reduce other exports by the amount of the value of the locomotive. Equally, while there is still in the sense described an unbridged gap, there is no net advantage to the American economy in securing increases in particular exports—e.g. to France by preventing a preferential tariff between her and Belgium. It is in this light that we should attempt to estimate the future evolution of America's policy in the years immediately following 1952. I believe that a growing recognition of the inexorable arithmetic of the balance of payments will result in some of the exceptions to non-discrimination which are now allowed temporarily being continued for a much longer period. And in that case the task of securing an integration of the economy of Western Europe, short of complete union where that is impossible, will be greatly facilitated.

The economic opportunities of Western Europe, with an adequate measure of economic integration, in suitable association with the British Commonwealth and with the continuance of sympathetic and broadvisioned encouragement from America, are—assuming peace—ob-

viously very great. Here is a population of 250 millions, skilled and industrious and clearly able under suitable conditions to manufacture enough to pay for such food and raw materials as they cannot produce themselves. And with increasing economic strength, defensive strength will grow *pari passu*. The Brussels defensive alliance, and all that may develop from it, is the counterpart of the Paris E.R.P. organisation and all that may be built on that. If all goes well, Western Europe may become both reasonably prosperous and strong enough to offer no temptation to an aggressor. This is the only route to both safety and freedom. For that

very reason, however, there must be a period of crisis and tension this year which might otherwise have been postponed a little longer—though it would have been then aggravated and not arrested. For Russia has seen as clearly as we do the promise of the efforts which are now being made in Western Europe, and the intensity of the present crisis is obviously due to her desire to make hay while the sun shines. How far she will go—and whether she will blunder into more than she intends—in a desire to exploit her resources at the moment of their greatest relative strength, is the great enigma of this year.—*From NATIONAL PROVINCIAL BANK REVIEW, May, 1948.*

PROFIT MARGINS

Mr. Gilbert D. Shepherd, M.B.E. (President, Institute of Chartered Accountants): "I would like to see members, whether in practice or in industry, press for an extension on the widest scale of two practices now adopted by some companies.

"The first is the presentation of a concise analysis showing the disposition of the gross revenue received from a company's operations. I shall not attempt to suggest a standard form but, speaking generally, gross revenue is disposed of by expenditure on salaries and wages, materials, operating expense, taxation, dividends and transfers to reserve. It is only by the widespread use of such an analysis (in sterling or by percentages only) that we shall dispel the illusion, now so prevalent, that enormous profits are being pocketed by the shareholders in public companies

at the expense of consumers and workers. Such analyses would show the relatively small proportion of profit, the heavy impact of taxation thereon, and the necessary retentions to enable the company to continue as a healthy organism. They would also show how much nonsense is let loose on the public in regard to prices; the reductions in prices which could be achieved in many instances by the removal of all profit would scarcely be felt by the consumer. I was pleased to see a letter on this point in *The Times* of March 9 last from Sir Arthur Cutforth, an esteemed past president of the Institute.

"The second practice I would like to see adopted more widely is that of stating the dividends paid not only as percentages of the paid-up capital but also as percentages of the original capital enhanced by sums retained in

the business over a long period of years. I regard this as the more important since the prohibition against the issue of bonus shares to capitalise reserves fully employed in the business." (*Annual Meeting of the Institute, London, May, 1948.*)

Lord McGowan, K.B.E. (Chairman, I.C.I. Ltd.): "In presenting you, as usual, with a statistical résumé of the company's consolidated activities for the past year, we have this year put the figures in tabular form."

(The figures in italics give comparable details for 1946.)

1947—ICI AND 84 SUBSIDIARIES

(1946—*ICI and 62 Subsidiaries*)

Gross manufacturing and trading proceeds	1946	1947
	£m	£m
and gross income from investments, etc.	119.8	140.4

Raw materials and purchases for resale, maintenance of plants, freight charges, factory and sales administration expenses (exclusive of salaries and wages)	67.4	81.8
Wages and salaries	30.5	34.2
Pensions and contributions to pension funds	1.8	2.9
Obsolescence and depreciation of plants	4.2	4.3
United Kingdom and overseas taxation	8.4	8.9
Retained by the company for additions to reserves including special addition to central obsolescence and depreciation provision	3.6	4.4
Distributed as net dividends to stockholders	3.9	3.9
	<u>119.8</u>	<u>140.4</u>

(*Annual Meeting, London, May 20, 1948.*)

Sir William G. Verdon Smith, C.B.E. (Chairman, Bristol Aeroplane Co. Ltd.): "The following statement sets out the way in which the company's income for 1947 was expended. The figures per £1 of income are as follows:—

	s.	d.
Materials and supplies, including sub-contracting and other trading expenses	9	2½
Employees' wages & salaries	8	0
Coal, gas, electricity, transport, postages, telephones, other State-operated services, and local rates		6
Repairs and depreciation	1	0
Taxation		8½
Retained in business		3½
Paid in dividends—net		3½
	<u>20</u>	<u>0</u>

"Included in the figure of 8s. for wages and salaries is the amount payable in respect of the many services afforded to employees by the company in addition to actual disbursements for net wages and salaries." (*Annual General Meeting, Bristol, May, 1948.*)

Mr. F. G. Clavering Fison (Chairman, Fison's, Ltd.): The following division of each £1 of sales may interest you:—

	s.	d.
Cost of materials and other works expenses	13	5½
Wages	1	10½
Carriage and selling expenses	2	0
Administration, ancillary services, etc.	0	8
	<u>18</u>	<u>0</u>
Taxation	1	3½
Reserves	0	3
Dividends	0	5½
	<u>20</u>	<u>0</u>

(*Annual Meeting, Ipswich, June, 1948.*)

U.S.A. ECONOMIC CO-OPERATION POLICY

By PAUL G. HOFFMAN

THE breadth and magnitude of the inspiring objectives set for us by the Congress are reflected in the following analysis of our responsibilities under the Foreign Assistance Act of 1948 :

(1) We must promote agricultural production in 18 nations.

(2) We must promote industrial production in 18 nations.

(3) We must assist in restoring or maintaining the soundness of currencies, budgets, finances in 18 countries.

(4) We must facilitate and stimulate trade by each of these nations with all the others and with the United States, and with the rest of the free peoples of the world.

(5) Assistance must be extended in the form of loans in all cases where it is the considered judgment of the administrator in consultation with the National Advisory Council on International Monetary and Financial Problems, that the loans can be repaid.

(6) In all cases where a sound loan cannot be made and where, therefore, assistance is extended as a grant, the participating country must place in a special account its own currency in commensurate amounts. Plans must be developed and mutually approved with each country in which such funds are accumulated to use these funds for recovery purposes within that country.

(7) We are to facilitate and maximise the use of private channels of trade in procurement.

(8) Assets and earnings belonging to citizens of participating countries but situated in the United States territory are to be, as far as possible, located by the participating country and put to appropriate use in furtherance of the recovery programme.

(9) The Administrator is to see that participating countries facilitate the transfer to the United States, on reasonable terms and in reasonable quantities, materials which we may require as a result of deficiencies or potential deficiencies in our own resources. Due regard must be had for domestic use and commercial export.

(10) Agreement must be worked out for future delivery of adequate quantities of materials of the kind referred to in the foregoing paragraph, including possibly increased production of such materials.

(11) The Administrator is to encourage the largest possible utilisation of manpower within the participating countries including, where possible, arrangements with the International Refugee Organisation.

(12) The Administrator is to request the Secretary of State to obtain the agreement of those countries concerned that such capital equipment as is scheduled for removal as reparations be retained in Germany if such retention will most effectively service the purposes of the European Recovery Programme.

(13) The Administrator is instructed in co-operation with the Secretary of Commerce to facilitate and encourage, through private and public

travel, transport, and other agencies, the promotion and development of travel by citizens of the United States to and within participating countries.

(14) To encourage American business to invest and assist in European recovery, the Administrator is authorised in the case of projects approved by him and the participating country to guarantee the exchange of local currencies for dollars to the extent only of the dollar investment in each such project.

(15) With respect to American books, magazines, newspapers and motion pictures distributed in Europe, such guarantees during the first year of operation are limited to 15,000,000 dollars out of a total contemplated appropriation of 300,000,000 dollars.

(16) We are to pay ocean freight charges from United States ports to foreign ports on contributions for relief in participating countries donated to or purchased by voluntary non-profit relief agencies recommended by the Advisory Committee on Foreign Aid with Europe.

(17) We are to arrange with the Post Office Department for a reduction of postage paid by individuals in the United States for sending packages of food, clothing, medicine, and so forth to individuals in countries which are receiving assistance in the form of grants. Such reduction is to include payment by E.C.A. of ocean freight and, where possible, payment in local currency of terminal charges in the country of destination.

(18) The Administrator is to refuse delivery to participating countries of commodities for use in the production of other commodities for delivery to any non-participating European country which would be refused an export licence by the United States for such commodity in the interest of national security.

(19) The Administrator is enjoined to see that United States commodities shall be exported first to participating countries in preference to countries wholly or partially in Europe which are not members of the Organisation for European Economic Co-operation.

(20) The Administrator is to maintain a constant review of the economic situation in each participating country to ensure the efficient use of the resources of such countries (including commodities, facilities and services furnished under E.C.A.) to promote recovery.

(21) The Administrator is to obtain from each participating country, at least every quarter, a full statement of operations under the bilateral agreement.

(22) The Administrator is enjoined to assure that as far as practical at least 50 per cent. of the group tonnage of commodities procured within the United States are transported abroad in ocean vessels flying the United States flag.

(23) To the maximum extent, the Administrator is to procure petroleum and petroleum products from sources outside the United States and to see that alternate fuels or sources of power are used wherever practicable.

(24) In carrying out all the foregoing responsibilities and in promoting the recovery of other nations, the Administrator is enjoined to minimise the drain upon our own resources and to avoid impairing the fulfilment of vital needs of the people of the United States. He is particularly and specifically instructed as to how agricultural procurement is to be conducted to protect the domestic economy. — *Statement to Senate Appropriations Committee, Washington, May 13, 1948.*

BUDGET SURPLUS—

Implications Examined

An important article by R. C. Tress in "London and Cambridge Economic Service Bulletin" * is here summarised by the Financial Editor of the Manchester Guardian.

A NEW note has crept into the discussion on the inflation problem. At first the question was: will the genuine Budget surplus and savings from other sources be large enough to offset Government and private programmes of investment without an inflationary rise in prices? Now the question is becoming: will the Government surplus be so large that we can afford more investment?

The danger is that if savings are made too large they will be offset by investment of an unwanted kind—investment in stocks of consumers' goods that cannot be sold at home or exported abroad. Loud cries of pain from this have already been heard from the apparel, boot and shoe, and radio trades. The solution, however, is not to stimulate consumption but to plan for more investment of the right type—the type that will increase productivity.

It would be sinful if the Government should penalise incentive by heavy taxation to force a large volume of savings and then underestimate the size of the investment programme that could be financed without inflation. But from an article in the latest bulletin of the

London and Cambridge Economic Service this would appear to be the case. The author is Mr. R. C. Tress, formerly of the economic section of the Cabinet Offices, and his calculations are entitled to respect. His article fills an important gap in our knowledge. The Budget enables one to assess the probable amount of savings that will be taken from people's incomes as a net result of the taxation and expenditure of the central Government. But no authoritative estimate has been made of the current surplus for all public authorities, the estimate of £275,000,000 made in the economic survey being only an estimate of what the surplus would have been had there been no changes in Budget policy. The article in the bulletin attempts to remove this blind spot.

The result is highly important. The post-Budget estimate of the bulletin turns out to be very much larger than the pre-Budget estimate of the survey. This is the comparison: bulletin £425,000,000, survey £275,000,000. Moreover, the writer in the bulletin excludes from current revenue of the Government estate

* *Bulletin II, Volume XXVI, May 19, 1948.*

duties, stamp duties paid on transfers of property, and the "special contribution," since the people who make these payments regard them as payments out of savings. But the survey estimate includes such payments in current revenue. On a strict basis of comparison the survey estimate would appear even smaller.

WHERE THE SAVINGS COME FROM

The payments out of private savings, or "private capital accounts" in the writer's own words, are put at £245,000,000. The Government, however, is regarded as transferring back £165,000,000 by way of E.P.T. refunds and war-damage payments. On balance there is thus a transfer to the Government of £80,000,000. The survey was very pessimistic about the size of the national income in 1948, and the writer considers the

survey's estimate for depreciation allowances of £700,000,000 should be increased to £850,000,000. Net borrowing from abroad (mainly Marshall Aid) will, he thinks, come to £300,000,000 rather than the £250,000,000 suggested by the survey.

These four items—current surplus, savings from private capital account appropriated by the Government, depreciation allowances, foreign borrowing—will thus provide a sum of £1,655,000,000. If the survey's figure of £1,800,000,000 for gross capital formation is accepted, this leaves a sum of only £145,000,000 to be provided from private savings. Undistributed profits of business alone, especially in view of dividend limitation, will cover this. Hasty conclusions should not be drawn from mere figures. But they point to a lifting of some of the restrictions on capital investment.

International Bank's First Non-Dollar Issue

Great satisfaction was expressed in the U.S.A. at the announcement from Washington on May 25 that the International Bank had come to an arrangement with the Bank for International Settlements (B.I.S.) in Basle, placing by direct sale the first bonds to be issued by the International Bank in other than dollar denominations. An issue of 2½ per cent. Swiss franc serial bonds, dated April 1, 1948, maturing in 1953 and 1954, to the aggregate amount of sFr. 17 million (approximately \$4 million) has been purchased at par by the Bank for International Settlements. The amount was small, but the ice had been broken. Competent American authorities in Switzerland described the transaction as "the FIRST MAJOR ISSUE of bonds in other than dollar denominations" as if it were a foregone conclusion that more such issues would follow.

As the prospect of placing these bonds among investors in Switzerland is extremely slight, the B.I.S. will have to hold the bonds till maturity, accepting a lower rate of interest than obtainable elsewhere in Switzerland. So it was obvious that the B.I.S. had made a definite concession to the International Bank. The motives for doing so are not difficult to understand. "The interest and co-operation of the Bank for International Settlements . . . has been encouraging and greatly appreciated," said Mr. John J. McCloy, president of the International Bank, in announcing the bond issue. "We are hopeful that this will prove to be one of a continuing series of international transactions."—STATIST, June 5, 1948.

INCOME TAX ANOMALIES

By S. P. CHAMBERS

The Author, with all the Experience of a Commissioner of Inland Revenue, has become an Important Critic of Britain's Taxation Systems.

RULES of taxation which were appropriate when less than 10 per cent. of the population pay income tax are inappropriate when, except for very low incomes, income tax is universal. Secondly, the system of allowances for children and other dependents has been rendered obsolete by the new social security laws. These allowances, together with the other personal allowances, were designed with the object of exempting from tax the basic cost of living of the taxpayer and his family, and the theory was that the part of the income which the taxpayer used for his bare living needs ought not to be taxed.

But to-day a married couple get free education and many other free services for their children. They also get a weekly family allowance in cash in respect of all the children other than the first. So some people get two cash allowances from the same Government for the same children. One of these allowances—that under the Family Allowance Act of 1945—is fixed at 5s. a week however large the taxpayer's income. The other—under the Income Tax Acts—varies according to the taxpayer's income. But the variation is the wrong way round; the smaller the income the smaller the allowance. Look at the figures for the second child where the income is £200 a

year, £350, £400 and £600. For the lowest income the cash reduction is nil, because no tax is payable anyhow. The £350 a year man gets £7 off his tax bill, the £400 a year man £15, and the £600 a year man gets £27 off his tax bill. Taking the allowances together the effect is that although the State has assumed considerable responsibility for the cost of bringing up children, it pays the parent more when the parent's income is larger and when he is therefore not in such need of assistance.

There is clearly duplication and anomaly here. The old tax system is inconsistent with the new social insurance system. The trouble is that the two sets of allowances have grown up independently. They are separately administered by separate Departments under separate Ministers. A surgical operation on the two systems has become necessary to get rid of the malignant growth of many years. But the anomalies are not confined to the allowances. Flat contributions are collected under the National Insurance Act and the Industrial Injuries Act, and after next July these contributions will amount to 5s. 1d. a week for the adult male worker. The employer pays another 4s. 2d. a week, and if we assume that the employer could pay this 4s. 2d. as extra wages to the employee if he

did not pay it to the State this means that the real cost to the employee is not less than £24 a year.

Although these payments are called "contributions," they are, of course, taxes, and are so described in the Government White Papers on National Income and Expenditure. They constitute a form of direct taxation which is violently regressive. That is to say, the rate of tax per pound of income goes up as the income goes down. For a worker earning £2 a week the joint contributions are equivalent to a flat tax of no less than 4s. 6d. in the £; for the £5 a week man the equivalent is 1s. 9d. in the £; for the £60 a week man it is less than 2d. in the £. So we have an income tax for which the rate in the pound goes up as income goes up, and a National Insurance contribution for which the rate goes up as the income goes down. This regression is, of course, a feature of all flat contributions. But what is so convenient as to be passable when the weekly amount is a penny or two is no longer acceptable when the weekly amount is counted in shillings.

Now, if we stand right back from all the detail of these taxes and allowances under the Income Tax Acts and the Social Security laws, two main features emerge. On the one hand the State takes money away as taxation, on the other it gives money as allowances. This suggests that the proper course would be to merge the insurance contributions with the income tax, and to merge the main income tax allowances with the family allowances. Now that we have a Family Allowances Act and other Social Security laws, there is no sense in retaining the whole paraphernalia of personal allowances, child allowances, allowances for dependants, and so on, in the Income Tax Acts.

What could be done, and done

simply, is to expand the family allowances system to cover payments for the wife, first child and other dependants, and then exclude all these allowances from the income tax system. On the other hand the insurance contributions could be abolished altogether, leaving this taxing function to the income tax. This would open the way to a sweeping simplification of the income tax except for the higher ranges of incomes, which in any case constitute such a small proportion of the total number of incomes. A flat rate of 3s. in the £ on all income up to £500 a year would be sufficient to bring in about £800,000,000—which is roughly sufficient to cover not only the whole revenue of the present complicated system under PAYE but also the contributions under the National Insurance Acts and the amount necessary to expand the family allowances as I have suggested. A flat tax of 3s. in the £ would mean that the marginal rate of tax would be made equal to the average rate, and for the extra £1 of earnings the extra tax would be 3s. and not 7s. 6d. That would be an enormous improvement. The present budget brings the 7s. 6d. down to 7s. 2d., which shows how little can be done to bring down the rate of tax on overtime earnings by merely adjusting the allowances under the present system.

How much the flat rate of tax should be would depend upon budgetary factors which change from year to year, and the 3s. rate which I have suggested is little more than an illustration, although in fact it is just about the rate which would leave the whole budgetary position substantially unchanged this year. The individual taxpayer will not, of course, be in exactly the same position as before. For example, a single man earning £250 a year pays at present £20 in income tax and about £13 in

HIRE PURCHASE—New Phases

EXTRACTS FROM THE "FINANCIAL TIMES"

THE position of hire-purchase finance companies has recently entered a new and interesting phase. During and since the war the Treasury has been anxious to check any inflationary tendency which might arise from a large-scale expansion of consumer credit.

At the same time, the Board of Trade has exercised control over individual classes of hire-purchase transactions through the mechanism of its price control system. A larger initial payment has to be made and a shorter period of credit allowed than was sometimes customary before the war.

Although the value of the business done is about equal to pre-war, the number of transactions is well down. For one company, for example, the average outstanding balance on the initiation of a contract was about £90 in 1938. Now it is about £530. The rise is partly due to the increasing proportion of business done in industrial plant and partly to the advance in prices of such goods as second-hand motor vehicles. The advance of credit for the purchase of motor vehicles still comprises quite an important part of total turnover, although it is naturally below the pre-war level. For one firm, again, over 80 per cent. of its pre-war turnover was in this field. But

to-day the percentage is down to about 33 per cent. including motor coaches and other commercial vehicles besides private cars. The balance of this company's business is entirely concerned with industrial plant.

Agricultural machinery and equipment for open-cast coal-getting are promising fields for hire-purchase finance. There are many others which should open up. For instance, before the war laundries and printing establishments provided a fair amount of business. In most cases they have not been able to replace machinery since before the war and so provide a potential market.

Increasing use of machinery in small businesses was a strong trend in the pre-war years and it is one which will no doubt strengthen when demand can be satisfied. Financing such purchases is well adapted to the organisation of the hire-purchase finance companies and during the war there was an increasing appreciation of their economic role. A large number of small engineering concerns turned to them when they went on to war work and had to expand their capacity. At present the Joint Stock banks are introducing quite a lot of business where their clients seek facilities to buy plant.—June 1, 1948.

Resurgence of Japan

"Already in the third quarter of 1947, Japan was exporting 143 million linear yards of cloth, compared with exports from Great Britain in the same quarter of 146 million yards. . . . It seems probable that figures of both production and exports of Japanese cotton textiles will continue to rise progressively during this year."—THINKING AHEAD.

HUNGARY'S ECONOMIC PROBLEMS

By BLANCHE LUCAS

HUNGARY'S economic policy is determined mainly by her desire to restore pre-war economic standards and by her obligations to pay reparations to Russia. Surprisingly little mention is made of the problem of reparations which in other defeated countries occupies a central position in the public eye. The Three-Year Plan, accepted by the Government in the summer of 1947 as the basis of its economic policy, is on paper a remarkable statistical and theoretical achievement and, could it be put into effect as originally intended, would no doubt remove many of the obstacles at present blocking the road to recovery. It was born at an inauspicious hour, however, and suffered a considerable set-back owing to the drought of the summer of 1947. Moreover, one of the pre-conditions of its successful working is the availability of capital, which in Hungary has always been scarce. As the country is not participating in the Marshall Plan and there is no prospect of a foreign loan, the necessary capital can be acquired by inflation, compulsory saving or taxation. The use of the first measure so soon after the catastrophic situation of 1945-46 could only be regarded as a last resort by any Hungarian Government. As it is, strong inflationary tendencies were perceptible in the summer and autumn of 1947, but the Government, alive to the danger of a second inflation, stopped the further printing of banknotes and the note circulation has been more stable for the last three months. The Government has already shown a preference for the

second and third methods by levying new taxes, raising the price of State monopoly commodities (tobacco, alcohol, matches, salt) and encouraging saving. Economically these measures are sound; politically they are giving rise to discontent and unrest, which puts the Government in a difficult and painful situation, inasmuch as, at the autumn elections, it promised the working classes an immediate and continuous rise in their standard of living following on the adoption of the Three-Year Plan. Since the war the main trend in Hungarian economic policy has been directed towards nationalisation, as a result of which the coal-mines, the heavy industries and the six largest banks with their industrial holdings have already passed into the ownership of the State. The nationalisation of the banks has struck the heaviest blow at independent enterprise, and it is to be followed by that of the bauxite undertakings. Hungarian commerce and industry are thus being rapidly concentrated in the hands of the State. It is interesting to note in this context that an all-important position is held by Russia in Hungarian communications by her participation to the extent of fifty per cent. in the Hungarian-Soviet Shipping Company and the Hungarian-Soviet Airways Company. Further Russian interests in Hungary are the German assets which she acquired by virtue of the Potsdam Agreement. These and other points of vantage occupied by Russia in the economic field either directly or indirectly have brought with them so much political power that she is unlikely to relinquish them. — *From* WORLD AFFAIRS, April, 1948.

REDISTRIBUTION OF PURCHASING POWER

By J. R. N. STONE

IT is important to examine the economic implications of the shift in purchasing power in the U.K. from rich to poor which, superimposed on the destruction and dislocation of war, contribute largely to the present economic difficulties of this country, however much they are rightly applauded as an important social advance. The extent of the misunderstanding of these implications is to be seen in the Government's "Statement on Personal Incomes, Costs and Prices," which seems to contemplate a fall in prices and profits as a *quid pro quo* for the maintenance of a stable wage level, that is, a rise in real wages and a further redistribution of income before tax. These measures may help to reduce trade union pressure for higher wage rates, which is no doubt their practical purpose, but the inflationary pressure of demand on supply cannot be cured by making the incomes of a large section of the community go farther because of lower prices, while another section of the community, though made poorer by the reduction in prices and profits, is unlikely to diminish its spending correspondingly.

Moreover, as everybody now knows, the country is at present living beyond its means even at full employment levels of output and will

continue to do so even under Marshall aid; net real capital expenditure, particularly on plant and equipment, essential for national solvency, is by no means high. The first call on any increase in production, indeed on existing production, is to set these right rather than to expand the means of household spending on consumers' goods and services.

The Budget has taken an important step in dealing with this problem in so far as this can be done by budgetary policy. By budgeting for a large genuine surplus the Chancellor has ensured that a substantial slice of purchasing power will be removed from the possibilities of current expenditure and will be available to offset inflationary pressure from other sources. But it is evident that the Government only partially controls the situation, and the economic sanctions of the past are for the present powerless. In such circumstances the maintenance of stability by democratic means calls for an almost superhuman exercise of collective restraint. It is not easy for any group to defer even for a time the attempt to reach that standard of living to which, in the immortal American phrase, it is determined to become accustomed. — *Extract from THE TIMES, June 3, 1948.*

Britain's Exports

"At least one-third of our total pre-war export trade took the form of parcels worth £100 or less, and the bulk of these emanated from a large number of independent and largely unorganised small businesses."—HARCOURT JOHNSON, *Secretary of the Dept. of Overseas Trade* (1943), recalled by G. D. A. MACDOUGALL, *ECONOMIC JOURNAL, March, 1948.*

JOINT CONSULTATION SUCCESS

By ROBERT J. EDWARDS

THE Wembley factory of Glacier Metal Company has long got past the infant stage of joint consultation. Their works council is no mere welfare committee, "somewhere for the boys to let off steam."

Nothing is barred from discussion at the Wembley works council, except matters that, if disclosed, might be advantageous to rival companies. Divisional managers report on the activities of their branches at each monthly meeting. Cost figures, outstanding sales commitments, the whys and wherefores of managerial decisions—all come under scrutiny. So does the yearly balance-sheet.

Every year, the works committee (with the management) calls a meeting of all the workers to discuss the profit-and-loss account. This, in a privately owned firm, is an admirable departure from the normal conception (even in a progressive company) of the maximum rights of the worker.

The company's directors decided some years ago to peg the dividend at 7½ per cent. The remainder of the profits now go into research, re-equipment, price reductions or quality-raising, and to benefit the workers. On last year's surplus profits, £30,000 was allocated by the directors as extra-payment for the workers. The works council appointed a special *ad hoc* sub-committee to decide how the money was to be used.

A three-tier system of joint consultation is considered an effective way for workers' representatives to report back to their constituents. It works like this:

Tier One.—The works council: nine councillors, elected by a works committee of 24 members, and eight

top managers and one foreman, representing the management. The chairman is independent.

Tier Two.—The works committee, elected by all the 1,462 workers in the factory, which is on the same level as the (managerial) superintendents' committee. Both are in close consultation. They can thus deal with many problems that would otherwise have to go before the works council.

Tier Three.—Shop committees, comprising one elected member from each shop section, in none of which are employed more than 15 workers. These committees confer closely with charge-hands' committees.

Presiding over each charge-hands' committee is the shop superintendent. He conveys the decisions of the works council through the superintendents' committee, of which he is also a member.

So there is no cause for a foreman or charge-hand to complain, as in factories where there are only workers' committees, that "even the chap who sweeps the floor knows more about what the management is doing than I do." Because he has his rightful place in the joint consultation structure, the foreman has helped to make it work effectively. That is a lesson for other factories to learn. A resistance movement of foremen and charge-hands is *not* a natural sequence of joint consultation: it's a pointer to its defects. And (at Wembley) there is nothing to stop the workers from electing foremen and charge-hands to represent them in the three-tier structure. So far, that hasn't happened. — *From TRIBUNE, May 21, 1948.*

THE TRENDS OF INTERNATIONAL BANKING

DURING the 1939/45 war—as has happened during practically every war—the volume of money in existence in each of the belligerent countries was subject to quite abnormal expansion. Other nations which did not participate in the actual hostilities were also caught up in this movement, and the impetus of the world monetary inflation was so strong that this trend has been maintained, with varying force, since military activity ceased.

It is of interest, therefore, to examine the monetary experience of certain countries, but difficulties confront international comparisons of this nature, as allowance has to be made for widely different price movements and for significant changes in population. Further, the basic composition of price index numbers varies as between nation and nation. However, an attempt is made in the tables which follow to compare the expansion in the volume of money between four important Empire countries.

That, between June, 1939, and June, 1945, the average amount of money per head of population in Australia, the United Kingdom, New Zealand and Canada increased greatly, and that this expansion continued during the two post-war years is evident from the following figures:—

		June 1939	June 1945	June 1947
Australia	£A	88	183	204
U. Kingdom	£ stg.	73	167	195
New Zealand	£N.Z.	91	177	211
Canada	\$ Can.	231	455	549

	June 1939 to June 1945	June 1945 to June 1947
Percentage Increase %		
Australia	108	11
United Kingdom	129	17
New Zealand ..	95	19
Canada	97	21

Although, relatively, the rise in the quantity of money per head of population in the United Kingdom between June, 1939, and June, 1945, was by far the greatest—129 per cent.—the maximum increase for the subsequent two years was recorded in Canada, followed by New Zealand.

Prices and the cost of living, however, have not moved uniformly in these countries. As a consequence the preceding figures do not portray, with any accuracy, the change in the real value, or effectiveness, of the quantity of money per head of population. After making allowance for price changes in the respective countries, by use of their official index numbers of retail prices, the percentage increases in the real value of the quantity of money per head of population are set out below:—

	June 1939 to June 1945	June 1945 to June 1947
Australia	68%	7%
Canada	65	7
New Zealand	67	18
U. Kingdom ...	70	18

It will be noted that the experience of all four countries was much the same over the war years. In each there was a heavy increase in the quantity of effective purchasing power per head of population. But there has been a striking difference

in the post-war years between, on the one hand, Australia and Canada, and on the other, the United Kingdom and New Zealand. In both the latter countries there has been a strong increase in the per capita effective purchasing power which must have thrown a further considerable strain on the gap between supplies of commodities and services and public demand to that existing at the close of the war. In Australia and Canada it seems that this strain has not been accentuated to anything like the same extent. — *Monthly Summary of National Bank of Australasia Ltd.*

Price Increases in Two World Wars

The first Great War brought a more rapid increase in world living costs than did the second, according to an analysis published in Montreal on May 15, 1948, by the International Labour Office covering 21 countries for which competitive figures are available. The analysis includes a three-year period following each conflict.

France, India, Spain, Brazil, Chile, and Peru are exceptions. The 15 remaining countries, including Britain, all the Dominions, the United States, and several European countries, report that food, clothing, and other basic household expenses rose less sharply between 1939 and 1948 than between 1914 and 1921. Most of these advantages hold true even when the 1922 recession is taken into account.

Britain has held prices better than any other country in this war period as opposed to the last. From 1939 to July, 1947, the British rise was 29 per cent., against a 1914-1920 increase of 155. In the United States, which is roughly representative of the others, the rise was 69 per cent., compared with 100 after the first war and with 78 after the 1921 recession.—*TIMES*, May 7, 1948.

U.S. Agriculture and E.R.P.

"The U.S. is in imminent danger of drifting into a policy of concealed dumping, especially in the case of farm products. . . . Our agricultural policy should not be allowed to revert to production controls and to the use of commodity loans and surplus disposal operations to increase the market price."—THEODORE W. SCHULTZ, *THE JOURNAL OF POLITICAL ECONOMY*, April, 1948.

Food in U.S.A.

Consumption of food in the U.S. remained almost constant at 5 lb. per head per day, from 1909 to 1939. During the war it rose 12 per cent. Americans now eat less bread and butter and potatoes than they used, but more fruit, vegetables and milk. With the war-time rise in incomes, consumption of eggs and meat rose sharply.—*THE SOUTHERN ECONOMIC JOURNAL*, April, 1948.

POPULATION POLICY IN GREAT BRITAIN

**Summary of P.E.P. Broadsheet which itself
Surveys that Organisation's Full-length
Report on Population Policy in Great Britain**

POPULATION policy is, in its widest sense, almost synonymous with policy in general and rests its case to a large extent on qualitative considerations, though quantitative considerations are not ignored.

That is the view represented in the report, which starts with the theory of Lord Keynes that a fall in population would actually make it more difficult to avoid unemployment, because fewer children would mean less inducement to consumption and investment and would thus increase the amount of idle manpower and capital resources. In fact, post-war Britain presents a very different picture. Instead of a shrinkage, the population of Great Britain rose through natural increase and immigration by 5 per cent. between 1937 and 1947. The economic background of population policy is, also, entirely changed, since at present there is no longer any lack of jobs or opportunities for investment. On the other hand, the terms on which Britain is able to trade exports for imports have deteriorated seriously, and owing to the loss of foreign investments "invisible exports" are no longer sufficient to cover the deficit in the balance of payments.

On balance, a somewhat smaller population would probably be advan-

tageous, but it will be difficult to bring about a reduction of 5 or 10 millions in a generation or two without producing a top-heavy age structure with an unduly high proportion of old people. In theory, a solution might be found in emigration, but the disadvantages of organised emigration might in practice outweigh their advantages, unless a much clearer economic, financial and political integration of the Commonwealth could be agreed upon. There is, however, a strong case for admitting a limited number of selected immigrants, because immigrants of working age can help to redress the balance between producers and dependents, which may be adversely affected by emigration, and immigrants with high ability or unusual qualifications can help to raise the quality of the British population.

The report arrives at the conclusion that the objective to be achieved is an average of about 2.5 children per family, which means a considerable number of families of four or five children; but it is as important to improve the quality as to increase the quantity. The view is widely held that the innate qualities of the people have been deteriorating for some time and a continuous decline in the level of national intelligence is foreseen as a consequence of the

tendency for intelligent people to have fewer children than the unintelligent.

Various measures are suggested to counteract present tendencies. Material conditions must be made more favourable to parenthood in all income groups. In the preparation of the Budget, much greater weight should be given to the effect on large and expanding families of changes in taxation, in subsidies and in other "transfer" payments. The financial position of parents could be improved by a revision of the rebate system. A new approach should be made to the rent problem of expanding families: most rent subsidies should cover families living in privately-owned as well as publicly-owned houses. When new building is undertaken, houses of varying sizes should, whenever pos-

sible, be provided in the same neighbourhood, so as to make it easier for a couple to secure a house suited to the size of their family.

Attention is drawn to the waste of human potentialities as a result of preventable ill-health. British conditions still compare unfavourably with those of New Zealand and Holland.

Finally, in its attempt to improve national heredity, population policy must take account of the theory and practice of eugenics. "Practical application of eugenics can be divided into two classes: positive eugenics aims at encouraging suitable persons to have children; negative eugenics aims at keeping families whose in-born qualities are poor as small as possible."—BROADSHEET, *Vol. XIV. No. 281, April 30, 1948.*

World Trade After Price Adjustment

The value of world exports during the past year, over \$40,000 million, was about twice the pre-war annual rate, but higher prices accounted for practically all of the increase. Approximately 40 per cent. of this amount was represented by exports of the United States and Canada, \$14,500 million and \$2,775 million, respectively, over one-fifth of these, however, being on a credit or relief basis. *Allowing for price changes, the volume of exports moving in international trade is estimated to have been slightly, not more than 5 per cent., above the pre-war level.*—CANADIAN BANK OF COMMERCE LETTER, *April, 1948.*

Czech Trade

"Czechoslovakia is interested in extending her trade relations with the whole world. Our output is steadily rising, which means that our greater demand for raw materials compels us to seek more markets for our exports. By the end of the five-year plan, 45 per cent. of our foreign trade will be with countries with planned economies, but a larger section will be absorbed by all the other countries. Czechoslovakia is suffering from a shortage of dollars and pounds and is, therefore, keenly interested in exports to the U.S. and Britain."—ANTONIN GREGOR, *Czech Minister of Foreign Trade, CZECHOSLOVAK ECONOMIC BULLETIN, May, 1948.*

WANTED: Better World Statistics

Efficient Planning Demands More and Better Statistics. Here the Handicaps of International Planners are Surveyed.

THERE is a popular and somewhat crude adage: figures don't lie, but liars can figure. It is certainly true that, to be reliable, statistics must be honestly gathered and presented. But apart from this, the essential problem is one of the precise definition and the accurate usage of words: the problem that confronts delegates of nations when they talk about the same subject—but in different languages. They must be certain that their words and terms have agreed meanings and can be readily translated and understood.

This problem—one of semantics—applies equally to international statistics; the terms used by one government must be convertible into terms understood by other governments, and the methods used must also be understood.

For decades before the war, government officials and businessmen felt the need for more reliable world statistics. This need became particularly acute during the war. Allied nations pooled their manpower, their production, and all their resources in the common effort. But how much could each country contribute? How quickly could production be stepped up in one country? What burden could it stand without a breakdown of the whole economy? Data on all these factors were urgently needed, and great decisions depended on the fullness and accuracy of the statistics.

In view of these experiences—and the difficulties encountered as a result of working with statistics which were incomplete or inaccurate, or which

could not be compared with other data—the United Nations has established the Statistical Commission as one of its permanent bodies. Its purpose is to set up international standards for gathering and comparing statistics, and to improve the existing means for supplying essential statistical information.

In other words, the goal of this expert body is to help create a world statistical system and evolve order out of the present babel of figures.

Statistical Classification

In order to create this world statistical system, the Commission has undertaken to solve certain key problems, one of which is classification.

For example, agricultural experts are concerned with comparing the dairy industry in various countries. But in doing so, they soon discover that in one country there are certain activities classified under the grouping "dairy industry" which are not so classified in another country. Thus, country A will include in that category statistics on the manufacture of ice cream, while country B will not. From this it is apparent that before we can compare industry in different countries, we must agree on the chapter headings, as it were, of our statistical tables. Unless our classifications are uniform, our statistical analyses cannot be valid.

There is scarcely any field of human endeavour which would not lend itself profitably to some form or another of statistical classification. Which should receive top priority?

This question was settled by the Statistical Commission at its first session, held in January, 1947. Because of the pressing need of post-war economic rehabilitation and reconstruction, the Commission members gave first priority to the development of an international standard classification of industries.

To guide this important work, the Commission established a Committee on Industrial Classification, which later was broadened in scope and renamed the Commission on Statistical Classification.

A draft International Standard Industrial Classification was circulated at the end of 1947. Twenty-seven Member countries commented on this draft as also three specialised agencies and the important non-governmental body, the International Statistical Institute. In the light of these comments, a revised draft classification was prepared.

This classification uses the decimal system of notation—something like the system found in many American libraries. The whole field of economic activity is divided into ten divisions, each assigned its permanent first digit number. Each division in turn has ten available sub-divisions—called “major groups”—and these are identified by the second digit numbers. Again, the major groups can each be further sub-divided into ten groups, which are assigned numbers in the third digit.

This is how the system works in practice. Division 3 is devoted to “manufacturing.” The manufacture of transport equipment, in turn, has been assigned to major group 38. And this major group has been sub-divided into groups as follows: 381, shipbuilding and repairing; 382, manufacture of railroad equipment; 383, manufacture of motor vehicles; and so on.

This system has important advan-

tages. If desired, the three-digit group in any division can be still further sub-divided in order to classify yet smaller groupings—in other words, it is capable of virtually unlimited expansion. Because of this, the system can meet the complex needs of such highly industrialised economies as those of the United States and Great Britain, to cite two examples. On the other hand, the classification is also adapted to the relatively simple needs of under-developed countries—the information from which might run into only one-digit or two-digit numbers.

The Statistical Commission has recommended that the Economic and Social Council urge Member governments to make use of this International Standard Industrial Classification for all economic activities. They might either adopt this system as a national standard, or re-arrange their statistical data in accordance with this system when it is submitted to international organisations, so that it could be compared with that of other countries.

If universally adopted, this system would greatly facilitate international economic activities. For example, when the Economic and Social Council is examining a problem of reconstruction and development in a given region, it would have before it a basic standard on which to measure that region's economic activities, and deficiencies.

Post-war conditions have also brought to the fore that pressing need of classification in another economic field. A systematic review of the statistics of world trade is required—we need adequate measures of the flow of international commerce.

When two countries speak of their exports of a commodity called *X*, it may seem logical to conclude that they are referring to the same pro-

duct. Likewise when they both speak of Y tons, we might conclude that the same quantity is involved. Unfortunately, we cannot be sure, because of widely differing methods of measuring, classifying, and valuing commodities.

In the late 1930s, the League of Nations prepared a Minimum List of Commodities for International Trade Statistics. But this List is now inadequate, and must be revised. Therefore, the Statistical Office of the United Nations is preparing a preliminary draft of classifications, which will be circulated to governments and the specialised agencies. It is expected that the comments and suggestions of the governments and agencies will be received early in 1949; and experts from different trade regions will then be called in to work out a revised classification.

Comparability of Statistics

Classification is fundamental, but other problems have to be solved before we can build an international statistical system. There is the question of comparability of statistics—that is, being able to study all the relevant factors even where a uniform classification has been followed.

It is often desirable, for instance, to compare the cost of living indexes in different countries. But this can be misleading unless all the relevant factors are compared. Even though the indexes of two countries may include the same items—food, clothing, housing, education, etc.—these items may be “weighted” differently. Thus, country A may give greater impor-

tance to the food items as compared with services and education than country B. Therefore, unless the methods of weighting items are known, it is not possible to compare accurately the cost of living indexes of different countries.

Similarly, in arriving at wholesale prices, some countries include food industries, but others do not. Again, some countries—but not all—include semi-manufactured goods. And so it goes. Ideally, a wholesale price index should include certain standard components—so as to make a true comparison possible.

One of the functions of the United Nations Statistical Office is the publication of its *Monthly Bulletin of Statistics*—a comprehensive record of statistics covering such subjects as population, employment and unemployment, industrial production, raw materials, food, trade, finance, wages and prices, and so on. It will also publish a *Statistical Year Book*, which will provide more detailed data than the *Monthly Bulletin* and will include statistics on additional subjects. In gathering data for these publications, the Statistical Office is in a unique position to note any disparities and lack of comparability in the statistics submitted by Member governments. Therefore, in requesting data, the Office can suggest that governments define their statistics so as to make them comparable, and thus more useful. In this way, the Statistical Office will be continuously standardising methods and definitions.—From UNITED NATIONS BULLETIN, June, 1948.

Problem of Asia

A rise of 94 million persons in Asia in the decade 1936-46 has been accompanied by a fall of 11 per cent. in rice production per head since 1925. Much could be done to reverse this trend, which must otherwise lead to famine. In India, for example, yields of grain per acre could be increased 30 per cent. in ten years by the use of fertilisers, improved varieties, and protection against pests.—CONFERENCE BOARD BUSINESS RECORD, April, 1948.

MONOPOLY IN BRITAIN

By HAROLD WINCOTT

THE restraining, not to say restrictive, laws of libel in this country have a good deal for which to answer. Not the least of the charges which must be laid at their door is that as a result of them the general public has but the haziest conception of the degree to which monopolies and associations for the restraint of trade, effective or potentially so, have come to dominate our economic life. Every economist, every financial journalist who has made any study of the subject over the last twenty years has come across numerous examples of the way in which the energies of industrialists have been devoted to prevent freedom of entry into a trade, to the manipulation of tenders, the control of prices and practices, the allocation of markets and quotas, and so on. Yet—except on the rare occasions when the cloak of privilege permits frank discussion—these authorities have seldom felt able to make public what they knew to be true. The position is otherwise in the United States. The frequent actions or threats of action under the Anti-Trust Act afford many opportunities for educating public opinion in the ways of the monopolistically minded and of the resulting dangers to economic health. It is surely no coincidence that the level of capital formation and the standards of productivity should be so much higher in the more highly competitive atmosphere of the United States than they have been in this country since competition became unfashionable here.

It is impossible to judge the exact extent to which monopolies, near-

monopolies and trade associations militate against the fullest use of our resources. That such bodies do exist, and that they have it in their power to restrict trade to a major degree cannot, however, be doubted. In 1945, Messrs. H. Leak and A. Maizels read a paper¹ examining on the basis of the 1935 census of production the relative contribution made to the national output by large undertakings. They showed that in high explosives (other than blasting powder); unwrought nickel and nickel alloys; crude zinc; and gold bars the three largest units in 1935 accounted for 100 per cent. of employment in those trades. In manufactured fuel; sweetened condensed milk; sewing machines (complete); paper hangings; safety matches; pipes (over 6 inches in diameter); gramophone records; and photographic plates and films the three largest units controlled over 90 per cent. of employment. There were 33 trades where 70 per cent. or more of employment was provided by only three units. When to this concentration of power to control by individual trading units is added the even more extensive power of regulation which resides in the trade association it is plain that the menace of restrictionism in this country can be grave indeed. Some up-to-date information of the effectiveness—or potential effectiveness—of the trade association has been provided recently by the report² of the committee appointed, under the

¹ "The Structure of British Industry," read to the Royal Statistical Society.

² "The Distribution of Building Materials and Components, H.M.S.O.

chairmanship of Lord Simon of Wythenshawe, to enquire into the trade in building materials and components and the part played by the builders' merchants. This listed 96 producers' associations, or sub-sections thereof, of which, of those who supplied the necessary information, 25 covered 100 per cent. of the U.K. (or Scottish) output involved, while 63 covered 75 per cent. or more of the output involved.

It is, of course, recognised that neither a monopoly nor a trade association is necessarily evil. In a highly developed industrial structure, the "economics of bigness" are not to be condemned out of hand. The large scale of capital investment essential to-day in many industries of itself inevitably tends to concentrate the units of production into few hands. The trade association may have—indeed often has—functions which are wholly beneficial. Moreover, both general economic conditions and the spirit of the age in the inter-war years were highly conducive to the monopoly and the trade association. British industry, handicapped in the earlier years by an over-valued currency and throughout by tariffs and quotas abroad and an unhelpful taxation system at home, sought to hold what it had by restraining new entrants and controlling markets and prices. As a nation we had lost faith in the cathartic effects of competition.

These were the years when competition was known mainly as "wasteful," "cutthroat" and "uneconomic"; when the yardstick of "service" rather than price first came into use. These were the years when capital argued that labour was forcing it into restrictionism by its own restrictionist practices, while labour contended that capital was the prime mover. These were the years when the Governments of the day discovered how convenient it was to deal with one all-embracing unit or association, rather than to endeavour to persuade a host of stubborn individualists; the years when much of the industrial legislation passed by Parliament confirmed both capital and labour in their belief that it was better to get together to preserve the *status quo*, rather than to revive the "chaos of unregulated competition." The trend, moreover, was not confined to Britain. The cartel flourished in Germany, the trust in Japan. International arrangements to secure the sanctity of trade preserves and to regulate production of commodities became commonplace. Even in America, land of expansion, restrictive practices reared their heads. If it was ethical for a Democratic President of the United States to pay farmers not to raise hogs in Kansas, why criticise a combine if it paid a potential competitor not to produce caustic soda in England? — *From DISTRICT BANK REVIEW, June, 1948.*

Planners' Dilemma

Having expanded its staff from 2,400 to 15,000 in ten years, the Board of Trade has now to choose between the inconsistency of too many voices and the sloth of a too cumbersome machine, where indecision is the price of harmony. Public criticism and administrative confusion can only be avoided by radical measures to lighten the load of the policy-makers.—SIR JOHN HENRY WOODS, *Permanent Secretary of the Board of Trade, in PUBLIC ADMINISTRATION.*

EUROPE'S POST-WAR HOUSING SHORTAGE

Four and a Half Million Units Destroyed in Sixteen Countries, says official U.N. Report

IN the face of millions of houses needed by Europeans, a work programme, for the immediate future, covering the construction of houses and the production of building materials and equipment, has been outlined in the Housing Subcommittee of the Economic Commission for Europe.

A report on housing needs presented to the Subcommittee revealed the startling fact that damage and total destruction during the war amounted at the end of the war to an equivalent of over four and a half million dwelling units for the 16 countries covered in the Report. The destruction varied from 0 per cent. in Denmark, Sweden and Switzerland, 6.5 per cent. in the United Kingdom, to 20.7 per cent. in Greece and 21.4 per cent. in Poland.

Meanwhile in the two and a half years since the end of the war an equivalent of only 750,000 dwelling units was repaired or newly built. This is just about equal to one year's building activity before the war. A construction effort equivalent to 11 years of production, at the pre-war rate, would be needed to repair the remaining war damage of 3.8 million dwelling units and to bridge the gap of over eight million units created by the lack of building activity during the war in those 16 countries. (See Table.)

If the larger, so-called "necessary" programme, of 1.6 million units per year, were to be realised, and if the same quantities of building

materials continue to be required for the construction of the average dwelling unit in each of the countries analysed, their combined housing programmes would require :

- 15.5 million cubic metres of lumber, or 231 per cent. of pre-war and, for that matter, present consumption;
- 2.1 million tons of steel, or 315 per cent.;
- 12.2 million tons of cement, or 277 per cent.;
- 20.2 billion bricks, or 244 per cent.;
- and
- 23.9 million square metres of glass, or 344 per cent. of pre-war consumption.

This tremendous increase in the rate of production, and the corresponding requirements of basic building materials do not provide for any improvement of the standard of housing, such as replacement of unsanitary and unsafe buildings, or any elimination of overcrowding.

It should also be remembered that the figures quoted do not include a number of countries which have large requirements, due to devastation and to lack of new construction during the war. It is, however, known that some of these countries are building, at present, at a rate considerably higher than their pre-war activity. An expenditure of basic building materials two and three times greater than the present rate of consumption would barely meet the most essential housing needs.

Countries	1	2	3	4	5	6	7
	No. of Dwelling Units (a) existing in 1939	No. of Dwelling Units destroyed at European War's end	% of Pre-war Dwellings destroyed (2% of Col. 1)	Planned Programme for 1948	1948 Building Programme as % of 1939 number of dwellings (4% of Col. 1)	"Necessary" Yearly Building Programme (b)	"Necessary" Yearly Programme as % of 1939 number of dwellings (6% of Col. 1)
AUSTRIA	2,008,069	174,745	8.7	12,000	0.6	46,000	2.3
BELGIUM	2,531,739	156,300	6.2	30,000	1.2	35,000	1.4
CZECHOSLOVAKIA	3,574,280	122,642	3.4	38,000	1.1	45,000	1.2
DENMARK	1,140,000	0	0	20,000	1.7	30,000	2.6
EIRE	647,000	1,820	0.3	12,500	1.9	29,000	4.4
FINLAND	886,300	18,642	2.1	24,000	2.7	32,500	3.6
FRANCE	13,300,000	1,011,500	7.6	85,000	0.6	325,000	2.4
GREECE	1,860,000	385,500	20.7	25,000	1.3	213,000	11.4
ITALY	10,645,000	524,000	4.9	106,000	1.0	272,000	2.5
NETHERLANDS	2,088,073	162,800	7.8	30,000	1.4	75,700	3.6
NORWAY	738,000	26,875	3.6	12,000	1.6	25,000	3.4
SWEDEN	1,930,000	0	0	55,000	2.8	131,000	6.8
SWITZERLAND	1,111,000	0	0	18,000	1.6	25,000	2.2
UNITED KINGDOM	13,144,372	851,239	6.5	204,000(c)	1.7(c)	382,000(c)	3.2(c)

(a) A dwelling unit is here considered as an average unit of 3 rooms and kitchen as built in the respective countries.

(b) Number of dwelling which would need to be built each year for five years to reach by 1952 the 1939 ratio of dwelling units to population.

(c) Excluding Scotland and, in cases of Columns 5, 6 and 7, based on 11,849,000 Dwelling Units existing in England, Wales and Northern Ireland.

—From U.N. Information Centre, London, June 4, 1948.



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THE SHOPS OF BRITAIN

By HERMANN LEVY

Two points which emerge from Professor Hermann Levy's *The Shops of Britain** are the complexity of the problem of retail distribution and the difficulty of arriving at conclusions; indeed, he goes so far as to say that there cannot be any general conclusion. But in spite of the regrettable absence of a Census of Distribution, he has collected an extensive body of facts from which certain inferences can be drawn.

He contrasts concentration in industry with concentration in retail trade. "The size of the industrial unit is dependent on industrial technique. The extent to which technique is developed depends on what markets will be able to digest at a profitable price to the producer; the concentrated demand of far-distant markets may make it profitable to carry through industrial concentration and introduce mass production; the best location for the industry will be dictated by labour supply, the nearness of raw materials and facilities for transport. The position of the retail trade is very different. The problem of 'location' of retail outlets depends on social and sociological circumstances which do not affect industry. The structure of retailing is a consequence of historical causes, it has been retained through habit and custom and is largely independent of purely economic considerations. There is a conflict between the economic rationale of retailing and its actual, historically developed pattern." Such concentration as has taken place, the departmental store,

the bigger shops in main streets, mostly chain stores, the fixed price chain store and the co-operative stores, is due mainly to the development of transport facilities for shoppers and the delivery of goods at their homes. In spite of this and other advantages, such as bulk buying, which the big shops enjoy, the small shop still survives owing mainly to the proximity factor, the habit of "buying round the corner" and lower overhead charges.

Part II of the book covers the different retail trades, the butcher, the baker, the milkman, the green-grocer, the tobacconist, the bookseller and so on. The subject of Part III is the competition struggle, prices and margins, competition and labour, and competition and finance. Part IV discusses the possibilities of a reduction in distribution costs. Part V summarises the present position as detailed in the body of the book and makes some positive suggestions under the heading "Trends and Policy."

Professor Levy rejects the idea of restricting competition as suggested by Trade Associations, mainly because there is no guarantee that the economies which might result from concentration will be passed on to the consumer. Though there may be too many shops, the practical difficulties of determining which are redundant and in rationing retail outlets are, except in special cases, almost insuperable. "There are other and better means of reducing these costs. These would take the existing structural position of retailing for granted. Their object would be to improve the distributive process in each of its

* Kegan, Paul, Trench, Trubner & Co., 21s.

various and complex stages and channels. Their hope would be that, if these improvements are effected, a reduction of distributive charges would be achieved without endangering the economic and social edifice on which retail distribution rests."

(1) *Transport.* "Much unnecessary waste could be eliminated, for instance, in the transport of fruit and vegetables. But the rationalisation of transport presupposes in many cases a rationalisation of production and supply, in particular as regards agricultural products. If suppliers could be persuaded—possibly by co-operative organisation—to produce equal qualities of products in regular bulk-shipments, a cheapening and simplification of transport could be achieved. To create transport pools on the pattern of the cartelistic device of uniform base points (or "sector schemes") does not appear to be successful as regards consumers' goods. The arrangements for milk under the Milk Marketing Scheme have become more complex through the creation of 'artificial proximity values' and require radical improvements, if they are to remain. Progress in refrigeration may be effective in bringing producing centres 'nearer' to distant markets. But in a densely populated country like Britain the possibility of the direct delivery of agricultural produce from the producer should be a great opportunity for avoiding costly transport. Local producer-retailers of food should be encouraged; the supplying of large institutions and integrated social groups by nearby producers of food would save transport costs."

(2) *Reduction of Intermediary Charges. Costly Amenities.*—"Intermediary charges are composed (a) of costs arising out of wholesaling and (b) of costs arising through the necessity of processing or packing the merchandise before it reaches the

final consumer. Direct trading between manufacturer and retailer—or by the manufacturer taking over the retailer's functions—has become a feature in many British trades, and though naturally opposed by wholesalers and agents, should not be discouraged. There can be no doubt that the elimination of intermediary trade stages can secure great economies in distribution. But the chance of doing this appears to be limited to trades which offer a certain uniformity and standardisation making the functions of the wholesaler less vital than in trades with a great variety and differentiation of merchandise, as in most sections of the textile trade. The direct trading of manufacturers may also lead to an overstocking of retailers' requirements. On the other hand, an extension of co-operation among retailers for the purpose of buying in bulk and through this reducing intermediary expenses requires attention. Consumers' co-operatives should be followed by distributors' co-operatives. For handling, packing or processing goods before they leave the counter something may be achieved by creating central organisations where these functions can be done for many retailers. This should be done for milk, meat and local coal supplies. Centralised depots either for storing or processing or both would represent a substantial saving of retail distributive costs, though again the remedy is strictly applicable to standardised and uniform goods only. This would probably mean municipalisation; but it should also be considered by traders themselves on a co-operative basis, especially for parts and accessories. Co-operative buying by retailers, so called 'voluntary chains,' should be encouraged."

(3) *Retail Outlets.* "Where there is demonstrably a superfluity of outlets, where it is evidently due to a

malorganisation of the particular trade, and where the commodity in question would be easily and satisfactorily dealt with, the alternative of municipalisation should not be ignored. This applies to the milk round, the municipalisation of which (practically to be administered by co-operative dairies) would offer no obstacle and probably be much cheaper. The local coal trade might be dealt with in the same way, in particular when standardisation of demand and centralisation of depots have been effected.

"Another trade organisation to be encouraged is certainly that of the co-operative movement."

(4) *Service*. "While fully recognising the importance of an efficient and even expert service in shops, we have come to the conclusion that a number of circumstances not directly connected with retailing proper, that is with selling itself, have added costly and extravagant series of services for which ultimately the consumer must pay. This development relates mainly to department stores; multiple chains and bazaars have wisely refrained from this extravagance."

(5) *Trade Associations*. "We have come to the conclusion that trade associations—retail trade associations or composite trade associations—are a chief source of increasing distributive costs. They have certainly done little or nothing to devise means of

reducing these costs trade by trade. They have fostered or maintained the existence of the less efficient trader by their policy of price maintenance, by the fixing of prices and margins, and, to some extent, by the restriction of entry by qualifications test of various kinds. The principle of free competition ought to be fully restored.

"The restoration of competition and the abolition of restrictive practices might be one of the most powerful means of reducing the distributive charges of trade groups as a whole. Conversely the case has been proved with milk, where the fixing of minimum prices has prevented the lowering of the retail milk price, kept the most expensive services going and bred a competition for custom which, in its turn, has notoriously increased the cost of the milk round."

(6) *Research*. "More clarity and information about the complex organisation of retailing is needed. A census of distribution is long overdue. As we have seen, a Trial Census for six towns has laid the groundwork and proved most useful. But it should be remembered that such a census can never do more than disclose the main statistical data of this vast problem. And the problem of retailing is far from being one of figures only. It is in the highest sense an economic, social and sociological problem. Thus a Royal Commission on Distribution is wanted.

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NATIONAL INSURANCE: Employers' Cost

Most employers will have to pay more when the "appointed day" for the National Insurance Act arrives on July 5. But the size of the extra financial burden will vary considerably in individual cases, depending chiefly on (1) the proportion of highly paid staff, earning more than £420 a year, among the total of employees, and on (2) the amount of premium that has hitherto been paid annually for workmen's compensation.

The first point is an obvious one. National Insurance will be payable for all employees, regardless of the size of their incomes. A business like a printing works will therefore find that it has now to pay contributions for the first time for its numerous employees who earn over £420 per annum. Big firms, who employ comparatively large planning and research staffs and normally concentrate sales activities, advertising, etc., in the hands of specialists, are likely to be affected more than the smaller concerns.

The second point involves the insurance companies, who have hitherto provided the insurance cover against industrial injuries under the Workmen's Compensation Acts. From July 5 the State assumes the liability of compensating all employees for losses arising out of industrial accidents and of injuries and industrial diseases due to the "nature of the employment." This does not cover all the risks dealt with hitherto by the insurance companies; but it does eliminate the bulk of them.

It is evident that some firms will find that the cost of workmen's compensation has been considerably reduced by the new Act. This applies especially to concerns engaged in the more dangerous trades, such as

building, parts of the iron and steel industry, the chemical industry, etc., where the accident rate or the incidence of industrial diseases is high. The window-cleaners, in particular, may find cause to congratulate themselves on July 5.

On the other hand, firms employing a high proportion of sedentary workers—banks and the insurance companies themselves—and the big retail stores, will have to face increased costs for insurance against industrial injuries. In fact, the black coat employee will, to some extent, be subsidising the industrial worker. But on balance, the body of employers will certainly gain by the new arrangement, and some may gain quite considerably.

With the exception of old persons and of those adult employees whose earnings are less than 30s. a week, the employee's contribution is in all cases greater than that of the employer. The total weekly rate, covering both Industrial Injuries and National Insurance, is 4s. 11d. for a man over 18, 2s. 10½d. for a boy under 18, 3s. 10d. for a woman over 18, and 2s. 4d. for a girl under 18. At the present time the employee pays the same weekly contribution for health and unemployment insurance as his employer.

The increased contribution under the new scheme will, therefore, cost him more. Indeed, having regard to the fact that the employer will in many cases also derive an additional benefit from the reduction in premium payments for workmen's compensation under the new Act, it seems likely that the largest volume of complaint will come from the worker—for whom the whole scheme was designed.—*Extracts from the FINANCIAL TIMES, May, 1948.*

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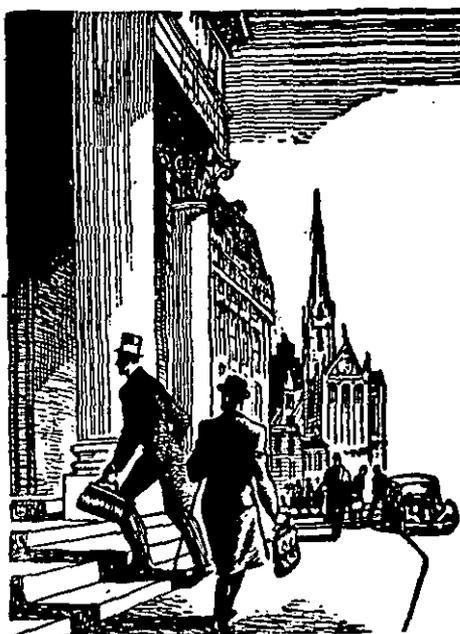
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