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Taxation and Incentives

By S. P. CHAMBERS, *C.B., C.I.E.*

Under Pay-as-you-earn a high rate of income tax reduces the willingness of the average wage-earner to do extra work for extra pay. It is not the average rate of tax on the whole income which matters so much as the marginal rate—the rate of tax payable on overtime pay, or, as in the case of piece-work, on the pay for the extra output for the extra effort. Pay at "time and a half" for overtime becomes less than plain time-rate net when overtime is taxed at 7s. 6d. in the £. Men know this and say it. Two hours' extra work at 3s. an hour will yield gross earnings of 6s., which, less tax at 7s. 6d., becomes only 3s. 9d., of which a half or more will go in indirect taxation if spent on something liable to Purchase Tax at a high rate, or on a packet of cigarettes or very small round of drinks.

It is the steady sapping of the vital urge to work and to work hard which is the real tragedy of the high rates of taxation at the present time. High taxation accompanying a high level of social security leaves the reward of virtue terribly small. The subsidisation of the elementary needs of life works in the same direction. As the cost of social security and of subsidies comes out of taxation, every time the tax burden is increased for these purposes there is added a double disincentive to work.

Whether or not a reduction in the wage-earner's income tax can be given, the method of collecting the tax requires re-examination from the angle of its effect upon the willingness to work. Under PAYE the tax deduced in any week is calculated on the earnings of that week, and therefore extra earnings attract extra tax at once. The wage-carner knows that his extra earnings are subjected to tax deduction at his highest rate. The PAYE principle has come to stay because the advantages outweigh its discouraging effect. But is it possible to have the best of both worlds, the advantages of PAYE without this discouragement to work? I think it is. Proposals have been made from time to time for the amalgamation of the income tax allowances for dependants and children with the allowances payable under social security.* It is on these lines that the worst features of PAYE from the incentive angle can be removed.

The elimination of the allowances from the income tax would make it possible to introduce a system of tax deduction at a fixed rate from all salaries and wages. As the average rate would be equal to the marginal rate, the fixed rate necessary to yield the same revenue would be very much lower than the present standard rate of tax. The Inland Revenue handles nearly 14 million cases of persons liable to income tax and another 5 million who, when given their personal allowances, are found to be not liable to tax or entitled to repayment. Of this total of 19 millions less than 2½ millions have incomes exceeding £500 a year. Under a

* See, for example, Lady Rhys Williams' proposals in *Something to Look Forward To* (MacDonald, 1943)

fixed deduction system no wage earner with an income under £500 a year would fill in a tax form. Tax would be deducted automatically at a fixed rate from *all* wages and salaries above as well as below £500 and the employer would make a return only of those with incomes above £500. Incomes above £500 would be dealt with by the normal system of assessment and collection (whether by deduction at source or by direct payment) and the tax machine would have to handle 3 or 4 million taxpayers instead of 19 millions. In all cases personal allowances would be eliminated from the assessments.

Under such a system the social security allowances would be expanded to cover the present tax allowances, and all duplication would be eliminated. The whole system of coding and of tracing employees from one job to another to pass on tax particulars would be swept away. The fixed rate would, of course, depend on budget policy, but a rate of 3s. suggests itself as somewhere near the mark at present. Such a rate would, of course, yield far more tax than the present system, but against this would have to be set the extra social security payments. The picture would be: tax deductions at 3s. in the £ from all wages and salaries, and the addition of fixed social security allowances in the case of married taxpayers, so that in many cases the addition would exceed the deduction. Overtime earnings would then pay tax at the fixed rate of 3s. instead of at 5s. or 7s. 6d. as at present.

For incomes over £500 additional tax would be payable by charging a higher rate on the excess over £500. As the numbers are small, the administration would raise no difficulties comparable with those of the present system. It might be objected that this system would press more heavily upon people in low income groups who are at present exempt from tax and who would have tax at the fixed rate deducted from their whole pay, but it would be possible to increase the allowances for the lowest income groups and the classes most deserving of relief. More could be done, for example, for the war widow who is struggling to bring up a young family. The fixed deduction of tax might impose a heavier net burden upon the youth or young woman without any dependants or family responsibilities, but these are backs with a relatively light burden.

There are, of course, many details to be filled in in such a scheme, and the figures of £500 and 3s. are little more than illustrative, but the case for a radical streamlining of the whole system of collecting tax from wage and salary earners on these lines to get rid of the high marginal rates of tax, and to cut out some of the present mass of detailed work, deserves serious consideration. Not only would employers be relieved of much of their present taxation work, but overworked Inland Revenue staffs would get much needed relief.

When we turn to the second class of taxpayer affected by high taxes, the business man, we are again faced with evidence of a long term and of an indirect character. To build up a great business from small beginnings, to risk everything in an enterprise in which you had faith, to struggle against bitter competition and adversity, were virtues upon which Britain's industrial might was

founded in the eighteenth and nineteenth centuries. To-day those virtues are recognised in other countries, but in Britain they are sadly at a discount. The dice are heavily loaded against the man who is enterprising. If he fails he is finished. If he succeeds he will bear a heavier tax than the man who gave up the struggle and buried his talents or invested them in gilt-edged securities.

Many of our largest and finest industrial enterprises, particularly those in the Midlands, the North and Scotland, were built up from small beginnings as family businesses. To-day, with Profits tax, Income tax, Surtax and Death Duties, it is mathematically impossible in this way to build up a large business in a reasonable lifetime. However enterprising a man may be, taxation has made it impossible for him to build up a business as his grandfather did in Britain in the nineteenth century, or his contemporaries can still do in America in the twentieth.

Of all the taxes on enterprise, the Profits tax is, from the incentive angle, easily the worst, and should be repealed altogether. We need a bonus for enterprise, not yet another handicap. If there is any principle in taxation at all it is that income from enterprise should be taxed at a lower rate than income from passive ownership. But to-day the Profits tax reverses the rule and imposes the greater burden on enterprise. Perhaps, from the point of view of long-term economic health, the greatest curse of this country may yet prove to be the efficiency of its remorseless tax machine.

Then there is the effect of taxation on the much maligned investor. He has a part to play in industry, and it is not quite so passive as many people assume. In the present difficulties we want the investor to save all he can and to spend as little as possible on personal consumption. What are his inducements to save? The investor's standard of living to-day is necessarily much lower than it was before the war, and he is expected to lower it still further in order to save for a net interest which is hardly a quarter of what it was before the war, and is worth in purchasing power hardly a tenth.

For all classes of taxpayer, therefore, the present burden of taxation acts as a real disincentive against doing what should be done in the national interest—work, launch out on new enterprises, save. We have considered the reform of PAYE with the object of removing its worst influence on the will to work, but over and above this a radical change is required in the whole attitude towards the subject of State finance.

First and foremost comes the old principle that taxation should be as low as is consistent with good government. Nothing should be paid for by the State out of taxes that can reasonably be paid direct by the individual. Every time the State takes taxes from the individual *in his capacity as an income earner* and pays it back to him in cash or kind *in his capacity as a consumer or beneficiary*, under a state scheme, it reduces both the incentive to work and the apparent need to work.

Only if there is a substantial reduction in expenditure can any relief from taxation become possible.—*Condensed from* LLOYDS BANK REVIEW, *April* 1948.

Sterling War Debts

The following important points, made in an official report by a U.S.A. select committee, have received very little publicity in Britain

1.—The freedom-loving peoples of the world owe a great debt to the British people—for their courage and sacrifices during the war when they faced the Nazis alone.

2.—But even apart from the world's moral obligation to the British people, economic expediency requires a rapid recovery of the United Kingdom.

3.—Easing of the financial problems of the United Kingdom would also make possible a revival of world-wide multilateral commerce by hastening the free convertibility of the pound sterling.

4.—For well over a century and until the recent war, the pound sterling was the monetary unit for carrying on a substantial part of the world's multilateral commerce.

5.—This activity has languished since the war because of the inconvertibility of the pound sterling, and attempts to revive it by use of the dollar, however flattering, have been unsuccessful.

6.—The dollar can probably never take the place of the pound sterling in world trade because the United States may never be an importer to the same relative extent, and on as world-wide a basis, as the United Kingdom.

7.—The revival of the pound sterling in world commerce depends in large part upon restoration of the free convertibility of that currency.

8.—The "frozen sterling balances" hang like a millstone round the neck of the British economy.

9.—A conference of the non-European nations, such as India, Egypt and the Argentine, which hold frozen sterling balances, and of the other 15 nations of Western Europe, might work out a plan whereby parts of the sterling balances were cancelled outright, and other parts assumed by the nations whom Britain helped to liberate from the German yoke.

10.—The International Bank for Reconstruction and Development, the International Monetary Fund *and even the United States might assist in calling such a conference, and might participate in a solution of the sterling assets problem, perhaps by providing the means for converting some of the sterling balances into dollars as an inducement to Britain's creditors to make substantial reductions.*

11.—A successful conference would hasten the free convertibility of sterling, and thereby assist in a revival of multilateral trade not only in Europe, but throughout the world.—SUMMARY BY J. L. GIBSON, OF SECTION OF PRELIMINARY REPORT FOURTEEN, OF U.S.A. HOUSE SELECT COMMITTEE ON FOREIGN AID, *February* 13, 1948.

National Savings and the Budget*

By F. W. PAISH

THE central Government's Budget is not merely the means by which the Treasury obtains sufficient income to meet its expenditure during the coming year, it is a major regulator of the country's economic life. The Government now compulsorily collects, and spends or redistributes, something over a third of the national income. As the total of net national savings is only a small percentage of the national income, the Government is able, by budgeting for a surplus or a deficit, to cause very large variations in the proportion of the national income which is saved.

The nation's net savings during the past two years have been extraordinarily low, and their smallness has been very largely due to the effects of Government finance. For 1946 the gross internal capital creation of the country is officially estimated in the Economic Survey for 1948 at £1,350 Mn. To obtain the figure for net capital creation, we must deduct from the gross figure enough to cover the cost of maintaining intact the physical capital which we possessed at the beginning of the year. The official estimate of the allowance for depreciation and maintenance in 1946 is £600 Mn. But this estimate is made on the basis of maintaining intact the original *money* value of the things wearing out. If we are to maintain our *physical* capital intact this allowance is nowadays clearly inadequate. How large an allowance would have been necessary in 1946 to provide for depreciation and maintenance on the basis of post-war replacement prices is difficult to estimate ; but as the allowance made in 1938 was £450 Mn., it is difficult to believe that the allowance required in 1946 can have been less than twice that figure. If this is so, the true deduction that we should have to make from the gross capital creation to obtain net capital creation in 1946 would be, not £600 Mn., but £900 Mn., leaving true net capital creation at only about £450 Mn. This was only slightly larger than the amount of £380 Mn., which we borrowed abroad during that year, so that the net addition to our wealth at home was largely offset by the increase in our debts abroad. In other words, the great bulk of our net capital creation was financed out of foreign borrowing.

In 1947 our savings, though larger, were still very small. It is true that our gross capital creation increased sharply, and including allowances for increases in stocks, is estimated in the Economic Survey for 1948 at £1,900 Mn. If we allow £900 Mn. for depreciation and maintenance at replacement cost, this leaves us with a net capital creation of £1,000 Mn. But against this increase in our wealth at home, we have to set net foreign borrowing of no less than £675 Mn., so that our net national

* Although this article was written before the Budget, its argument still stands.

savings for the year were probably no more than £325 Mn., or about 3¾ per cent. of the national income, as compared with 5½ per cent. in 1938.

Our national capital was depleted during the war to the extent of nearly £8,000 Mn. at post-war prices, or something like one-fifth of the post-war value of its pre-war total. At our 1947 rate of saving, it would take a quarter of a century to make good this loss. In view of these figures, it is difficult to resist the conclusion that our difficulties in recent years have been due less to our attempts to create too much capital than to our inability to save enough to pay for it out of our own resources. To some extent this has been due to the general effects of the war itself. High and progressive direct taxation has brought much greater equality in post-tax incomes, and this has in itself probably reduced the propensity to save. Again, many people are in urgent need of replenished supplies of durable consumption goods, and these may take priority over other ways of using such personal savings as are made. But over and above these general causes there is a special and perhaps even more important one. Partly as a result of its methods of accounting, the Government, largely unwittingly, has spent, or distributed for spending, on current consumption a great part of such savings as the public has managed to make.

The basic reason for this large-scale and prolonged consumption of capital by the Government is that *only those taxes and other receipts which have been paid out of income can be spent as income without dis-saving. If taxes paid out of capital are spent as income, the process must either lead to inflation or involve capital consumption.* If we apply the criterion that taxes paid out of capital are not available for current expenditure if capital consumption is to be avoided, a very large part of the Government's receipts must be regarded as ineligible for expenditure as income. In the first place, we must exclude altogether those items of revenue which represent merely the cancellation of old Government debt. Such operations add nothing to current spending power. Under this head we must exclude all but a small part of the items called in the Exchequer Return "Miscellaneous Receipts" and "Surplus Receipts from Trading". Some £250 Mn. to £300 Mn. must be deducted from the Treasury's nominal income for 1947-8 under these heads alone.

Next we must deduct almost the whole of the receipts under the heading of "Sales of Surplus War Stores". The great bulk of these are capital goods, and are bought by business firms, who pay for them out of capital. Deductions under this head for 1947-8 should probably be well over £150 Mn. Then we come to Death Duties. It seems probable that on the whole people nowadays make little attempt to increase their savings in order to provide for the duty which will be paid on their estates after their death—in fact, on large estates the duty is so heavy that it would be impossible to do so. Death duties are therefore a kind of continuous capital levy, the proceeds of which cannot be spent as income without consuming savings. Some part of the receipts from Stamp Duties comes under the same heading, for when the buyer of security or property pays a duty of 2 per cent. on the purchase price,

he regards the payment as part of the cost of investment and makes it out of capital. Deductions for 1947-8 under these two heads are together probably well over £150 Mn.

Now we come to some rather less obvious deductions. The inadequacy of income tax depreciation allowances deducted from profits leaves apparent net profits much larger than they would be if businesses were allowed to deduct the amounts necessary for keeping their physical capital intact. The Economic Survey for 1948 estimates this under-depreciation of capital at £250 Mn. in 1947. Thus, business firms must, for income tax purposes, show their profits before tax as some £250 Mn. greater than they really are, and must pay at least undistributed profits tax and income tax on this artificial excess. Taxes thus paid out of capital must now be of the order of £125 Mn. a year. Further, if firms follow income tax procedure in their own accounts, they will show their own share of profits also as too large, and be tempted to distribute more in dividends than they should.

These are not the only taxes which business firms are paying out of capital. While firms set aside out of profits amounts estimated to be sufficient to cover their tax liabilities for the current year, they usually do not actually pay them to the Treasury until months, or even years, later. When tax rates have fallen, the amounts added to reserves on account of profits for the current year are less than the amounts withdrawn to meet tax payments on account of previous years. While for the individual firm this is an entirely correct proceeding, from the point of view of the national savings the amount of tax which is equal to the net fall in tax reserves is paid out of capital. This can easily be seen if we assume that the tax reserves have been invested in Tax Reserve Certificates. In this case, the money was lent to the Government when it was first placed to reserve. In so far as the tax is now paid by running down tax reserves, all that the Government receives is part of its own debt back. The Economic Survey for 1948 puts taxes thus paid out of tax reserves in 1947 at no less than £240 Mn. For the fiscal year 1947-8 the figure was probably only slightly lower, perhaps £225 Mn.

ESTIMATE OF TREASURY RECEIPTS PAID OUT OF CAPITAL 1947—1948

	£ Million
Miscellaneous Receipts and Surplus Receipts from Trading	250
Sales of Surplus War Stores	150
Death Duties and Stamp Duties	150
Profits Taxes and Income Taxes:	
on under-Depreciation of Assets	125
paid out of Tax Reserves	225
TOTAL	900

This total (£900 Mn.) is a minimum. It assumes that all capital transfer payments for War Damage Compensation, refunds of E.P.T., payments of post-war credits, etc., are treated as capital by their recipients. There are compensating adjustments to be made. The local authorities had an income surplus of £28 Mn. in 1946, and the national insurance funds of £88 Mn. If we put their combined savings for 1947-8 at £125 Mn. we shall perhaps not be very far out. If we bring this into account as Government revenue paid out of income, we reduce our £900 Mn.

to £775 Mn. If, therefore (after making any necessary adjustment for the advance payment to Argentina, which for 1947-8 ranks as a capital transfer to the Argentine Railways in London) we find that the 1947-8 budget surplus is less than £775 Mn., we shall probably be justified in concluding that the Government has continued to spend the nation's savings at least to the extent by which its surplus falls short of that figure.

In 1948-9 many of the taxes and other Government receipts paid out of capital will either disappear or be much diminished. But if the Government is to stop spending the nation's savings, the surplus on the central budget, together with the surpluses of the local authorities and national insurance funds, should be at least equal to all but about £50 Mn. of Miscellaneous Receipts and surplus receipts from Trading, plus almost the whole of the receipts from the sale of Surplus War Stores and from Death Duties, plus a large slice of Stamp Duties, plus perhaps £200 Mn. or more from Income and Profits Taxes paid out of capital. It is impossible to make any close estimate of the size of the Budget surplus this criterion would require ; but it would be surprising if it were less than £300 Mn., and it might well amount to £500 Mn. If the Chancellor wishes to help the nation in its task of re-creating the lost fifth of its national capital, instead of hindering it, he must aim even higher.—*Condensed from* NINETEENTH CENTURY, *April* 1948.

Maxims for Planners

BY SIR ARTHUR SALTER, G.B.E., K.C.B., M.P.

(1) 'When you have divided the nation's economy between public monopoly and private enterprise, don't let the first kill the second.'

(2) 'Retain as far as possible the economic incentives of profit and loss and leave the process of changing prices to adjust supply and demand in the vast number of transactions in which government action is too clumsy and too wasteful. And be sure that both economic incentives and the price mechanism are the allies of national policy and not its enemy.'

(3) 'Aim always at purposive direction rather than detailed control. And always prefer to get your result through financial policy rather than commodity controls.'

(4) 'When you do something, do not think only of the first results—remember the secondary consequences too. They are usually much harder to calculate, but they are often even more important—and you will go badly wrong if you forget them.'

(5) 'Watch private industry carefully to see whether it is being overweighted by the total mass of bureaucratic controls and, if it is, lighten the load by giving up all but the absolutely essential controls and by restricting the general area of public regulation.'—LISTENER, *March*, 1948.

Australian £ Appreciation

From MONTHLY BULLETIN OF NATIONAL BANK OF AUSTRALIA

The circumstance that the Australian Pound still stands at its pre-war discount is a curious anomaly in post-war conditions.

SOME of the reasons which are propounded as pointing to the likelihood of an early appreciation of the Australian pound, although theoretically sound, are probably not of sufficient weight to justify such a move. One such argument is that the terms of trade have lately moved in Australia's favour, due largely to the higher prices of Australian wheat and wool, and that, partly as a consequence, the commodity trade balance for the current financial year will probably show an export surplus. Against this it may be contended that there is no absolute certainty that export surpluses will be maintained over a long period. Many imports have been artificially reduced, and the quantity of certain exports, particularly wheat, is being increased by seasonal conditions which have recently been above average. Prices of exports have also been raised by abnormal shortages abroad, and it may even be that they have been temporarily increased further, due to an urgent desire to convert some foreign currencies into goods. The prospects for Australia's export trade are generally promising, but they may not yet be regarded as assuring such a surplus as to justify an appreciation of the Australian pound on such grounds alone.

Another argument hardly likely to be more effective is that the Australian pound, relative to the English pound, is worth more in terms of goods than is indicated by the existing rate of exchange. In these times of trade and financial controls—particularly foreign exchange control—a change, unless very great, in the relative purchasing powers of two currencies is rarely regarded as adequate reason for altering the terms on which they are exchanged. It seems unlikely, therefore, that the existing difference between the buying power of Australian currency and that of sterling would, by itself, be regarded as a sufficient reason for altering the value of the Australian pound.

Perhaps a more convincing argument for appreciating the Australian pound lies in the check which such a move would bring to the upward trend in Australian costs and prices. The rise in internal prices has become steeper since shorter working hours and another addition to the basic wage brought a sharp increase in costs in the New Year, and the recent lift in prices of many household commodities gives promise of a further upward adjustment in wages in the coming months.

A higher valuation of Australian currency would lower farm incomes and cause loss to traders holding stocks of imported goods, but it would also reduce import costs and would have a salutary effect upon any tendency to hurriedly turn money into goods—a tendency which accentuates inflation by anticipating it.

With growing official and public concern at the upward trend of internal prices, there may have been some temptation to alter the Australian exchange rate, but, for the present, the determining influence seems bound to be, not the trend of prices nor relative purchasing power, nor current export surpluses, but the special position of dollars in Australian and British overseas financial balances. While the sterling dollar rate remains unchanged, appreciation of Australian currency in terms of sterling would also mean its appreciation in terms of dollars, and this would obviously place many Australian exporters at a disadvantage in American markets and in competition with American goods in other countries.

In recent weeks, Commonwealth officials, aided by leaders of business and industry, have been combing through Australian primary and secondary products with a view to the exporting of more goods to the United States of America. It would not be easy to justify an appreciation of this country's currency while at the same time placing emphasis on the need for earning and conserving more dollars. The announcement by the Prime Minister on January 29 that a change in the Australian-English rate is not contemplated while the present sterling-dollar rate stands is, therefore, no more than consistent with official dollar policy.—*February* 10, 1948.

National Income and Expenditure

SALIENT POINTS FROM THE WHITE PAPER

(1) National Income in 1947 rose by £670 millions to £8,770 millions.

(2) Expenditure for the maintenance and replacement of capital equipment was slightly higher than in 1946.

(3) The net addition to assets—buildings, plant, machinery and stocks of goods—was £1,245 millions.

(4) Borrowing from abroad increased by nearly £300 millions to £675 millions. The country overspent its income by 7 per cent.

(5) Government expenditure fell by £296 millions.

(6) Personal expenditure rose from £6,739 millions to £7,421 millions. But the volume of consumption of necessities was on the whole well below the 1938 level. The increase in expenditure was mainly in the field of semi-luxuries.

(7) Personal savings fell from £717 millions to £445 millions.

(8) Total wages rose by 14 per cent. half the increase being due to increased earnings, and the other half partly to an increase in employment and partly to the replacement of women workers by men. —*April*, 1948.

The Indian Budget (February 28, 1948) imposed new export duties on Manganese ore (Rs. 20 per ton) and Vegetable oils (Rs. 200 per ton).

Wheat Goes to War

By MORRIS E. DODD

U.S. Under Secretary of Agriculture

"YOU have one other problem as far as Russia is concerned. That is the thing that Russia did in years gone by, that you always have to fear they might do again.

"Twice to my knowledge Russia has, when she was short of some of these commodities, deprived her own people of the use of those commodities to the extent of starvation in order to ship them abroad for foreign exchange.

"You have that possibility. Even without a substantial increase in their production, you might have the possibility, for political purposes or for foreign exchange, that she might actually move into a market and offer commodities or supplies under conditions that we could not meet."

Later, Mr. Dodd was asked whether the Soviet had made any offers to negotiate with countries outside their orbit for the sale of wheat. He replied: "Yes; they have offered to. The British were not able to complete their negotiation with them for wheat. They did complete an agreement with them for 700,000 tons of coarse grains, in return for which they gave them heavy machinery and things of that kind.

"The Russians also offered to enter into negotiations with other Western European countries for wheat in amounts larger than we have in sight at the present time. It is complicating the situation very much."

The Agriculture official also noted that a good part of Central Europe and the Balkans were normally surplus wheat producers before the war. He expressed doubt that these countries will resume their pre-war production because of uneconomic land policies.

The whole pre-war economy of Europe, Mr. Dodd pointed out, "was built up in manufacturing in the West and production of food in the East, and a free flow of trades between the two areas. You move Rumanian wheat and East Prussian wheat and Yugoslavian corn, and such, West and then you take manufactured goods East. At the present time that flow has stopped."

The Agriculture Department in a report on latest world grain production estimates, reported Soviet 1947 wheat production at 875,000,000 bushels compared with U.S. production of 1,364,919,000 bushels.

Soviet production in 1947 of rye, however, was estimated at 920,000,000 bushels compared with only about 26,000,000 bushels for the United States.

Soviet wheat production, according to these figures, would be still considerably below the 1935-39 average. Rye production would be larger than average despite below-average yields because of the considerable wartime switch from wheat to rye acreage in the Soviet Union. Rye has always been an important bread grain for Russia.—*From Testimony before* HOUSE APPROPRIATIONS COMMITTEE, WASHINGTON, *released March* 16, 1948.

Spotlight on Gambling

By CARL LAWTON

OVER eighty per cent. of the people in this country—men and women, boys and girls—like to have their gamble. They gamble on pools, horses or dogs; on raffles or competitions, at cards, on machines, pin-tables, 'bus tickets—even on the headlines of a newspaper. Before the war, over £500,000,000 was spent in a year on mass-gambling. It is now nearly £1,000,000,000. Forty-four per cent. have an average bet of 3s. 10d. on the pools. Nearly 50 per cent. bet on horses with an average stake of 6s. 10d. Only 18 per cent. gamble on dogs, but they stake an average of 11s. 9d. on a bet. There is more money spent in a year on the dogs than on the pools, although more people go in for pools. Men gamble more than women. Five men will put money on a dog for every two women that do so. Two men will be on pools, or at cards, for every woman. Three men will have a bet on a horse for every two women. There is even a difference with the stakes. Where a man has 3s. 10d. on the pool, the woman will have 2s. She will have 3s. 5d. on a horse when he has 6s. 10d., and she will only have about 5s. on a dog when the man's average stake is 11s. 9d. People aged between twenty-five and forty are the biggest gamblers, and 88 per cent. of that age group gamble; 13 per cent. of them have a gamble on five or more of our six items. Education makes little difference, although people over sixteen with a secondary education gamble rather more than those with an elementary education. If you have been to a university you will be in the lowest group of gamblers.

Why do people gamble? Well, it is for the thrill; they like the excitement; the fun; it is an entertainment.

If you compile a list of the leisure activities of the gambler you will find he devotes most of his time to his gambling, then to his social group in the pub, or club. Home activities or cultural activities, in which he might take part, either individually or in a group, come a long way down the list.

But why do people want this thrill? Is not life attractive? For the mass of people it is not attractive enough. To many people gambling is not the sudden acquisition of money or fame, it is an escape. Modern civilisation with all its wonders has created boredom. Before the industrial revolution work and play were an essential complement to each other. Man was a part of his social group that worked and played together. Now he has a work group—work that is often unattractive—and sometimes a play group. They have become separate. We have become involved with a leisure problem. Men and women now seek the emotional stimulus that is devoid of effort and adventure. They need a stimulus that fills the mind and relieves the tension of routine. Gambling is the imaginary mechanical adventure for those who cannot create the real adventure of life.—B.B.C. BROADCAST, *March* 17, 1948.

East Europe's Iron and Steel Industries

WITH Germany no longer the leading steel producer of the European Continent, the iron and steel industries of Eastern Europe have gained in importance, and Hungary, Yugoslavia, Bulgaria, Rumania and Austria are all busily engaged in expanding their production facilities, according to Continental press reports.

Yugoslavia's production of pig iron increased by about 60 per cent. in 1947 as compared with the preceding year, to an average of 90,000 tons per month, while the output of steel rose by over 50 per cent. to approximately 150,000 tons per month. The present production of rolled products comes to an average of 114,000 tons a month. Yugoslavia has set herself a target of 500,000 tons of pig iron and 700,000 tons of steel by 1951, while Rumania's output in that year is to total 140,000 and 300,000 tons respectively of the two products.

Bulgaria's steel production, while still very small, showed a substantial increase last year—to 1,500 tons a month as against 673 tons monthly in 1946.

Hungary, under its large industrialization programme, plans to turn out 400,000 tons of pig iron and 800,000 tons of steel next year, *i.e.*, 128 per cent. of the 1937 output.

Hungary's main difficulty lies in the fact that she has to obtain her raw materials from abroad—iron ore from Yugoslavia, Czechoslovakia, Russia and Sweden, coke from Poland or Russia. Tests on possible iron production have been made lately with a bauxite deposit at Ozd, which, owing to its high iron content, is unsuitable for the production of aluminium. The results are said to have been encouraging.

Hungary's steel industry suffered relatively little damage as a result of the war. Production was resumed shortly after the end of the war, and all important enterprises have been put under State administration.

Austria's iron and steel industry requires investments estimated at about £30,000,000, including £1,250,000 for pig iron production, £5,000,000 for steel works and £16,000,000 for rolling mills. The Austrian production programme aims at an annual output of 1,000,000 tons of pig iron, to be reached in 1951. Intermediate targets are: 1948—600,000 tons; 1949 and 1950—720,000 tons each. The country's industrial plan places special emphasis on the production of quality iron and steel products, in particular such specialities as steel for tools, constructional steel, rust-proof and heat-resistant steels.

In Czechoslovakia, all foundries have been concentrated into six large enterprises in the course of nationalization, and only a few small casting works remain in private hands. The planning of production is the responsibility of a central directorate, which is also in charge of all purchases of raw materials and the export of finished products.

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Czechoslovakia's pig iron production last year—1,422,000 tons—exceeded the 1946 figure by 48 per cent., but remained 15 per cent. below the 1937 output of 1,500,000 tons. On the other hand, the production of steel in 1947, which surpassed that of the preceding year by 36 per cent., was almost equal the pre-war average of 2,300,000 tons, having amounted to 2,285,300 tons. Czechoslovakia's post-war industrial plan provides for the investment of 3,000,000,000 Czechoslovak crowns in the iron and steel industry by the end of 1948 to effect expansion required if the deliveries to Russia under the 1947 trade agreement between the two countries are to be carried out on time. The iron ore deliveries, which Czechoslovakia receives from the U.S.S.R. under this agreement, 40,000 tons a year, cover approximately a third of her total ore requirements, of which a further third is met from domestic sources and the balance by imports from abroad. In addition, Czechoslovakia receives from Russia manganese ore and nickel and supplies of petroleum tubing, rails and other railway material, and tin.—*From* MINING JOURNAL, *April* 3, 1948.

The Limits of Taxation

BY PROFESSOR JACQUES PEYREGA

Although much research has been devoted to the maximum national debt which can be borne, the danger point for taxation has never been established. Frequent warnings have been uttered as to the dire effects of too heavy a burden, but no modern criterion has been devised.

The classical economist's view that taxation must never be so heavy as to deform the economic structure is reversed by modern theorists, who regard fiscal policy as a political instrument. Its use as such is restricted, however, partly because the receipts from a "reformatory" tax are in inverse proportion to its reformatory effect. For comparative purposes, taxation should be related to national income :—

PERCENTAGE OF NATIONAL INCOME PAID IN TA&ES

YEAR	FRANCE	GREAT BRITAIN	U.S.A.
1913	17.2	11.86	8.4
1926	24.7	25.7	12
1938	20.9	24.1	25.6
1945	21	40.55	34.1

But in estimating the limit of the taxation which a nation can support, statistics will not suffice ; the distribution of income, the fiscal system, and the patience of the people must be taken into account.

If a free economy is to be maintained, taxes must not be raised to the point at which a dangerous unbalance of the economy would result ; but this ceiling is only absolute if existing structures are to be protected, and if spontaneous economic progress is desired. Increasing state control both necessitates and facilitates the collection of higher and higher taxes.—*Summary translated from* OPENBARE FINANCIEN INTERNATIONAL QUARTERLY REVIEW, 1948.

India's Industrial Future

By ERIC P. W. da COSTA

General Manager, Textile Machinery Corporation, India

THE industrial prospect in India was surveyed recently by Mr. Eric P. W. da Costa, in London.

After referring to the fact that last year practically every industry in the country was running below peak capacity, he expressed confidence that within the next two or three years there would be a steady rallying of output in existing industries until nearly peak capacity was attained, and that in the next three to five years the limited new industries for which industrial equipment from abroad had already been ordered would be set up. New industrial production was not, however, likely in this period to be spectacular.

It was hoped that the new fertilizer factory at Sindri, designed to produce 350,000 tons of ammonium sulphate annually, would be in operation; that a substantial beginning would be made with the textile machinery industry, which in three units might be producing in three to five years all the spinning ringframes the country required with small quantities of other spinning machines and all the looms required.

Several new power units would be in operation and other units would be under way. It was hoped that coal production, which was so vital an ingredient of all industrialization, would have been stepped up from 28m. to 40m. tons; that two new steel units, each of about 500,000 tons capacity, would be nearing completion; and that cement capacity would be nearly doubled. Assuming that a triple shift was imposed in the cotton textile industry, it was likely that all these developments would increase industrial output at the end of five years by about Rs. 300 crores annually, possibly a 30 per cent. increase on output at present.

Mr. da Costa added: "New industrial employment under all heads may be of the order of 600,000 persons, mostly in the cotton textile industry, and may be taken at about 20 per cent. more than existing employment in organized industries. These are certainly not achievements which will make any impression on the abolition of poverty or in the dispelling of unemployment; they provide for a higher output per head in industry, but unless there is a comparable development in agriculture the over-all picture may be gloomier than at present with unemployment still increasing.

"These are hard and melancholy goals for a nation on the threshold of a new journey, but they are part of the desert which must be crossed in order to reach at last the promised land. The dominant note of Indian industry in the next five years is, therefore, the reorganization of existing units rather than extensive new industrialization. This is not, indeed, a matter of choice, because, except for the very limited extent already indicated, the equipment for new units is

unlikely to be available."

Another point emphasized by the speaker was the related problem of obtaining technicians. They must be available at the same time as capital equipment and *vice versa*, otherwise loss would be incurred, yet without technical personnel new industries could not be planned and orders for capital equipment of the most effective kind could not be placed. The dilemma, except in the case of collaboration agreements between British or American and Indian firms, was all but complete. Technicians of the required calibre from the United States were almost unobtainable, and the position in regard to British technicians was less promising than it had been for a long time.—TIMES REVIEW OF INDUSTRY, *April*, 1948.

Non-productive Manpower

THE principal problem we still have to face in 1948 is that less than 50 per cent. of Britain's working population is actually concerned with production at all.

This fact arises from the past reliance on exported capital to cover the margin, from high commercial profits, and from the patchwork of social services established in the past. And a further twist has been given to the shape by the unprecedented military mobilisation of the Second World War.

Before the war 16 per cent. of all British employers and workers were in distribution. The comparable figure in the United States was 13.9 per cent., in Belgium 13.4 per cent., in France and Germany around 12 per cent.

Then we may look at the army of administrators. More than 10 per cent. of the working population today is solely concerned with the administration of the country. In 1939 there were 397,000 non-industrial civil servants; in July, 1945, there were 716,000. By October, 1947, the Labour Government had reduced their numbers to 690,000. But the numbers in local government have increased since 1939 from 846,000 to 1,098,000.

There are 136,000 civil servants concerned with defence and supply now, compared with 51,000 in April, 1939; and this increase of 160 per cent. is, of course, due to having over a million soldiers, sailors and airmen instead of less than half a million.

On the other side of the picture, we may look at our need for more food producers. A hundred years ago one man out of every five had something to do with farming, but today it is scarcely one man out of every 20, and we have less farmers and farm workers per head of the population than any country. The following figures are instructive, and they are pre-war figures:—

Percentage of occupied population employed in Agriculture, Fishing and Forestry

Britain	6	United States	20	France	36
Belgium	17	Germany	29		

[*Stephen Swingler, M.P., (Labour, Stafford) in* TRIBUNE, *March* 19, 1948.]

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Bretton Woods: Retrospect and Prospect

By ROY F. HARROD

The author of this item was concerned at first hand with the Bretton Woods negotiations, which now he is putting into perspective

DURING these discussions (Bretton Woods) there was always the spectre of the "transition period". It was supposed that during that period some countries would have to retain certain war-like methods of control over foreign trade, although these are fundamentally incompatible with the more liberal and expansive trade policy envisaged in the main plan. Motives of timidity were likely to make nations reluctant to give up the wartime controls for a longish period. While still in the midst of post-war difficulties, they would fear the risks of freer trade. For my part, I always held that the transition period should be reduced to a minimum, on the ground that the more generous system was likely to help rather than hinder, and that, if the transition was prolonged, nations would be likely to entrench themselves in unsound practices.

Whatever one might have wished, the transition period is being greatly extended. One cannot see the end of it. There is even the danger that the beneficent Bretton Woods plans, which would so greatly help Britain, may die before ever they get the chance of coming into operation.

The basis of Bretton Woods was the close understanding together of the United States and Great Britain in pursuance of a like-minded policy. It is to be recorded that there were always certain elements here, some conservative, some of a more leftwards variety, who favoured the establishment of a British *bloc*, independent of the United States on the one hand and Russia on the other. The economist naturally views such a programme without sympathy, since the division into *blocs* must entail economic loss. There is the more practical point that the British *bloc* could never be strong enough to stand alone. And why have a British *bloc*, if the United States, that great source of wealth, power and enlightenment, is ready to stand in as part of a larger *bloc* on terms that are acceptable to Britain? In regard to the acceptability to us of the Bretton Woods plans I am inclined to limit myself to saying that what was good enough for Keynes is good enough for me. It is quite untrue that he was cynical about their providing a satisfactory framework.

* * *

Our present *impasse* surely makes it absolutely obvious that what Britain needs is the greatest possible amount of multilateral clearing and the greatest possible flow of international trade. She needs to be able to export, in return for good payment, to whatever market her producers or merchants can

find. And she needs a large flow of international trade so that her requirements for trading, which must be large, shall not be exorbitant in proportion to total world trade. For this purpose all her efforts should be directed towards keeping the ideal of Bretton Woods in being and towards getting multilateral clearing as quickly as possible. In this connection we should think of possible Marshall assistance.

Marshall assistance should, during the course of its operation, solve the "dollar shortage" problem. It will allow countries to overspend their incomes on dollar goods to the extent of the assistance offered. It may not solve the long run dollar shortage problem, but in the long run we should be able to get back to the Bretton Woods machinery. It should solve the short term "dollar shortage" problem.

It is most regrettable, therefore, that Britain does not push the idea of the convertibility of the receiving countries' currencies into dollars as a primary condition of the Marshall Loan and coquets with the idea of an intra-European clearing. Everyone has become appallingly defeatist.

* * *

It is a curious thing that the more dependent on American assistance we become, the more unwilling are we to try to get into a like-minded state with American economists. Agreement was possible in 1943 and 1944, when it was far from clear that we should need such very great assistance from America. Between then and now we seem to have developed that kind of cussedness that is characteristic of the dependent relative; the more dependent he becomes upon the rich relation the more determined he is to do everything that the rich relation dislikes.

One would have hoped that the British were capable of rising superior to this obsession.—*Extracts from* TIME AND TIDE, *March* 6, 1948.

Scrap Bulk-purchasing?

BY J. K. MITCHIE, CHAIRMAN, NATIONAL BANK OF INDIA

I am not fearing a major slump but I do suggest that many prices could—indeed must—fall very materially if the world is to get on to a reasonable economic balance as between primary producers and manufacturing Nations, and I would add, bulk purchases by Governments may not go on for ever. Personally, I very much hope that method may soon disappear in favour of merchanting as we knew it. I hope too the change will come too soon rather than too late, for I am convinced that only through such a change in method will the true position of stocks in producing countries be disclosed, and thereby allow the necessary deflation to happen comparatively painlessly. In a dubious market bulk purchasing will merely mask the real position, and when at last it is disclosed, the bulk seller—who, after all, is the natural child of the bulk buyer—will find that no one runs faster than a frightened buyer.—ANNUAL MEETING, *March* 16, 1948.

A.B.C. of Inflation

By F. W. HIRST

THE other day an old Harvard man wrote to ask me to send him, in a few simple words, what he described as the ABC of inflation. It has struck me that some of your readers, and especially those who are beginning to doubt the opinion of the late Lord Keynes that inconvertible paper money is a medium of exchange far superior to a gold sovereign, may perhaps like to read the substance of my reply.

In countries with a stable currency prices vary in accordance with the law of demand and supply, and are settled from day to day by the higgling of the market ; but in countries with an inconvertible paper currency—and this case is now almost universal—a rise in prices is general and is usually due to inflation.

Inflation is not easy to define, because it may be brought about in various ways ; but it is always, or almost always, due to the action of *the Government, and that action is* always, or almost always, due to the fact that the Government cannot make both ends meet. In short, its Budget is unbalanced ; its expenditure exceeds its revenue from taxation ; its paper money becomes valueless abroad and its credit is so low that it cannot borrow abroad, except as a mendicant. Its credit may also become so much impaired at home, and its people so impoverished and so suspicious of Government loans, that they will not make up, by lending to the Government, the deficit.

In that case the only cure for inflation and rising prices is retrenchment—*i.e.*, a reduction of Government expenditure sufficient to balance the Budget, or an increase of taxation. Failing this remedy, inflation proceeds, either by borrowing from the banks or by printing more paper money.

The results were seen after the first Great War in most of the belligerents' currencies. Those of Germany, Austria, and Russia became worthless. The same has happened and is still happening. The franc is worth less than a *farthing*, and a *farthing* is worth less than half a farthing.

A friend of mine in Rome tells me that he could buy in 1899 for five lire as much as he can now buy for five thousand lire.

The recent rise in prices in the United States, which has a more or less hard gold currency, may be due to temporary causes, but is not, in my opinion, entirely unconnected with the Budget deficit.

One of the curiosities of present Ministerial excuses for our economic plight is that prices are rising abroad, and that therefore we cannot buy as cheaply as we ought to be able to do, even though we have borrowed the wonderful Soviet technique of bulk purchases, so that our own merchants cannot buy in the cheapest market or sell in the dearest.

How can anyone be surprised that the Bretton Woods Agreement does not work or that in countries with soft currencies black-market prices are superseding the artificial prices "fixed" by the Government ? — *Letter to* MANCHESTER GUARDIAN, *March* 16, 1948.

Europe in 1951

U.N. ECONOMIC COMMISSION'S REPORT

EUROPE must have something like a new Marshall Aid Plan in 1951 or suffer a fall in her living standards.

This is the conclusion reached in a report issued by the United Nations Economic Commission for Europe, on which both Marshall-Aid and East European countries are represented.

The most critical feature in Europe's present situation was the huge deficit in her overseas balance of payments, the report said, basing itself on the economic statistics of all European countries except Russia. The attainment of equilibrium by the end of 1951 could not be assured without a reduction in standards of living.

In an analysis of Europe's prospects in the next three and a half years the Survey reported :—

1.—That wartime losses of European shipping, investments overseas and other sources of revenue have created a $2,000 million gap at pre-war prices in the normal balance of trade ;

2.—That this gap can be bridged only by a combination of increase in exports and reduced imports, with a big cut in imports of manufactured goods from the United States, whose aid to Europe after World War II, including that of the Marshall Plan, is considerably less than after World War I.

3.—That this combined objective can only be achieved by an enormous increase of between 40 and 50 per cent. in the production of Europe's heavy industries, necessitating a profound transformation of European economy ;

4.—That the prospects of achieving this increased production appear to be reasonably good ;

5.—But that it will only close the gap if European agriculture produces as much food as before the war and if internal European trade is freed from the growing paralysis caused by inflation.

At present, under the pressure of inflation, internal trade was distorted into a rigid network of bilateral exchanges between individual countries, the Survey points out.

In allocating mainly to Europe's heavy industry the task of filling the $2,000 million gap, the Survey based itself largely upon the need to remedy the huge and growing disequilibrium in trade with the U.S.

The Survey attributed the disastrous fall in exports going to the United States not only to the nature of Europe's products, but also in general to the high export prices resulting from inflation.

The only possibilities the Survey sees of increasing overall European exports to the United States are to lower prices by curbing inflation and to concentrate on export campaigns for luxury and light industrial products.—REUTER SUMMARY, GENEVA, *April* 5, 1948.

Britain's Invisible Income

How bright—and how dark—are our prospects of recovering in this important department of British commerce?

IT seems likely that our ability to import on a sufficient scale to return to pre-war standards of living will finally turn upon the extent of the net contribution to our overseas receipts made by the "invisible" items.

In 1938 Britain's invisible receipts were sufficient to pay for as much as one-quarter of our total imports. In recent years we have had an invisible deficit. Is there any hope of recovery in the future? The view taken in the Economic Survey is that this new feature in the economic life of Britain is not likely to prove a passing phenomenon. "Even when everything possible has been done to stimulate travel in this country and other forms of invisible earnings, we cannot," the survey states, "budget on the basis of any substantial surplus on invisible account. For the future, in fact, it will only be by the export of goods that we shall be able to pay for the import of goods."

Fortunately there are reasons for supposing that these latest Government predictions regarding the future of the country's invisible income are likely to be proved just as over-pessimistic as some of the earlier calculations regarding post-war developments in this field were over-optimistic. Inevitably, this is a department of the national economy in which there is plenty of scope for errors in calculation. The value of any results that do emerge is further weakened, however, by the official practice of including in the omnibus item "other net invisibles" all transactions which, for one reason or another, do not fit easily into the overseas payments picture at some other point. That the effect of this practice has been to bring into the current payments figures items which were strictly of a capital nature has been admitted in earlier official documents.

In recent statistical approaches to the balance of payments, including those in the Balance of Payments White Paper for 1947 and the Economic Survey for 1948, the experts appear to have gone even farther than this. For having fixed import and export totals for the year and the expected volume of overseas borrowing, they now seem to be utilising the invisible item as a means of adjusting the two sides of the payments balance-sheet to give an arithmetical balance rather than to portray the true volume of the various forms of invisible income and expenditure.

If this is the approach that is being adopted—and it is difficult on any other hypothesis to explain the remarkable fact that "other net invisibles", which brought in £100 million in 1938, produced less than nothing in 1947 and are expected to do no better in 1948—it is evident that any mistake in the estimate for the contribution to current payments from net overseas disinvestment must mean a corresponding distortion of the invisible items.

Any attempt to assess the future outlook for the invisibles must therefore take account of the prob-

ability, amounting almost to a certainty, that the invisible results for 1947 as well as the estimates for 1948 have been distorted by the inclusion therein of a number of substantial capital transactions, the authorities having, for reasons best known to themselves, chosen to adopt this course rather than show the true amount of overseas investment and disinvestment that is currently taking place.

The following table shows the country's invisible receipts and payments for 1938, 1946 and 1947, together with estimates for 1948 (on an annual rate basis) for the first half of this year, as given in the Economic Survey:

Examination of this table shows that the country's invisible payments and receipts fall into four main compartments: (1) Government; (2) shipping; (3) interest, profits and dividends, and (4) miscellaneous, including films, tourists, commissions and insurances, etc.

	£ millions			
	1938	1946	1947	1948
Government:				
Military	—	— 382	211	152
less Disposals, etc.	—	— 152	— 131	— 54
Relief	—	110	62	4
Germany	—	40	79	14
Other	—	— 90	— 10	24
TOTAL GOVERNMENT	16	290	211	140
Other payments:				
Shipping	80	140	163	158
Interest, profits	30	77	94	90
Films	7	17	13	8
Tourists	40	26	50	24
TOTAL PAYMENTS	173	550	531	420
Receipts:				
Shipping	100	149	180	158
Interest, profits, etc.	205	152	145	146
Other net	100	73	— 20	— 22
TOTAL RECEIPTS	405	374	305	321
Surplus (+) or Deficit (—)	+ 232	— 176	— 226	— 99

It will be observed that Government payments overseas, after allowing for the large amounts derived from the sale of war goods and other assets overseas, are still running some nine times higher in money terms than they were before the war. The policy of military retrenchment and the decline in the volume of terminal expenditure should produce further substantial savings in the years ahead (in the absence, of course, of a further serious deterioration in the international political situation), but allowing for the rise in costs it seems hardly likely that the yearly outlay will fall below say £60 million.

Thanks to the rebuilding of the merchant fleet net earnings from shipping have recovered fairly sharply since the end of the war and this year are expected to rise to £40 million, which, allowing for price changes, is about on a par with the results for 1938. The partial elimination of competition from German and Japanese shipping should enable further progress to be made in this sphere in the years to come, but past experience suggests that it would be unwise to hope for too much in this direction. Further economies in the use of foreign shipping services should be possible, however, and net earnings from shipping should

eventually suffice to cover the bulk if not the whole of the Government's net overseas expenditures.

The process of overseas investment during and since the war has, of course, produced a very substantial change in the position regarding net revenue from interest, profits and dividends. In the Economic Survey table reproduced above, the 1938 receipts under these heads are given at £205 million against outgoings of £30 million, but it is interesting to note that the net figure of £175 million is well below the estimate of £203 million given in the White Paper on the Statistical Material presented during the Washington talks and still farther removed from the estimate of £225 million given in an expert analysis of pre-war overseas payments by Professor Barna. The difference may be explained in part by the fact that net overseas earnings from oil and tankers are; for some inexplicable reason, included in the "other" item in the Government's more recent statistical versions of the overseas payments figures.

Almost as puzzling as the discrepancies between the estimates of the pre-war situation is the sharp drop which is shown to have taken place in net overseas income from interest, profits and dividends since the end of the war when the latest statistics are compared with the detailed account of 1945 results included in the Statistical White Paper on the Washington talks. This showed net overseas income in 1945 under these headings at £97 million, the product of gross receipts of £170 million and gross payments of £73 million. There has, of course, been some limited

further repatriation of foreign securities by debtor countries since the close of the war, but it might have been expected that any deterioration on this account would have been more than offset by increased receipts from the East and other parts of the world with the return to peace-time conditions.

There is no doubt, however, that a good part of such profits as some British concerns operating overseas have made since the war have had to be devoted to reconstruction and rehabilitation, and it may not be too much to expect that gross receipts from existing investments overseas will eventually rise to the pre-war level in money terms. In addition, Britain should ultimately draw a return of some additional tens of millions from the capital outlays in the sterling area now being financed from resources provided by this country, though the return will be by no means so large as it would have been had we not permitted a great deal of post-war overseas investment to be financed from unrequited exports paid for by drawings on war-time accumulations of sterling in London.

If the recent steady rise in the cost of remitting earnings on foreigners' investments in Britain is checked with the return to stable monetary conditions in Britain (as it should be), net income from investments should rise to at least £100 million, but the figure would be reduced somewhat if we have to commence repayment of interest and repayment of capital on the U.S. loan as, under the Washington Agreement, we may be called upon to do from the end 1951 at a maximum rate of some £30 million per annum.—*From* THE STATIST, *March* 27, 1948

Exports as percentage of imports before and after the war

	1938	1946		1938	1946
United States ..	158	198	Czechoslovakia ..	121	138
United Kingdom	51	74	Egypt	80	80
Canada	125	121	Hong Kong ..	83	79
Argentine ..	9	208	Norway	66	55
Brazil	100	146	Chile	135	116
France	66	43	Ceylon	113	119
India & Pakistan	108	109	Turkey	97	180
Belgium & Luxemburg	95	57	Colombia	91	87
Sweden	88	75	Algeria	113	98
Australia ..	102	101	Portugal ..	50	67
Switzerland ..	82	78	Finland	99	95
Cuba	134	155	China	60	27
Venezuela ..	177	172	Ireland	58	54
South Africa ..	28	44	Uruguay ..	98	103
Italy	93	97	Peru	129	120
Mexico	100	69	Poland ..	91	95
Denmark	94	57	Iraq	37	92
New Zealand ..	105	137	Indo-China ..	147	220
Netherlands ..	74	37	Kenya-Uganda ..	112	93
Iran	163	211	Bolivia	135	145

—*From* MONTHLY BULLETIN OF STATISTICS, *Statistical Office of United Nations, New York, November*, 1947.

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Why U.S.A. Needs Imports

By Professor WHITSON FETTER

WHY is foreign trade important to the United States, and what should we expect from measures to maintain our present large postwar volume of trade and to put it permanently on an even higher level? It has been a popular pastime in recent years to battle the matter out in terms of statistics. Those who favour tariff reduction and an expanding trade cite the impressive absolute figures of our present trade, and point out the significance for future employment in the United States of an expansion in our export industries. The opponents of tariff reduction point to the tremendous variety of American resources as making a large trade unnecessary, and cite the small ratio of our exports to our national income, or even to the total of movable production in the United States, in support of the proposition that foreign trade is not of major importance in our national economy.

The economic importance of foreign trade to a country has an inverse relation to the size of the country and to the diversity of its resources. Small countries, particularly if they are densely populated, as Great Britain and Belgium, are dependent on foreign trade in the basic sense that their peoples would starve to death or would be reduced to a bare minimum of subsistence if all trade were cut off. Countries with richer agricultural resources per capita, such as New Zealand, Argentina, Chile, or even France, would not literally starve if all trade were stopped; but even after a full adjustment of their production to the stoppage of trade, they would be forced to accept a far lower living standard, perhaps not in calorific terms, but in terms of what is currently called a "protective diet", and in terms of the nonfood items that to-day loom so large in the living standards of many countries.

In this sense of a minimum standard of living, a large foreign trade is important, but not vital to the American people. We could stay alive without foreign trade, but many of the things that are thought of as characteristic of the "American way of life" would be impossible without foreign trade. This point is rather obvious in connection with coffee, chocolate, bananas, tin, nickel, and diamonds; and most persons recognize that we should continue, if not expand, our trade in those items that quite clearly cannot be produced in the United States except at a prohibitive cost. The real issue, however, arises in connection with mineral products such as petroleum, copper, and manganese, of which we have large supplies in the United States, but which may be seriously depleted in a few decades unless we draw on the abundant supplies available abroad; in connection with sugar and wool, which can be produced here but only at substantially higher costs than abroad; and in connection with many foods, textiles, and metal products where mass production methods cannot be used effectively.—*From* ANNALS OF AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE, *January*, 1948.

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Price Control: Three Views

1

By Mrs. Joan Robinson

Keep on the subsidies and keep down the prices of utility goods. Then with an increase of children's allowances it would be reasonable to ask the workers to accept the limitation on wages. On everything else raise the purchase tax to slaughterous level.

2

By F. W. Paish

In my view, there is much to be said for the proposal that has been made for reducing profits on home production only by reducing the prices that can be charged on the home market. Since export prices would not be affected, this would make production for export relatively more profitable and would help to divert resources to export industries. But there are certain other implications of this policy which must be taken into account. If it can be effectively enforced, some firms, or departments of firms, will find they are working at a loss and will have to reduce output or close down. The demand for labour will fall off and unemployment will begin to rise towards our equilibrium level, towards 500,000 or 600,000 in fact. If all prices in the home market could be sufficiently reduced, there would be no need for any compulsory limitation of wages, for the lower profits would reduce the demand for labour, and destroy the strength of its bargaining power.

But it is most unlikely that any such policy of general compulsory reduction of prices would be successful—it would require more civil servants to enforce it adequately than we can possibly spare and inadequate enforcement would merely serve to divert resources from where it was enforced to where it was not, thus still further reducing the real income of the country. The only sure way of achieving the result the unions have in mind is to go to the root of the trouble and deal with the underlying inflation, either by means of a sufficiently large budget surplus, or by a reduction in the quantity of money and a consequent rise in interest rates, or by a combination of the two. The resultant reduction in internal demand would achieve the desired effect of reducing profits on home business and so diverting resources to the production of exports. It is true that by removing the excess demand for labour it would bring some rise in unemployment, though this would not need to be prolonged for any individual. But this would also be the effect of existing policy, in the unlikely event of its being successful. If we remove the inflation itself, instead of merely trying to palliate its symptoms, success can be ensured. And on the success of whatever action is taken depends the prosperity, and indeed the lives, of the people of Britain.—LISTENER, *March* 4, 1948.

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By The Economist

The truth is that such efforts to stop up the leaking dams will never keep pace with the damage that inflation wreaks upon them. The Government's policy seems to them inevitably to require more and more control, more snooping, more cost investigations, and more prosecutions. Yet it could never succeed—not, at least, with any level of control below that of the most far-reaching totalitarian dragooning of the whole economy. It is much simpler, and incomparably less costly—whether in terms of politics or economics or social objectives—merely to turn down the pressure of inflation.—*March* 6, 1948.

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Prohibitive Price of Ships

From LIVERPOOL STEAMSHIP OWNERS' ASSOCIATION

A GRAVE warning that shipbuilding costs have risen too high is given by the Liverpool Steamship Owners' Association in its annual report for 1947. Delivery of ships has been delayed by slow supplies of certain components and bad work by shipbuilding labour, states the report. Whole ships have been held up during construction by failure to obtain small components, such as electric or sanitary fittings, which are bought from sub-contractors. Through shorter hours and absenteeism the total output of the shipyards is said to have been lowered to about two-thirds of the pre-war standard. All this drives up costs, and ship prices have risen to a point where new orders are not being placed and provisional orders are being cancelled.

Some striking examples are given. A cargo liner of just over 8,000 gross tons delivered in 1940 cost £369,000 ; a comparable ship delivered in May, 1947, cost £638,000 and if it were ordered to-day it would cost between £700,000 and £750,000—double the pre-war figure. A fully refrigerated ship of 10,000 tons delivered in 1938 cost £424,000 ; a similar one just delivered is costing about £1,000,000 or 135 per cent. above the pre-war price. A high-class passenger ship cost £48 a ton before the war ; a similar ship to be delivered in May, 1948, is expected to cost about £110 a ton. A small liner of 3,000 tons built in 1939 for the Mediterranean trade cost £104,000; a similar ship delivered in December, 1946, cost £201,000, and the shipyard is now quoting £360,000 for a vessel of the same type.

It is not surprising that the shipping companies are troubled by the high prices at which the war losses of the British merchant marine are being made good. Not only does the present cost far exceed the compensation received for lost vessels, but it is doubtful whether interest and depreciation on such high first costs can be earned over the usual period of twenty years. The shipyards may not be far from pricing themselves out of their best market.—*From* MANCHESTER GUARDIAN, *March* 1, 1944.

Smokes

Averaged over all the cigarettes we sell (large and small) the duty cost represents nearly 90 per cent. of our price to the distributive trade, and the remainder, which averages less than 2d. per 10 cigarettes, has to cover the cost of the tobacco, its freight, insurance, and storage, all manufacturing, selling, and administrative expenses, taxation, and net profit.—SIR ROBERT SINCLAIR, CHAIRMAN IMPERIAL TOBACCO CO. LTD.

(Commenting on this speech at the Company's Annual Meeting, THE TIMES points out that duty-paid unmanufactured tobacco is now more costly than silver.)

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Tabloid Digest

Power from Norway

Because the cost of generating electricity in Norway has remained constant while the price of coal has risen 2½ times, long distance transmission of electricity from Norway is now believed to be a practicable proposition. Before the war a plan was mooted to export a million k.w. high voltage current to Denmark and thence into a European grid.—INDUSTRY, *March* 1948.

U.S. Farm Labour

"The U.S. is in need of a new influx from Europe to work on the land. In the granary of the nation, to which so many other nations also look, the population is not only diminishing but ageing. The average age of a farmer in N. Dakota is already 60."—SOUNDINGS, *March* 1948.

European Trade

"In practice, there can be little doubt that the development of intra-European trade could be promoted far more effectively by the more flexible means of preferential and reciprocal arrangements (than by a Customs Union) if only these were not forbidden or discouraged by the inhibitions of non-discrimination."—THE ROUND TABLE, *March* 1948.

U.S. Capitalism

"American capitalism is no longer the anarchical system that Marx dissected in the middle of the 19th Century. It is, rather, a controlled and guided capitalism, with the Government intervening in economic affairs to an extent rarely realised, and not necessarily on the side of Big Business."—UNITED NATIONS WORLD, *March* 1948.

Workers=Dollars

Every additional worker placed in the cotton industry provides an export product equivalent to £1,000 worth of dollars each year. This sum would buy in Canada 1,050 cwt. of wheat or 73 cwt. of dried eggs.—MR. NESS EDWARDS, M.P., *quoted in* INDUSTRY, *March* 1948.

Cost of Illness

"In the main industries only one quarter of a day per working year is lost by a worker because he is out on strike. Over a fortnight is lost because of ill-health. Since V.E. Day, strikes have lost 6,500,000 working days. Neurotic illness in the same period must have cost this country 72,000,000 working days. No amount of bonhomie and backslapping between workers and management

can cure a national illness of such proportions as that. Management, however, can assist in the cure."—THE DIRECTOR, *January* 1948, *commenting on* "THE INCIDENCE OF NEUROSIS AMONG FACTORY WORKERS", H.M.S.O., 1s. 6d.

The Spice Route

The material level of modern civilisation depends on international finance, just as mediaeval prosperity depended on the Spice Route. Government lending and the international organisations do not meet the need. A formula must be found which satisfies the capital exporting countries without infringing the sovereignty of the borrowing countries.—PIERRE DIETERLEN, ACTUALITÉ ECONOMIQUE, *February*, 1948.

Food and Taxes

While in Britain income tax is used to subsidise the cost of food, in America a scheme is now put forward to levy a 15 per cent. to 20 per cent. tax on food, compensated by a per capita income subsidy. This, it is claimed, would achieve the same results as rationing and price control, and facilitate food shipments to Europe.—D. GALE JOHNSON (*University of Chicago*) *in* THE JOURNAL OF POLITICAL ECONOMY, *February* 1948.

Drones in Italy

"The average real wage in Italy is now higher than that paid prior to the War. . . . The yield of labour has fallen by nearly 50 per cent, and the prohibition of dismissal of factory hands burdens the companies with useless workers ; yield will certainly not improve as long as there is this excess of labour with assured tenure of jobs." —ITALIAN ECONOMIC SURVEY, *January to February* 1948.

Income Tax in U.S.A.

"Organised Labour has supported the view that the net income tax is the most equitable and economic tax as applied to both individuals and corporations. These taxes, together with inheritance taxes, are correctly referred to as taxes which people are fortunate to pay, because they are applied only on the basis of ability to pay." H. CHRISTIAN SONNE, *quoted by* CONFERENCE BOARD BUSINESS RECORD, *February* 1948.

Income Tax in France

"Let us hope that a realistic and courageous Minister will one day realise that the income tax has been the greatest psychological error ever made ; that it has been the cause of the material and moral disintegration of the country, and that its suppression would mark the beginning of recovery."—JEAN CONSTANT, ACTUALITÉ ECONOMIQUE, *February* 1948.

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