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Planning And The Price System

By F. W. PAISH
(*University of London*)

WE have three types of incentive through which the government can operate in order to induce its citizens to act together for the common good: the incentive of the law, backed by the sanction of punishment ; the incentive of the social conscience, backed by the pressure of public opinion ; and the incentive of the market, backed by the pressure of the price system. All three are dependent on the care and vigilance of the government for their successful functioning ; and perhaps the most important single condition for their combined success is that they should all operate in the same direction. What is to the benefit of society (as envisaged by government policy) should be at once legal, supported by public opinion, and the most profitable course open to the individual. Much, perhaps most, of the friction and frustration in the present working of the economic system of this country is due to the fact that, while all three types of incentive continue to operate, they have been allowed to get into a position where they are frequently pulling in opposite directions. Profitable transactions, which before the war would have been both legal and generally regarded as socially desirable, are now often contrary to the law, and those taking part in them may be punished by fine or imprisonment ; while many of those which are still allowed can be carried out only after long and difficult negotiations, often with several separate and imperfectly co-ordinated government departments. The difficulty of carrying official policies into effect in the face of this conflict of incentives is increasing as war-time powers of legal compulsion are abandoned in deference to public opinion. Great efforts are therefore made to increase the moral sanctions, and Ministers of the Crown broadcast appeals to the public not to do the work which offers them the highest remuneration but to undertake that which will render the greatest service to the community. In spite of such appeals, it is to be feared that the moral sanctions, which played so essential a part in achieving victory in war, are in peace weakening under pressure of the conflict of incentives, and that much courage and initiative, faced with the blocking both of its war-time and of its normal peace-time outlets, is either running to waste or is finding for itself channels which are outside the law. If ever the time comes when the incentives both of the market and of public opinion become united against the law, it is to be feared that there may ensue a collapse of the authority of the Government in the economic sphere such as has been seen in so many other countries.

Suppressed Inflation

What is the reason for this self-confessed failure of the Government so to control the price system that it pulls *with* Government policy instead of *against* it ? The main, and probably the only essential reason is the condition of suppressed inflation, which developed in this country during the war, and which still, after nearly two years of peace, shows little or no sign of diminution. The necessity for keeping the potential inflation under control makes it impossible for the Government to allow the price system to be used as an indication of social priorities, since if, at existing prices, the population were allowed to spend their money as they would wish, the volume of demand for many types of goods would be very greatly in excess of the supply available for domestic consumption, after meeting the needs of both the capital construction and export programmes. The plenitude of money is reconciled with the shortage of goods at existing prices only by a whole series of controls over the amount of goods which may be bought and over the prices at which they may be sold. But these controls, in the absence of the power to direct labour, cannot be made effective over the whole economic field, so that there is a tendency for the shortage of those goods which can be effectively controlled to be made permanent. This vicious circle may be illustrated by a simple example, taken from experience abroad: bread is in short supply ; it is therefore rationed and its price is controlled. But the effective control does not extend to the prices of meat and dairy products. It therefore pays farmers better to feed their wheat to animals than to sell it for bread, and the shortage of bread is maintained and intensified.

Price System Falsified

The corresponding process in this country is essentially similar, though more complicated. Because the public gets its necessaries cheaply, it has more money to spare for expenditure on less essential requirements ; also, because prices of non-essentials are less effectively controlled than are those of necessaries, resources, especially labour, can easily be attracted into their production. Thus the price system is falsified into making it appear that the public wants, say, more lamp-shades or football pools rather than more clothes ; although under a free price system clothes might be the more profitable to produce. This kind of economic waste will tend to increase more and more as the flood of surplus money tends to seep round the ends of the price controls which have been erected to keep it in check. There are only two possible remedies. Either the controls must be greatly strengthened and extended, or the price system must be re-converted into a true indicator of the relative urgencies of the country's needs.

To permit the withdrawal of enough of the existing quantitative controls to permit *price* to resume its function as a guide to economic action, it will be necessary to bring the value of goods and services available for sale and the amount of money available for buying them into approximate equality with each other. There are a few people who would rate the loss of output due to the frustration of conflicting incentives so high that they would be prepared to sweep away the controls and trust to the consequent rise in output to restore equilibrium before the initial rise in prices got out of hand. For most people the risk of generating a rising spiral of prices, profits and wages, leading to open inflation, would forbid so bold a course. There is no doubt, however, that such a removal of controls would be possible without generating inflation if it were accompanied by a sufficiently large reduction in the quantity of money and bank deposits in circulation, initiated by a reduction in the assets and liabilities of the Bank of England. But such a policy would result in a rise in interest rates to levels at least comparable with those reached after the war of 1914-18, when the price of Consols fell to 42 ; it would acutely embarrass the Government's financial arrangements ; and it might easily lead to a major financial crisis and severe, if temporary, unemployment. Further, it would almost certainly achieve the desired balance between demand and supply at existing prices only by compelling the postponement of many of the plans which the Government holds necessary for the rehabilitation of the country's productive efficiency.

If this were the only way in which the deadening effect of conflicting incentives could be removed, it would almost certainly be worth paying even this price for the relief. But there is another possible policy which, while unpleasant enough, seems to be far less objectionable. The ultimate purpose of monetary deflation is to prevent a rise in prices by means of a reduction in purchasing power. But it is also possible to act on purchasing power directly—through taxation. If direct taxation could be increased sufficiently to reduce spendable incomes to the level of the value of the goods and services available, the controls could be removed without inflation. But very high levels of extremely progressive direct taxation, which tax the rewards of extra work much more heavily than income as a whole, have a very adverse effect on output, an effect which might go far towards offsetting the benefits of the removal of the controls. There is, however, another way of achieving the same result. If prices, by a reduction of subsidies and the imposition of additional purchase taxes, were allowed to rise to the point where supply and demand were in equilibrium, there would be additional payments by consumers but no additional receipts by producers, and therefore no risk of a cumulative inflation when the controls were removed. The resulting budget surplus would enable the Government to finance most of its own capital construction out of current income, and might even enable it to repay some of its existing debt, thus keeping interest rates low and placing resources for capital reconstruction at the service of private industry.

The immediate effect of such a policy would be that, as more money would be needed to pay for essentials, less would be available to spend on non-essentials. As the demand for the latter fell off, resources would be released for the more essential industries, including those engaged on exports and capital construction. As production in the more essential consumer-goods industries increased, the tax on their products could be progressively reduced to enable the extra output to be taken up, while the increase in general productivity, both as a result of the release of manpower employed—inside and outside Government service—on working the controls, and of the increase in energy and initiative generated in a free system, would in course of time allow the whole level of taxation to be progressively reduced. If at any time it seemed that demand in the system as a whole was falling short of supply, it might be possible for the Government to check the threatened decline in activity simply by reducing taxation and the size of its budget surplus ; it is indeed possible to imagine a system kept in equilibrium not by alternating budget surpluses and deficits, but by varying the size of a continuing budget surplus.

No Balance of Payments Problem ?

Such a policy would go far towards solving, not merely our internal problems, but also our pressing current anxiety about our adverse balance of international payments. Even though few consumption goods now being imported fall into the non-essential class, it is inevitable that some imported raw materials should, directly or indirectly, be going into less essential uses, and the reduced demand for non-essentials would therefore have some effect on imports. Probably a more important result would be the reduced demand for the home market's share of the products of certain export industries, and the release of resources from less essential production for re-employment on exports. Thus it would be both possible and relatively more profitable for exports to be expanded. It would probably not be going too far to say that our balance of payments problem is in no small degree a by-product of our internal inflation, and would largely disappear with it.

It should be emphasised that such a policy of reductions in subsidies, increased indirect taxation, and budget surpluses would do nothing to increase the absolute scarcities in this country—rather would it, in course of time, very greatly help to relieve them. The only logical objection to it is that it would tend to redistribute real income in favour of those who have at present a large margin of unspent income, or, more probably, of capital they are prepared to spend. It is certainly true that, to the section of the community which even at subsidised prices can afford only the bare necessities of life, a rise in the price of necessaries, even if only temporary, would mean very real hardship. It is hardly likely, however, that this section is very large, for most wages have risen since before the war by a good deal more than the cost of living. It would therefore be possible to add to the money incomes of the poorest class sufficient to maintain their standard of living at its existing level at a cost to the Exchequer of only a fraction of the saving in subsidies and the yield of the new taxes. An extension of the present children's allowance to the first child (together perhaps with temporary increases in the general level of the children's allowance, and of old age and some other pensions) might be a suitable way of augmenting the incomes of those who would feel the rise in prices of necessaries most severely.

Value of a Capital Tax

At the other end of the scale, the fact that the increased purchase taxes would be progressively reduced, and that prices could therefore be expected to fall after the initial rise, might deter people from spending capital, at any rate on durable goods. It must also be borne in mind that the Government, rendered largely independent of the capital market by its budget surplus, might be prepared to see some fall in the prices of securities if the owners attempted to sell them on any substantial scale in order to consume the proceeds. Such a fall in values would probably constitute a considerable deterrent to capital consumption, for it is one thing to spend the proceeds of capital appreciation while interest rates are falling, and quite another to force sales of securities on a falling market in order to spend more of an already dwindling capital value. There remains to be considered the possibility of some form of capital tax as a deterrent. Such a tax would be difficult to devise so that it would achieve its object of discouraging capital consumption while being equitable in its operation. But if some such measure were the political price to be paid for restoring the price system to its rightful position as the principal mechanism for bringing private interest into conformity with public good, it would be a price which even to those most affected by it would be very well worth paying.

If the foregoing analysis has any validity, it would appear that the popular antithesis between planning and the absence of planning is essentially unreal. The true choice is not between plan and no plan, but between planning through the price system and planning against it. It is contended that a continuation of the present system of reciprocally conflicting incentives is necessarily wasteful of effort and destructive of initiative ; and that only by making the effort necessary to overcome the difficulties which hinder us from bringing the price system back into conformity both with the law and with the social conscience, can the country be saved from frustration, poverty and perhaps disaster.—Extract from *Westminster Bank Review*, August, 1947.

Case For A Forced Loan

By Professor J. R. HICKS,

(Fellow of Nuffield College, Oxford)

WHILE we are at present using our taxation system to restrict spending out of income, we are leaving spending out of capital (both by persons and by businesses) unrestricted except by quantitative controls. What we seem to need is a more effective way of controlling expenditure out of capital.

There are well-known ways of controlling expenditure out of capital, but before we consider these ways, it is worth observing that quite a considerable amount of help would be got from the mere realization that capital expenditure is a thing which, in present circumstances, we can only afford to undertake to a limited extent. One of our difficulties is that we have got into a state of mind which looks upon a major reconstruction of British industry as one of our most urgent obligations. But, as things are, major reconstruction is not a thing which we can possibly afford. If we try to undertake it, we shall merely experience recurrent breakdowns of the kind we experienced in the coal crisis of this spring.

Re-equipment with more normal supplies of materials, goods in process and some urgently needed sorts of fixed capital is, of course, quite another matter. That is a first priority in reconstruction, because we cannot for long maintain even our existing productivity without it. But our productive system has to be got into a fit state to undertake a great constructional programme before it is wise to undertake such a programme. And there is much to be done before we reach such a state.

Thus without introducing any special measures for restricting capital expenditure, much might be gained if government were more discriminating in the blessing which it gave to such expenditure. But, once again, such discrimination may not be enough ; it may therefore be useful if we examine the remaining possibilities.

Case for a Capital Levy

Expenditure out of capital can only be brought under general control if there is control over the funds out of which such expenditure is made. The traditional method of control would have been credit restriction ; but that, in its old form, seems nowadays to be ruled out. However justifiable it may be to argue that it is the practice of quite unrestricted credit (operating through the maintenance of the market for government securities) which has brought us to our present pass, a simple reversal of the engines in this direction cannot be looked for. With our present national debt, the budgetary repercussions of a simple rise in interest rates would set the Chancellor too hard a problem for him to face it. And the association of the credit restrictions of the past with the slumps and the unemployment of the past has given the method too bad an odour.

In view of the association between credit restriction and the reactionism of what the Chancellor calls "financial Bourbons", it is curious that the most obvious alternative to credit restriction is a measure which would be likely to find favour at the opposite political extreme. It is the capital levy. Some years ago (in 1940) I had occasion to examine the case for a capital levy as a means of dealing with war debt, (see 'the Taxation of War Wealth', by J. R. Hicks, U.K. Hicks and L. Rostas), and I concluded that the case for a levy would be less strong after this war than it was in 1920. On strictly fiscal grounds, I think this still holds. There would not be much in it from the point of view of the Exchequer, when all offsetting losses have been allowed for. But I granted then that conditions might come in which there would be a strong case for a levy as an anti-inflationary measure, and these conditions seem now to have arrived. There is a strong case for a capital levy, stronger perhaps than could have been foreseen seven years ago. For a capital levy would be a more useful measure against suppressed inflation, of the kind we are now experiencing, than it was against the overt inflation experienced by continental countries in the 1920's. The drawback to a capital levy, in the latter case, was the extreme difficulty of prompt collection. By deferring payment, the capitalist was able to avoid the greater part of his real burden. That difficulty would be greatly diminished in our present situation.

Low Rates of Interest May Be Desirable

In the first place, with our present institutions there would be no need to apply the weapon of credit restriction in the old blind way. It is highly probable that a time will come, may be not so far in the future, when low rates of interest will be desirable, not only from the narrow point of view of the Budget, but also from that of industry and the national economy as a whole. The fact that higher rates would, for the moment, have their advantages, does not mean that a permanent abandonment of the cheap money policy ought to be envisaged. One is therefore led to ask whether it would not be possible for the Government to announce its continued adherence to cheap money as a long-term objective, while abandoning it in the short run. What would be involved would be an abandonment of the present policy of supporting the prices of Government securities, combined with an assurance that the support would be resumed at some future date, this date being defined at least in broad terms—say not more than seven years ahead and possibly as soon as three years ahead. Such an assurance, if means could be found which would give confidence in its execution, would of course itself tend to support the prices of long-term and medium-term securities ; nevertheless if the current support were withdrawn a drop in security prices could be expected to follow. The funds at present available for spending on capital account would thereby be reduced; and a larger proportion of capital expenditure would come to be financed by the banks, by whom it can be more discriminatingly controlled.

Since what we need is a temporary check to the pressure of demand, and what we want to avoid is a permanent deficiency, a measure which concentrates on the immediate situation while taking steps to prevent the immediate effects being unduly prolonged, seems to be exactly what is needed. But even a temporary rise in interest rates would have severe budgetary repercussions (especially in view of the "unfunding" which has been so characteristic of Mr. Dalton's finance) ; it is therefore useful to notice that the same principle applies in the case of the alternative measure, the capital levy. That, even more than a credit restriction of the old type, has effects which go beyond the current situation with which an anti-inflationary levy would seek to deal. Much the same immediate effect, but much milder long-run effects, could be secured if the "levy" took the form of a compulsory loan to the Government, assessed more or less as a levy would be assessed, but due to be repaid after the lapse of a few years. It would, of course, be essential that the certificates, given in exchange for such a contribution, should be non-transferable, so that they would not be available for expenditure. (This is the kind of plan which has been put forward by Mr. Hawtrey). It would be important, if a forced loan of this sort were to have its due effect in checking inflationary spending, that it should be assessed upon the reserves of businesses as well as upon the assets of private persons. For this purpose, the capital levy type of assessment might not be very appropriate ; the sort of thing which is needed is that the refundable portion of the excess profits tax, which has in fact been refunded much too speedily, should be reimpounded. A retrospective assessment on profits might be the best available instrument for the purpose.

If we allow our thoughts to move in these directions, of a temporary rise in interest rates and of a temporary forced loan, we come from the two extremes into territory where the two approaches are not very far apart. Indeed, some combination of such measures might well prove to be the most flexible instrument within reach for securing a sufficient check to the present inflationary pressure without going too far.

One more thing needs to be said. There can be little doubt that one of the main grounds for the present reluctance to adopt any measure, however moderated, which is directed towards dealing with our monetary troubles at their source, is the recollection of what happened in 1920. Everyone remembers how the boom after the last War was brought to an end amid a violent restriction of credit. The precise sequence of cause and effect is still a matter for argument, but whether or not the credit restriction caused the slump, there can be no doubt that it did much to worsen the slump and probably did much to prolong it. Everyone is rightly determined that nothing of that sort shall be allowed to happen again. But the case for anti-inflationary measures to-day does not imply that we should go back to treading in those old tracks. The situation to-day is more radically different from that of 1920 than is commonly supposed. It is certain that in 1920 the restriction of credit was not the only cause of the slump ; there were two other powerful factors making for depression, and these other factors are to-day wholly absent. One was the fact that in the First World War the world's main sources of raw materials (in the Far East, for instance) were undamaged ; the building up of normal stocks began from the very moment of the armistice, and the first phase of reconstruction would in any case have been well advanced by the middle of 1920. To-day we are obviously much further back. Perhaps the most striking contrast is to be found in the volume of British imports, which in 1919 was more than 90 per cent. of pre-war, while in 1946 it was less than 70 per cent. of pre-war. No one can possibly maintain to-day that the restocking phase is completed, as Professor Pigou (Aspects of British Economic History, 1918-25, pp. 184 ff) holds it to have been completed by the summer of 1920. The other profound difference concerns the relation between wage-rates and the objectives of monetary policy. People in 1920 were still thinking of a return to the pre-war price level, and at that price-level the costs established by war and post-war inflation were clearly insufferable. To-day it would seem safe to say there are no such expectations ; the rise in wages has been considerably more moderate, and in any case it is not felt to be a burden to the same extent. In view of the absence of these powerful deflationary influences, which must have contributed very largely to the slump of 1920, it seems safe to say that deflation of the 1920 type is not now an urgent danger, at least in the near future.

Our position to-day (and the character of our balance of payments problem bears this out) is much more like that of the Continental ex-belligerents in 1920 than it is like our own position in 1920. We are not in danger of an inflation like the Continental inflations (our controls can see to that) but we are in danger of a failure to make a real recovery, in real production and real standard of living. That is what is liable to come to us if we persist in a policy of suppressed inflation and concealed unemployment.—From *Lloyds Bank Review*, July, 1947.

Changes In Consumption By British People

By W. MANNING DACEY

TABLE I

BY VOLUME, EXPENDITURE RE-VALUED AT 1938 PRICES (1938=100)

	1944 % of 1938	1945 % of 1938	1946 % of 1938
GROUP I: DECREASES—			
Food	89	89	98
Household goods:			
Durable	26	35	63
Other	74	74	80
Clothing	62	63	74
Motoring	6	20	56
"Other goods"	64	68	86
"Other services"	71	76	88
	71	73	86
Income in kind of Armed Forces	(894)	(912)	(477)
Whole group	76	78	89
GROUP II: INCREASES—			
Alcohol	109	113	112
Tobacco	116	128	133
Rent, rates, etc.	102	104	105
Fuel and light	97	101	110
Books, newspapers, etc.	114	120	138
Travel	116	131	141
Postal, etc., services	145	138	145
Entertainments	137	145	159
Whole group	109	114	119

TABLE II

EXPENDITURE AT CURRENT MARKET PRICES

	1938 £mn.	1944 £mn.	1945 £mn.	1946 £mn.
GROUP I (DECREASES IN VOLUME)—				
Food	1,258	1,473	1,482	1,650
Household goods:				
Durable	234	127	172	301
Other	54	55	56	60
Clothing	446	494	517	611
Motoring	127	11	37	121
"Other goods"	177	201	228	304
"Other services"	481	441	496	608
	2,777	2,802	2,988	3,655
Income in kind of Armed Forces	17	199	204	109
Whole group	2,794	3,001	3,192	3,764
GROUP II (INCREASES IN VOLUME)—				
Alcohol	285	664	688	680
Tobacco	177	506	562	603
Rent, rates, etc.	491	515	526	538
Fuel and light	195	252	266	289
Books, newspapers, etc.	64	85	91	104
Travel	160	211	239	263
Postal, etc., services	29	54	52	54
Entertainments	64	146	158	179
Whole group	1,465	2,433	2,582	2,710

—*From LLOYDS BANK REVIEW, July*, 1947.

Cheap Money

By R. G. HAWTREY, *C.B.*

(*President Royal Economic Society*)

THE cheap money policy has not yet been really tested. An essential support of it is the limitation of capital outlay, but, though the controls of capital outlay exist, it is no one's business to *measure* the amount of capital outlay to be permitted or to compare it with the available resources. It may be argued that the investment market itself, by continuing to quote prices giving a low rate of interest, shows that the restriction is sufficient. And that would be so, if the resources of the market were confined to current savings. But the resources of the market have been supplemented by a creation of bank credit sufficient to meet the needs of Government borrowing on the top of those of private enterprise.

Banks created money. So reinforced, the resources of the investment market constitute a sufficient demand for investment to balance the capital raised for all purposes, without causing a set-back in the prices of securities.

This, of course, is the mechanism of inflation, and, if the consequences of inflation were given free play, the cheap money policy would soon break down. Distrust of the currency would show itself in an unwillingness to take fixed interest investments, which depend for their value on the future value of the money unit in which their yield is reckoned. Distrust of the currency was the explanation of the fall of Consols to 44 and of 5 per cent. War Loan to 76 in 1920.

To keep inflation in check, we rely once more on controls. Price controls are supplemented by subsidies to keep down the cost of living. Government expenditure, along with permitted capital outlay, is continually generating additional incomes, but the additional incomes are prevented from being spent, because the outlets for expenditure on consumption are limited through the controls of supplies and prices. Even if people do distrust money, they cannot get rid of it ; they are compelled to hold it, and they may as well get some yield as none. So they buy securities at the Government's own price.

The war left the country with an accumulation of redundant money, which is still being added to. The latent spending power or potential inflation is growing, and the pressure to be met by the controls is increasing. Under that pressure price control becomes more and more precarious.

No Inducement to British Investors

And the cheap money policy depends not only on austerity and price control at home, but on foreign exchange control, which prevents money from being invested abroad. The cheap money policy has hitherto been successfully followed in the United States, and there has been no inducement to British investors to evade the exchange control in order to seek a higher yield there.

But the control of prices in the United States has been abandoned. What will be the effect on the cheap money policy there? The arrears of capital outlay in the United States cannot but be immense. Even before the war, under conditions of depression, arrears of capital outlay were accumulating. The war effort absorbed savings, and left little for the needs of private enterprise. Some of the capital expenditure then incurred was no doubt on plant which is capable of profitable use in peace time, but that only covers a small fraction of the total needs.

When the normal process of replacement, improvement and extension of capital equipment has been suspended for years, there is bound to be an accumulation of projects awaiting funds. And these projects will offer the prospect of highly profitable outlays. On one side will be renewals and replacements, the neglect of which is involving heavy costs of maintenance ; on the other will be technological improvements, promising a big saving of costs, which would long ago have been installed had funds been forthcoming. The selection of the most urgent and most profitable openings would afford the investor a yield much above what can normally be expected.

The cheap money policy depends on a limitation of the demands for the raising of capital from the investment market, but the limitation does not affect the rate of yield offered on new flotations. If the need for capital is such that that yield is high, there results a wide disparity between the terms on which existing securities can be acquired in the market, and those offered by new flotations.

When controls are withdrawn, the free working of the market removes the disparity by reducing the prices of existing securities. If this happens in the United States, and it becomes possible to obtain a much more attractive yield on investment in America than in Great Britain, can exchange control prevent investors and speculators from taking advantage of it ? The British exchange control has worked well hitherto, but it has never had to stand a strain of that kind.

Will The Cheap Money Policy Break Down?

Are we to conclude that the cheap money policy is bound to break down ? There are, I think arguments on the other side. In both Great Britain and the United States war-time inflation has left behind a vast accumulation of redundant money, representing the enforced savings which have accrued under the system of controls. Against the demands for the raising of capital must be set this great supply of savings. However urgent the need for capital outlay may be, so long as the requisite funds can be made available without the selling out of existing securities, there is no reason why the prices quoted in the market for existing securities should be depressed. There is a wide disparity between the yield expected from new projects and that obtainable from existing securities, but there is no pressure upon the market to correct it.

Controls are relied on for, among other things, a direct limitation of capital outlay by licensing and the allocation of materials. But the capacity of the industries producing capital equipment itself imposes a limit. Their capacity can be increased, but not all in a moment, and it is only by drawing further on the productive power of the same industries that the increase in capacity can be effected. Nor will industrialists increase capacity in full proportion to a demand which they do not expect to last.

May not the United States or Great Britain continue for years feeding the limited capacity of the capital-producing industries from the accumulation of loose money without ever causing pressure in the investment market ? Matters *might* work out so. But that would mean that the pressure is transferred from the investment market to the capital-producing industries, and, though they cannot increase their capacity except in the course of time, they can, in the absence of controls, raise their prices. In America that condition is fulfilled, and the rise of prices is in progress.

A rise in the cost of capital equipment will be a deterrent on capital enterprise, *provided* the rise is believed to be temporary. But if the rise is believed to be permanent, nothing is to be gained by postponement ; if the rise presages a further rise, postponement is actually disadvantageous.

The rise of costs, being, as we have supposed, due to the release of money from balances previously idle, is only too likely to be regarded as symptomatic of inflation, and to set up a vicious circle of rising prices and wages and an increasing flow of money. The process would only stop through wages and prices growing up to the supply of money, so that the supply of money is no longer more than sufficient to provide normal working balances. The cushion of available money protecting the investment market from the pressure of the demand for capital will then have disappeared ; existing securities will have to meet the full blast of competition from the high yield of new flotations. And even before that stage is reached, fixed interest securities are likely to suffer from the fear of the further progress of inflation.

In Great Britain we are relying upon price control to prevent inflation, and price control applies to capital equipment as well as to consumable goods ; the limitation of the expenditure on capital outlay is one part of the limitation of expenditure in general. But if a free and active investment market in New York were to offer high yields and lucrative speculations, the other branch of our controls, that of the foreign exchanges, would become very precarious.

What if cheap money breaks down, or has to be abandoned ? Where would be the loss ? One very grave result would be the effect on the budget. Only a fraction of the country's vast debt is funded, in the sense of having no obligatory date of repayment. Much the greater part consists either of bonds or stocks of maturities spread over the next twenty years or so, or of floating debt, and it is the very low interest rates on these two categories that account for the very low total annual charge, £525 million on a debt of £25,000 million. If maturing debt had to be renewed, floating debt funded, and new debt incurred at much higher rates of interest, the debt charge would rise steadily, and eventually hundreds of millions would be added to a budget which is already a very serious problem. But this trouble ought not to be exaggerated. Except for the floating debt the increase would be gradual. By the time some maturities were reached, the investment market might have got back to normal. Of the apparently gigantic floating debt quite a considerable portion might be the subject of special bargains with the holders.

Strain on the Budget

The strain on the budget would undoubtedly be serious. On the other hand the idea that cheap money favours reconstruction is a misconception. It would only do so if projectors of capital enterprises were free to take advantage of it. So long as the policy depends on a *restriction* of capital outlay, that is not so. Indeed it is likely that controls have a more retarding effect than a high rate produced by the free play of the investment market.

If the cheap money policy could be relied on to last, to last, that is, till the post-war hunger for capital is satiated, there would be much to be said for it ; the relief to the budget is anyhow an important gain. The real objections to it are : in the first place, that it involves controls which might otherwise be moderated and sooner dispensed with ; secondly, that the controls are precarious, and, if the policy breaks down, serious dislocation and hardship will result.

The prices of shares have been adjusted to those of Government securities. A sudden big rise in the interest yielded by the latter would be immediately reflected in a fall of prices of the former. Investors have to trust to the market to tell them the fair prices of the securities which they hold or buy or sell. If the range of prices established by the cheap money policy is destined *to last*, the prices may be regarded as fair. But if the policy breaks down and the investor who paid 40 years' purchase for an income finds that after all it is only worth 25 years' purchase, his complaint that he has been swindled will be no less justifiable than that of him who, having counted on borrowing at 3 per cent., finds that he must pay 5 per cent.

(*continued on page* 28)

Canada's Dollar Crisis

By Saskatoon Correspondent, MANCHESTER GUARDIAN, August 22, 1947

THE fact that Canada, too, is a victim of the world shortage of dollars is not as well understood as it might be if Canada had some other unit of currency than the dollar. It is not always easy to differentiate between the Canadian dollar and the American dollar, but they are two different currencies. Not only is Canada's export trade vitally affected by the growing gap between the American dollar and sterling, but a serious gap exists between the Canadian dollar and the American dollar. The Canadian trade deficit in American dollars has risen sharply in 1947, and the problem of dollar exchange has rapidly come to the forefront in economic policy. The deficit by months has been: January \$56,000,000; February \$67,000,500, March \$80,600,000, April \$92,200,000, May \$120,700,000 and June \$170,000,000. This cannot go on; the balance of more than \$1,500,000,000 with which Canada ended the war is vanishing rapidly. That is why in Ottawa to-day there is talk of a new Hyde Park agreement, like the war-time measure by which American purchases in Canada were arbitrarily increased to protect the exchange relationship.

But the widening gap between the Canadian dollar and the pound sterling is not so easily overcome. "The maintenance of our exports to the United Kingdom," said a Bank of Canada announcement recently, "is of crucial importance to us, not only on account of their absolute magnitude, but also because the United Kingdom takes so high a proportion of the particular commodities concerned." Before the war the British market absorbed 50 per cent. or more of Canada's exports of wheat and flour, non-ferrous metal and lumber, and 90 per cent. of Canadian exports of meat. Canadian goods formed only 8 per cent. of British imports in 1938, but British reliance on Canadian supplies increased greatly in the special circumstances of the war; Canada furnished 17 per cent. of British imports in 1944.

Internal Adjustments in Canada

Any considerable shrinkage of the British market, even temporarily, would involve painful internal adjustments in Canada. Official calculations of export trade required to maintain a high level of employment in Canada have placed the target at \$1,750,000,000 annually. In 1946 exports amounted to \$2,312,215,000, of which over a quarter went to Britain. Canada's export trade is now heavily financed by credits, such as the loan of \$1,250,000,000 to Britain. While the value of Canadian imports from Britain is higher than before the war it is much less than the value of Canada's exports to Britain, and it is plainly recognised here that a balance in bilateral commerce between the two countries is impossible. In 1946 Canada took British imports valued at \$201,000,000, leaving a gap of \$396,000,000.

In the past multilateral trade has meant for Canada mainly a triangular relationship in which a deficit incurred in trading with the United States has been settled by a balance earned in trading with Britain. It is to preserve this relationship that a proportion of the proceeds of the American loan, as Mr. Dalton mentioned recently, has been used by Britain to settle the deficit incurred in British trade with Canada. The exhaustion of the American loan, therefore, directly affects Canadian trade. It also enlists Canadian support immediately for remedial measures, whatever line is taken in seeking solutions.

Cinema-Going Habits

Revelations in Social Service Report

IT was noted that the frequency of cinema attendance varied markedly with age, the older people going to the cinema much less frequently than the younger people. Of the adult population, 32 per cent. go to the cinema once a week or more, 13 per cent. going more than once a week. Of the children of school age (five years plus), 65 per cent. go to the cinema once a week or more and only 5 per cent. do not go at all. These figures, and those which follow (as noted earlier) apply to the season of the year in which the field work was carried out. The tabulation by age of the October 1946 sample (random) is shown below.

The following is a table showing the answers to the question " How often do you go to the cinema at this time of year ?" tabulated by age.

Frequency of Attendance	Age					
	16-19	20-29	30-39	40-49	50-59	60*
			Percentage			
Once a week or more ..	69	57	35	28	22	11
Less than once a week ..	28	34	46	52	43	28
Not now or never	2	9	19	20	35	61
Sample ..	116	537	695	685	508	596*

* Based on random sample figures

Women are slightly more inclined to cinema attendance than men. Of the total adult cinema audience, 37 per cent. is composed of young people of the ages of 16-29 years of age. This age group accounts for 24 per cent. of the total adult population.

The cinema attracts large proportions of all economic levels. The higher paid sections of the "working class" go rather more frequently than others. Relatively high proportions of factory workers and clerical and distributive workers (approximately 40 per cent.) go to the cinema once a week or more. Professional and managerial grades not only go less frequently as a class, but also are less habitual in their attendance, tending more to select the films they want to see. The table below shows the distribution of different occupational categories in the general population (estimated from a random sample of 3,000 individuals) compared with the "generalized cinema audience."

Occupational Category	General Population Per cent.	Cinema Audience Per cent.
Factory operative	11	14
Other manual workers	22	23
Clerical and distributive	11	14
Professional and managerial	6	5
Housewives	41	38
Retired and unoccupied	9	6

The retired and unoccupied are under-represented in the cinema audience. This may be due to the higher mean age of this group and also to the fact that although they have more time to go they may have less money available for pleasure.

Of cinema-goers, that is those who go to the cinema at least once a month, 70 per cent. go regularly. About one-third of these people generally visit the same cinema whatever the film being shown, whilst two-thirds choose from the cinemas in the district the cinema showing the film they think they would like to see.

In the March survey all informants who went to the cinema once a month or more frequently were asked questions about their habits of attendance. The results of this inquiry are tabled below:

	Percentage of Cinema-goers
Generally go to the *same* cinema regularly whatever the film..	23
Go regularly, choosing from cinemas available the one with the "best" film	48
Generally go to the same cinema, but only when they think they will like the film	10
Only go to a cinema when there is a film they particularly want to see	19
	——100 per cent.
Sample (those who go to a cinema once a month or more on average)	1,206

The average price paid for cinema seats by adults was 1s. 9d., and it is estimated that the annual expenditure of the civilian population (on the basis of this survey) at the cinema is something over £100,000,000 per year. The prices said to be normally paid for seats by adults are summarized in grouped frequency intervals below.

Normal price paid for cinema seat	*Percentage of Adults*
6d.—1s. 5d.	27
1s. 6d.—2s. 2d.	43
2s. 3d.—2s. 9d.	30
2s. 10d. or more	3
Sample	1,463

It appears that adolescence is the peak age for cinema-going and that boys and girls go with equal frequency. Children in the lower and middle income groups go to the cinema about the same amount, but those of the higher income group go much less frequently. There is also a considerable difference between the cinema-going habits of town and country children.

Only about half the mothers of children of school age or under whose children go to the cinema say they know what films the children will see before letting them go. Parents of the higher income groups are more aware of the films their children will see. The attendance of children at the cinema is tabulated by age and economic group, etc., in the report. A condensed table showing regularity of attendance by age is given below:

Attendance at Cinema	Children's Age 0-4	5-9	10 and over	All Adults 16 and over
	Percentage			
Once a week or more	13	49	65	32
Less regularly	9	27	31	41
Do not go now: never	77	24	5	27
Sample	231	248	265*	3137†

* Based on March sample. † Random sample figures

Copies of this report are available on application to The Director, The Social Survey, 39/41, Nottingham Place, London, W.1. (Price 2s. 6d.).

(*From BOARD OF TRADE JOURNAL*, September 20, 1947)

Wages and Prices

By **JULES BACKMAN,**
Associate Professor of Economics, New York University.

(1) LABOUR payments account for about two-thirds of the national income, although direct labour costs are usually less than one-third of the sales dollar.

The reason for the differences between the proportion of labour content in the national income and in the sales dollar is easily explained. In the case of cotton goods, for instance, "the ultimate cost of cotton textiles to the consumer incorporates all labour expenditures from the growing of raw cotton to the marketing of the finished product. For practically all goods, these labour costs are the chief element in the final selling prices. But, for a single enterprise or commodity, of course, the larger the cost of materials and of the labour to make them prior to the time the enterprise begins working on them, the lower will be the proportion of direct labour cost to the selling price of the finished article."

(2) Indirect wage costs must be considered in evaluating the impact of general wage increases. "A wage increase applied to a single industry or a single firm in an industry may have very different results from a general rise in wages in all industries. For a single firm or one industry, costs may be raised only by the increase granted in that firm or industry. Thus, if the wage bill of an industry is 25 per cent. of its selling price, a 10 per cent. increase in wages would mean an increase of only 2.5 per cent. in costs. But when wages are increased throughout all industry, the effect upon costs is much greater. In that case, costs of materials and transportation will also increase. The rise in prices of one item after another, which may accompany a general rise in wages, will increase costs for industries using those products."

Increases in wages which are general in nature therefore have a greater effect upon costs and possibly upon prices than increases which are confined to individual firms or industries. General wage increases cause higher prices or reduce employment or both in the absence of corresponding increases in productivity.

The White Collar Workers

(3) In America the cost-of-living index rose by 33 per cent. during the war and by 14.7 per cent. in the first year of the peace. Hourly earnings increased by 78 per cent. between 1939 and 1946 and average weekly earnings by 89 per cent. But non-manufacturing workers, "the white collars", fell behind in the wage race, in part because the demand for their services has not expanded proportionately with that for factory workers, in part because of the traditional rigidity of their salaries, their relative lack of union organisation and other causes.

Since the rise in the cost of living was less rapid than the rise in weekly wages, real weekly earnings increased by 28 per cent. in the period between 1939-1946 and were about double the level prevailing in 1914.

(4) Productivity per man hour or per worker increased at a lesser rate than 2 per cent. per annum since the turn of the century, but the rate of change varied widely between industries.

Gains in productivity were not chiefly due to increases in the efficiency of the worker. They were due to the increase and improvement in the tools of production with which enterprisers equipped the workers. In many instances, it would be more accurate to ascribe increases in output per man hour to the productivity of capital and management than to the productivity of labour.

The tool power provided to American workers rose from 10 million horse-power in 1899 to over 50 million in 1939. "Thus the rising tide of productivity finds its origin in the contributions made by inventors, investors, factory workers, the service industries, construction, road building and transportation. In fact, our nation's economic growth is the end product of all of the factors of production."

(5) The benefits of improved productivity have been diffused among workers, consumers and investors. "To-day America's ability to raise wages without increasing prices and living costs depends on increasing productivity in civilian industries. *We start now with a deficit to make up. These industries are four years behind their normal productivity increase.* Many plants need new tools and machinery : many have not yet completed reconversion from war work. . . . Every effort must now be exerted to make up this deficit and swing our industries back to their normal progress which can raise real wages and living standards."

(6) "Workers gain when more goods are produced at lower cost. They gain in two ways (1) through increased demand for their labour (more jobs at higher wages) and (2) through decreased prices, increased quantities, and improved qualities of the goods they buy as consumers". . . . When increases in productivity are reflected in price reductions, all groups in the community benefit. When they are used to raise wages, only the affected workers benefit. When no changes are made in wages or prices, all of the benefits accrue to capital in the form of larger profits. In order to obtain the contributions of capital, technological advances and the services of non-industrial producers, all should share in the gains. They do so share when competition among producers distributes the gains in lower prices to the consumers."

Labour's Command over Goods and Services

In the main there is ample evidence that over a period of time gains in productivity have led to gains in labour's command over goods and services. The American Federation of Labour in a survey covering the period 1911-1939 concluded, "With 14½ hours more leisure per week and $450 more to spend per year, workers had better homes, better health, more time for their families, and greater home comforts, including autos, radios, home appliances, furniture, etc. . . . Living standards do not rise by magic formula. *They can rise only when workers produce more per hour and per year of work.*"

(7) Rising wages and low productivity mean higher unit labour costs. Wages increases unrelated to changes in productivity may adversely affect employment. Increases in real wages depend upon increases in productivity. "The ultimate source of an improvement in the level of living is greater production, and this in turn is dependent in large measure on greater productivity. Make-work practices, barriers to the introduction of new inventions, and other devices designed to spread the available volume of work among more workers, rather than to produce as much as possible, can only act as barriers to the rise in levels of living."

(8) Dividends, profits, interest payments and rents, as well as all wages and salaries, represent purchasing power. The American national income in 1945 was distributed, as follows :—

	Per cent.
Salaries and wages	71.1
Dividends	2.8
Interest, net rents, royalties	7.4
Entrepreneurial income	15.9
Corporate savings	2.8
Total National Income	100.0

(9) Higher wages do not raise total effective demand unless they are based on greater productivity. There is no evidence that wage increases alone will bring about or maintain prosperity. A rise in wages increases labour costs as well as labour incomes. "A rise in prices to maintain profit margins means that those persons who have not had an increase in income, but who must pay the higher price cannot buy so much as before. Their effective purchasing power is reduced. The net result is to transfer part of the share of goods and services formerly received by this group to those who received the wage increase. In other words, a re-distribution of income takes place. Fewer sales mean fewer job opportunities. Hence the weekly earnings of those who have received the wage increase may be directly reduced by a falling off in sales.

(10) Real purchasing power depends on production. "Over-emphasis on money incomes, in contrast to real goods and services, is sometimes described as the 'money veil.' Its error comes from failure to see that real purchasing power can only be created out of production. More money without more goods does not make possible a larger total consumption of goods."

(11) A survey of opinion among average workers revealed the fact that most of them believed that manufacturers made profits of about 25 per cent. in peace-time. In fact, long-term profits averaged only 3.2 per cent. of sales. Industry-wide profits are no criterion of any company's "ability to pay wages."

No Common Wage Standard

The "ability to pay" theory is analysed in the companion publication mentioned below. The author, Mr. Fairchild, arrives at the conclusion that, granting that firms making high profits can afford to pay higher wages, it does not follow that other firms in the same industry, which may be making lower profits or no profits, will be in a position to pay the same wages. If forced to do so they may be driven out of business, and their workers thus thrown out of employment.

(12) Balanced Wage-Price-Profit relationships, not absolute levels, determine the most effective allocation of resources. "The best prices are not the highest prices, but the prices that stimulate the largest volume of production and lead to the largest volume of sales. The best wages are not the highest wages, but the wages that lead to full employment and the largest possible payrolls. The best profits are not the lowest profits, but the profits that encourage the most persons to become employers and to provide jobs. Prices, wages and profits must be thought of together. Only when we have achieved the best balance among them can the economy function at its fullest. If we try to *force* one of these elements out of relationship to the others, we must reduce production and hurt everybody and sometimes most of all the very groups we are most eager to help."

(The above is a summary of the conclusions reached by the author in a discussion of **Wages and Prices** *published by The Foundation for Economic Education, Irvington on Hudson, New York. This publication was preceded by a study of* **Profits and the Ability to Pay Wages,** *by Fred Rogers Fairchild, now Professor of Economics Emeritus, Yale University).*

Rebuilding Europe's Fat Supplies

By GEOFFREY HEYWORTH

(Chairman of Lever Brothers and Unilever Ltd.)

APART altogether from the war there are other causes which in varying degree contribute towards the shortage of oils and fats.

First there is the tendency for producing countries to consume a greater part of their own production.

A second factor is the increase in the habit of drinking milk. This is chiefly noticeable in the United States and Great Britain.

Thirdly, there has been a serious decline in production of oils and fats in Western Europe. Here it was mainly in the form of butter and other animal fats such as lard. The shortage of animal feeding stuffs and the likelihood that improvement will be slow means that it will be a long time before the European production of butter and lard can be brought up to the pre-war level.

Finally, by the International Agreement on Whaling, a season's catch is restricted to a level—which during the 1946-47 season produced 320,000 tons of whale oil—whereas a pre-war season's production was 500,000 tons.

In all I estimate that the 1947 world production of oils and fats is about 2½ million tons per annum below the pre-war figure. If one takes into account the fact that the population of the world must have increased by about 8 per cent. sinc 1939, which would mean an additional requirement of 1½ million tons per annum, the total deficit compared with pre-war quantities amounts to about four million tons. With Europe in its present condition it is doubtful whether it could afford to purchase its share even if it were available.

The reaction of Governments in most countries of Western Europe has been to seek to prevent the situation from getting out of hand by the imposition of controls, which has had the effect of excluding from operation the normal machinery of business, and establishing a price level which is unreal. It is said that if Governments would abandon their controls and leave the business to those who are experienced in it, there would be greater supplies and prices would more quickly get back to normal. I believe this to be true as a general proposition, although I do not think it is yet expedient in the case of oils and fats.

Recent Events in the United States

In this connection it is interesting to study recent events in the United States.

During the period of wartime control the United States tallow prices, for example, were £55 per ton, compared with a price of £150 in the Argentine.

If we now look at what happened after the removal of controls the contrast will be interesting. During the early part of 1946 a demand arose in the United States for release from all controls, and with this as a possibility sellers began to hold back, resulting in artificial shortages of various agricultural products. It was probably this shortage that forced the hands of the Administration, but for whatever reason control over the prices of oils and fats in the United States was abandoned in October, 1946, whereupon prices rose continuously until the peak in about March-April, 1947.

By March, 1947, the comparison of prices was, as follows :—Tallow in the United States £148 per ton and in the Argentine £200 per ton. Then in May, 1947, prices began to fall in the United States, but not in the Argentine, and as a result there is now a disparity in the price levels which has never been experienced before. Tallow in the United States is back again to about £70 per ton, against over £210 per ton in the Argentine. During this period the prices of lard, cotton and related oils followed a similar pattern.

Now this lower price level in the United States to-day is the result of private bargaining between numerous sellers and numerous buyers, whereas the higher price in the Argentine is the result of bargaining between one seller, namely, the Argentine Government, and other Governments as buyers.

It would be easy to argue from this experience in the United States, with its quick rise and its sudden precipitous fall, that the advocates of de-control were right. The problem, however, is not as simple as that ; for the export of oils and fats from the United States is under strict control and the lower prices, therefore, within the United States, compared with the rest of the world, are undoubtedly due to the fact that the supplies available to her people are liberal. In other words, in spite of freedom from control inside the United States, the prices are still artificial in the sense that they are sheltered from the demands of the rest of the world which is not so well supplied.

Dangers of De-Control

To return to Western Europe, it is important from the point of view of their foreign trade balances that nations should not compete strongly with each other as buyers. If control were abandoned it would be impossible to avoid this competition. Again, within the boundaries of any one country, abandonment of control might easily drive the price up to a level which would cause suffering to a part of the community.

I conclude that the gap between supply and demand is too big to permit abandonment of Government controls in either Great Britain or Holland at this time.

I do, however, urge that the short-comings of Government control should be mitigated as far as possible, and I will give examples. The critical position to-day of the countries of Western Europe, illustrated by their trade deficits, is due in no small part to the high prices of imported foods, including oils and fats. First of all, then, the governments of Europe which agree to the allocation of supplies by the International Emergency Food Council should not make their deficits worse by competing in their purchases but should co-ordinate their buying. Secondly, whereas an ordinary business would act very cautiously in the face of the high prices which are being paid to-day for the marginal quantities of oils and fats in the Argentine and elsewhere, governments, even when advised by competent business people, in their anxiety to maintain supplies probably pay a much higher price than the public itself would pay. The basic problem of increased supplies remains, and we must now explore it.

First whale oil, to which I referred earlier. The International Agreement on Whaling limits the numbers of whales that may be caught in any year. This arrangement, which is an agreement between nations interested in whaling, is based upon scientific advice and is designed to prevent extermination of the whale. In view of the fact, however, that very little whaling went on between 1940 and 1945, I question whether in times of such gravity as the present it is sound policy to maintain these restrictions on the number of the whales to be caught. The extra quantity of oil each year for the next few years when the need is so great would, I think, justify any risk that there might be in suspending the operation of this part of the agreement for two or three years. If we assume that Western Europe has to pay £200 per ton for the marginal portion of its requirements of oils and fats, and if we make the fair assumption that by the relaxation of these restrictions there would be an increase in the supply of whale oil over the next two or three years amounting to 100,000 tons, this would be equivalent to a contribution of £20 million towards Western Europe's deficiency of external exchange—an opportunity which I think should not be missed, particularly as some part of the exchange saved would be dollars.

Help can also be derived from what are known as soapless detergents. These are sometimes made from fats, but they can also be made from mineral oil, and when obtained in this manner they have the same effect as an addition to the supply of oils and fats for soapmaking. It is difficult to assess the possible savings of oils and fats that could occur in Europe from the probable output of these soapless detergents, but it might, next year, amount to as much as 50,000 tons.

The main effective improvement in the supply position of oils and fats must, however, come from the restoration of production still suffering from the effects of war and from the development of new sources. The chief task of restoration lies in Indonesia and Malaya, although there is also something to be done in the French African Colonies. Pre-requisites are the re-establishment of law and order or the improvement of communications and channels of commerce, or both. There is also the problem of production of animal fats in Western Europe itself.

This depends on the supply of feeding stuffs which again demands supplies of fertilisers. No quick progress, can, therefore, be expected.

Now as to new sources.

There are two approaches. First, through annual crops, of which the most important are groundnuts, sunflower, rapeseed, soya beans and linseed ; and secondly, through tree crops such as palm oil and kernels, and copra. Western Europe is restricted by climate to the annual crops of linseed and rapeseed. The opportunities for increased production are limited because almost all the suitable land is at present being cultivated for other crops, and additional quantities can only be grown at their expense. It is probable that only in a few cases would the change show a favourable balance judged by economic standards. The scope of these operations is indicated by the plan for Great Britain to increase the cultivation of linseed so as to produce quantities rising to 60,000 tons of oil by 1951. In Holland higher prices have been fixed for rapeseed with the expectation that 15,000 tons of oil will be produced next year.

One Scheme Not Enough

The main projects however must be based on the utilisation of land at present undeveloped. The principal reserves are in tropical Africa and the East Indies. The British Government's East African Groundnut Scheme is an outstanding example of how to tackle the problem. This scheme will take six years to come to full fruition, when it is expected to produce an oil equivalent of 250,000 tons from 3¼ million acres. Big as this scheme is, the quantity will not fill the gap in supplies caused by India's partial withdrawal from the export market. It will be apparent that a number of schemes of this magnitude must be undertaken, and even if tackled now it will be two years before they could begin to show results.

The magnitude of these projects is such that they immediately raise the question of the provision of the necessary capital resources. Normally the territories to be developed would look to Europe for this, but whether the labour force and production facilities to make the equipment needed can be provided is, at least, open to doubt. The alternative is to look to America which again raises the question of balance of payments.

The annual crops, groundnuts and sun-flower, are to be preferred where time is the governing factor. Suitable unused land would appear to be available for them in the Gold Coast, Nigeria, French and Portuguese Africa, and possibly in Celebes and the Moluccas. A British Mission will shortly be reporting on the first two of these areas, and a Dutch one is about to proceed to Eastern Indonesia. Further, the French Government have established a Commission to study the possibilities in French Africa, which has already evolved plans for a substantial increase in the production of groundnuts in Senegal.

The planting of trees to bear palm products and copra is a longer term remedy, from seven to ten years being required before production materialises. Generally speaking, the most suitable soils are found in the East Indies, the yields from Tropical Africa per acre being not more than one-third of the best Sumatran soils. The reserves of land available are, however, much greater in Africa.

Although it is unwise to be dogmatic about relative costs, the probability is that in the long run, vegetable oils from tree plantations will continue to be cheaper than from annual crops. This is of special importance for the peoples of Africa and Asia whose ability to obtain sufficient fats depends so much on price. It is, therefore, desirable, despite their long-term nature, that tree plantations should have their place in new large-scale development.—*From an Address at the Annual General Meeting, London, Sept.* 8, 1947.

Devaluation of £ Not The Answer

THE deterioration in the terms of trade naturally raises the question of why it has been impossible for Britain to offset the burden imposed upon her by rising import costs by corresponding advances in the prices of her exports. The question certainly deserves a much closer study than it has received hitherto. In part, no doubt, the British inability to exploit the sellers' market conditions on the same scale as American and, to a lesser extent, other Western Hemisphere producers have done is attributable to the fact that a large number of the main British export lines are not first essentials. No great difficulty, it is true, has been encountered in disposing of our export production hitherto, but there might have been had British export prices been stepped up on the same scale as United States prices. A further contributory factor to the relatively moderate character of the rise in British export prices has been the attitude of the British authorities themselves. Great efforts have been made to persuade primary producing countries in the Western Hemisphere as well as in Europe that the rise in world commodity prices was a temporary phenomenon.

Comparison With 1931

The deterioration in the terms of trade could only be aggravated by the devaluation of the pound, which is now being suggested as a panacea for all British economic problems. Some observers have been inclined to draw a parallel between recent events and the country's decision to go off the Gold Standard in 1931, but while the two situations may correspond in the sense that in both cases it proved impossible to permit the unlimited exchange of sterling into American dollars, in other senses they are very different. To begin with, the difficulty in 1931 was the lack of overseas markets at the prices which British exporters were demanding. Now the ceiling to our exports is fixed, not by the lack of markets but by the lack of production. The time may come—and it may come far sooner than at present seems probable—when British exports are unable to compete with other foreign goods with the pound standing at a level of $4.03, but it is manifest that this stage has not been reached yet. The recent clamour to exchange sterling into dollars came about not because American goods are cheaper than corresponding British goods with the pound at its present level, but because adequate supplies of the goods which overseas countries want are not available in Britain. It does not follow from recent developments that the pound is over-valued against dollars on a price basis. Canadian dollars are now quoted at a discount in terms of the American dollar on the free exchange market, but it is well known that the Canadian price levels compare very favourably with the American for similar classes of goods.

It is difficult to see how the devaluation of the pound at the present time could do anything but aggravate the British payments problem. The cost of imports would be raised to correspond roughly with the reduction in the value of sterling. At the same time, with output ceilinged by the fuel and other supply difficulties, no increase in the volume of exports, outweighing in its effect upon the foreign exchange return the fall in the value of exports, could be confidently expected. It has been argued that the main value of the devaluation of sterling as a crisis panacea would be through its effect upon the internal monetary situation in Britain. The consequent rise in food prices, this argument holds, would close the money-goods gap, with resultant benefit to production. But if the Government is anxious to close the money-goods gap in this way, a far easier way of doing so would be through the abandonment of food subsidies. If this proved inadequate to take up the slack, the balance could be covered by stepping up indirect taxation.

From the STATIST (September 6, 1947)

Direction Of India's Trade

From BOARD OF TRADE JOURNAL, August 16, 1947

Country	Value			
	Half-year ended Sept. 30, 1945		Half-year ended Sept. 30, 1946	
	Rs. Crores	£ million	Rs. Crores	£ million
United States of America	25	19	29	22
United Kingdom	28	21	28	21
China	—	—	9	7
Ceylon	9	7	6	5
Australia	4	3	6	5
Canada	3	2	3	2
Union of South Africa	4	3	3	2
South America ..	4	3	3	2
Iraq	1	1	2	2

Imports

Country	Half-year ended Sept. 30, 1945		Half-year end Sept. 30, 1946	
	Rs. Crores	£ million	Rs. Crores	£ million
United Kingdom ..	25	19	49	37
United States of America	41	31	21	16
Iran	27	20	10	8
Egypt	10	8	6	5
Kenya Colony	4	3	5	4
Australia	4	3	4	3
Canada	2	2	4	3
Switzerland	1	1	2	2

WASTE OF OVER FORTY MANPOWER

The Appointments Department Advisory Council of the Ministry of Labour is perturbed about the increasing difficulty of finding suitable employment for men in the older age groups—particularly those in the administrative and executive grades. A large proportion of the unemployed on the registers of the appointments offices consists, it appears, of men over 40 years of age. The Ministry points out that for posts which employers find it necessary to fill from outside their own firms, there is a growing tendency to impose age limits which rule out candidates whose qualifications merit consideration, and has asked the Association of British Chambers of Commerce for advice on this question, and also for the views of representative firms. Also, there are about 1,000 unemployed disabled persons who have professional, administrative, managerial and higher technical qualifications and experience, and the Ministry is also anxious on their behalf. As the Minister of Labour says in a letter to the secretary of the association, the question of the older age groups is of growing importance, for the age distribution of the working population is changing, and within a few years the proportion of men in the older age groups will increase considerably. It is estimated that within the next five years the number of men aged 15 to 39 will decline by 3 per cent., while the number aged 40 to 64 will increase by 8 per cent. The latter group will be 45½ per cent. of the total, compared with 43 per cent. in 1946. If, therefore, employers are to base their staffing policy on a correct appreciation of the manpower position, they must be prepared to see a substantial increase in the proportion of older men in their employ.—From *Times Review of Industry*, Sept. 1947.

Eyes Of Wall Street On India's Riches

From WALL STREET JOURNAL, August, 15, 1947

UNITED STATES traders can begin watching the riches of India with a hopeful eye.

For the first time since the days of Lord Clive Indians can buy and sell in world markets on their own terms.

The new Indian freedom will bring no immediate boost in her trade with the United States. It will take time to clear the confusion from the launching of three new countries. But India, spurred by the new nationalism, is expected soon to start shedding her old trade ties with Britain and looking for world-wide markets.

India's most significant gain will be that the dollars she earns from exports to the United States will now be hers to spend regardless of any British currency regulations. As a British dependency, dollars from her United States trade could be forced into the Empire dollar pool. India could spend them only with British approval.

Indians always have sold more here than they bought. Last year her exports to this country amounted to 238,000,000 dollars while she could buy only 171,000,000 dollars of United States goods.

The biggest question-mark on the future of United States-Indian trade is how these three new free segments of India will work out their own rules on such things as tariffs, export and import regulations and the like. For a time, at least, there is apt to be considerable confusion.

Experts here expect American exports to India to drop in the next few months from its peak. This isn't connected with the partition, however. It is simply a reflection of the dollar shortage and with freeing of India's self-earned dollars, her trade position should improve steadily.

Business Men Uneasy

United States sales to India are expected to settle to average of about 20,000,000 dollars a month. This compares with about 15,000,000 dollars monthly last year and only 2,000,000—6,000,000 dollars monthly before the war.

In general, Indian and British business men seem somewhat worried by the uncertainties of the new deal in India. Some Indian industrialists reportedly have postponed plans for large-scale industrial expansions and a large number of British concerns are selling holdings there.

What these business men want to know is what will be the policies of the new governments toward business enterprises? They want to know whether basic industries will be nationalised, what controls over industry the new governments will formulate. They want to know the attitude toward foreign capital. They want to know what tariff protection they can expect, what government aid will be given infant industries.

These uncertainties will plague hopeful United States business men, too. Much will depend upon how quickly India's normally favourable balance of trade with the United States can build up her dollar reserves—and how those dollars will be divided up among two dominions and the princely states.

I.T.O. Charter

By WILLIAM CLAYTON

(U.S. Under-Secretary of State for Economic Affairs)

THIS charter was completed by a committee of 17 nations in Geneva last month and will be considered by fifty or sixty nations at a world conference that will meet in Havana in November. It will cover more countries, more products and more trade than any previous agreement in the history of the world, and its completion should go far toward getting the Havana conference off to a good start.

When the United States made its first proposals for a charter setting up an International Trade Organisation, it faced a world in which the normal patterns of trade had been disrupted by the war. Production was cut down, business was dislocated and the economic and political future was filled with uncertainty. In such a situation we might have decided to postpone our proposals until things got back to normal, but we knew if we did so that nations might set up a whole series of new restrictions that the world might never succeed in breaking down, so we went ahead and I think that the results already achieved at Geneva have demonstrated that we chose the wiser course.

This charter sets up an International Trade Organisation to support and strengthen the International Bank for Reconstruction and Development and the International Monetary Fund, but it does more than that. For the first time in history, it asks all nations to commit themselves in a single document to a policy of non-discrimination in their customs charges and requirements and in their internal taxation and regulation.

Under such a policy each country will impose the same duties and requirements at its customs houses to the goods that come from every other country, and it will impose the same internal taxes and regulations on its own goods that it imposes on goods that come from abroad. The charter asks the members of the new trade organisation to do away with all other forms of discrimination. It asks them to reduce tariffs and other barriers to trade and it lays down detailed rules to ensure that the freedom that is gained by reducing visible tariffs shall not be lost by building up invisible tariffs.

It also lays down rules under which import and export quotas (the most serious of all forms of trade restrictions) can be limited, controlled, and eventually abandoned.

Charter Criticised for Its Idealism

The charter makes the first attempt in history to apply uniform principles of fair dealing to the international trade of private enterprise and public enterprise. It makes the first attempt through inter-governmental action to eliminate the abuses arising from the operations of international monopolies and cartels. It spells out for the first time a code of principles to govern the formation and operation of inter-governmental commodity agreements. It marks the first recognition in an international instrument of the interdependence of national programmes for the stabilisation of production and international programmes for the liberation of trade. It recognises the interdependence of international private investment and the economic development of backward areas and emphasises the importance of such development to the well-being of all the peoples of the world.

There are four criticisms that have been made by people who have examined the charter.

First, it is said that the charter is idealistic. In one sense this is true. In another sense it is not. The charter is idealistic in that it establishes objectives toward which all countries can agree to work. It draws on the experience of the past, but it does not direct itself to the problems of the past. It sets up goals for the future, but it does not limit itself to provisions that can only work in normal times. It is concerned with the actual problems of the work-a-day world and in this sense its idealism is tempered with a realism that is clearly practical.

Second, it is said that the charter contains a great many exceptions and this is true. But these exceptions are carefully defined. Many of them are temporary, all of them are limited in extent, and no nation will be able to use any of them unless it satisfies the conditions upon which all nations have agreed. If it were not for the exceptions the charter would not be practical, and it is because it is practical that it can be expected to work.

Value of Compromise

Third, it is said that the charter is a compromise. So it is, and so is almost every law that was ever passed by Congress or by the legislature of any state. So is every treaty between any two powers. So are the Charter of the United Nations and the constitutions of every international agency that has been established since the war. Compromise is a virtue, not a defect. It means that the charter will not be imposed by force, that it will not be rejected because it is one-sided, but that it can be voluntarily accepted because it meets the needs of every country in the world.

And finally, it is said that the charter is long and complicated, and this is true. It contains nine chapters, one hundred articles, and several thousand words. It is probably shorter than some acts of Congress ; it is certainly simpler than the income tax law ; but it is still long and complicated. It is complicated because the laws and regulations that govern international trade are complicated. It is complicated because it is realistic and practical, but the multitude of technical detail in the document serves only to emphasise the solid basis of agreement that has been achieved.

The important thing that we should recognise is this : the conference now drawing to a close in Geneva is a landmark in the history of international economic relations. It has covered the longest period in diplomatic history of intensive collaboration on a single document. This committee of 17 nations started its work in London in October and November last year, carried it forward in New York in January and February and completed it in Geneva by working continuously from April to the end of August. It has demonstrated that nations, when they have the will to do so, can work together peacefully and productively for common ends.

This conference, moreover, has covered a wider range of problems than has ever been tackled by any other economic conference in the history of international affairs. It has produced and written into a single document not one agreement but six—one on trade policy, one on employment, one on economic development and international private investment, one on cartels, one on commodity arrangements, and the constitution of a new United Nations agency in the field of international trade. The successful completion of any one of these agreements would have been an occasion for congratulation. The completion of all six of them in the troubled times in which we live is little short of a miracle.—*From a broadcast to U.S.A. from Paris, September* 10, 1947.

Design for Survival*

THE conclusions at which the authors of this pamphlet arrive are that the only short-term alternative to a really sensational cut in Britain's standard of living will prove to be a further instalment of American assistance. But (they observe) there is no reason whatsoever why America should feel disposed to extend further assistance. Whatever the result of the Marshall offer, the ability of this country to import the goods which she requires will depend upon what goods she can produce for export, and upon the state of her credit.

Rejecting the Socialist solution of "social priorities" the pamphlet proposes a return to the operation of the "price mechanism" which, in its simplest form, means that the public decides by the purchases it makes, what goods it wants produced. It is recognised that the price mechanism is often hard and ruthless in its application. Its full operation under conditions of chronic slump or considerable inflation is bound to lead to disastrous consequences. It is therefore necessary to restore some balance in our economy. First, action must be taken to maintain a high level of employment. Second, the maximum freedom must be left to industry to manufacture the goods which the public require here and overseas. Third, a really comprehensive social-security system to ensure that no one falls below a minimum standard of life.

In order to remove the condition of controlled or partially-controlled inflation it is suggested that there should be a new Budget, the main feature of which would be a cut of £300 millions in cost-of-living subsidies. To reduce as far as possible any consequent hardship an increase of 2s. a week is suggested in Old Age, Widows' and Orphans' pensions, in children's alllowances and in Unemployment Benefit. Indirect taxation should be increased by £150 millions. Capital expenditure schemes should be cut by £100 millions and another £100 millions saved by cuts in overseas expenditure and outlay on the Armed Forces.

By a reduction of £420 millions in expenditure and an increase of £150 millions in revenue, it is estimated that the standard rate of income tax could be brought down to 6s. 8d. in the pound and still leave a surplus of £560 millions.

Not the least important result of this policy, it is claimed, will be the restoration of our credit with the United States and the world as a whole. "Upon this invisible factor all hope of a successful outcome of the Marshall negotiations must necessarily depend".—G.B.

(* *Design for Freedom Committee*, 22 *Chester Square, London, S.W.*1, 1s.)

(*continued from page* 11)

It may be retorted that those who deal in a market must be prepared to allow for *all* factors which may effect prices, and that a Chancellor of the Exchequer is no more an "artificial factor" than any other. But a Chancellor who invokes Governmental authority to shackle the market is not a normal hazard. The success of the policy depends upon people believing that it will last, and, if it does last, there will be no serious complaint. If it does not, will there not be a reckoning ?—Extract from *Local Government Finance*, August, 1947.

Equality of Sacrifice

By J. L. GIBSON

TWO years ago, in your leading article, "America and World Trade", of August 21, you wrote: "The possible need for 'transitional' financial assistance from the United States will arise in large measure from the arbitrary and accidental way in which the financial burdens of the common war effort came to be distributed, and the case is strong for some readjustment recognizing the principle of 'equality of sacrifice' laid down by Mr. Roosevelt." The Roosevelt principle was unequivocal. "If each country devotes roughly the same fraction of its national production to war, then the financial burden of war is distributed equally among the United Nations in accordance with their ability to pay. The money costs of the war will fall according to the rule of 'equality of sacrifice'." In that same month of August, 1945, President Truman repeated the principle, and issued percentages illustrating the yawning gap which sheer accident had interposed between principle and practice.

The Presidential principle of joint contributory responsibility in accordance with relative national incomes, or taxable capacity, is as soundly based in economics as it is in equity. Two per cent. of national incomes of 1943 was adopted for the finance of Unrra. Thirty-two "non-invaded" countries participated. Great Britain, aerial invasion and destruction notwithstanding, promptly accounted herself a non-invaded country and subscribed 16.9 per cent. of the total budget. Yet in that other enterprise of relief and rehabilitation known as the "Combined Zones" the utterly spurious "equality" basis of 50 : 50 rules as between America and Britain, though their respective national incomes are as five to one. Thus it was that Mr. J. Bennet, financial adviser to General Clay, was able to say in Berlin on August 2 that Germany's food requirements are paid for exclusively by the American and British taxpayers, the former at 15s. a head annually and the latter at £2 10s.

The figures of money costs given below include each country's outlay on lend-lease, reverse lend-lease, and mutual aid.

—	Total Income 1939 to Aug. 1945	Dues	Paid
	£ millions	£ millions	£ millions
United Kingdom	47,719	18,088	30,000
Russia	63,600	24,108	24,802
Canada	12,324	4,671	4,604
New Zealand	1,301	493	463
Australia	5,936	2,250	1,735
U.S.A.	216,600	82,103	70,110
	347,480	131,713	131,713

	Pool Creditors £ millions		Pool Debtors £ millions
United Kingdom	11,912	Canada	68
Russia	694	New Zealand	30
		Australia	515
		U.S.A.	11,993
	12,606		12,606

—*Extracts from a letter to THE TIMES, August* 20, 1947.

Points from Letters to Editors

BRITISH AND AMERICAN MINERS: An American journalist recently stated that the British miner was working only 35 hours a week as compared with the American miner's 58 hours. This statement was quoted at a meeting of the British Association by Professor Shirras.

The facts appear to be these: Since the five-day week was introduced, the British underground mine worker does 72 hours a shift, exclusive of one winding time. Inclusive of half-an-hour for this, he does an eight hours day. He does a varying amount of overtime; in the week ending May 17, after a five-day week had been introduced, the average shifts worked were 5.26 in the week, exclusive of absentees. Thus, with overtime, the working miner did 42.1 hours of work in that week, and with no overtime at all, he does 40 hours.

The United States industry is governed by a new agreement (of July 8, 1947), which regulates, among other things, portal to portal hours of work. The hours agreed are eight per day. It is difficult to estimate what average number of hours a week will result from this agreement; in July, 1946, average hours a week worked in the bituminous coal industry were 36, and in November, 1946, 41.7 (official statistics published in the Monthly Labour Review). Presumably the new agreement will reduce hours to some extent. Over a full year's work, moreover, the question of holidays has to be considered; the United States miner can afford to take much longer holidays than the British. In 1946 the United States miner was on strike for over 10 per cent. of the time in any case, while the British miner was out for the very low percentage of less than half per cent.—IAN BOWEN, Hull (*The Times*, September 3.)

ABSENTEEISM: I was surprised that your leader to-day did not examine the 4s. per ton increase in the price of coal more closely, especially in view of Mr. Horner's statement on Saturday that the absenteeism of 10 per cent. of the miners was undoing the work of the other 90 per cent.

What are the facts?

Mr. Horner should have reversed his figures—it is 90 per cent. letting down the decent 10 per cent. With a five-day week, and taking absenteeism at the rate of 5 per cent. only, it means that (*a*) 100 per cent. of miners are missing one shift in every four weeks or (*b*) 50 per cent. of miners are missing one shift in every two weeks or (*c*) 25 per cent. of miners are missing one shift in every one week or 5 per cent. never work at all or 10 per cent. only work alternate weeks.

The last two are clearly ridiculous, but if any of the first three is right the men concerned should, under their national agreement, lose the sixth day's pay, which would obviate the increased cost of 2s. 6d. per ton. However it is extremely unlikely that 25 per cent. (or 50 per cent.) would be content with four days' pay only every week (or every other week) and I submit that we are definitely led by this evidence to the conclusion that practically 100 per cent. are guilty of absenteeism and there is no question of there being merely a recalcitrant minority. Inquiries in any coalfield will confirm this view.—H. STEWART FREEMANTLE, Prospective Liberal Candidate North-West Hull (*Manchester Guardian*, September 6).

INCENTIVES: An "incentive" is not necessarily cash or any other material thing. It is merely a reason (any reason) for activity. The doctor, the artist, the scientist and the other people instanced by Mr. Morrison do not work without incentive; they are merely people whose main incentive is not cash. But equally, is it not some vague desire to "see Britain through". These people, like Cabinet Ministers, work because their work, in itself, gives them some positive, immediate

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and continuous satisfaction. It is the absence of such satisfaction in the work of the coal-miner and the crossing-sweeper that is our primary problem to-day.

An incentive, to be effective, must be (*a*) easy to understand, and (*b*) immediate in its application. It must be something that a man can see and feel all around him at his bench or his desk on a wet Monday morning—not a huge principle in a public speech.

There is a whole field of incentive which depends neither on cash nor on vague social theory—and it is from this area that all the greatest efforts in history have come.—NIGEL BALCHIN, Canterbury (*The Times*, August 29.)

ONE NAPKIN FOR TWO BABIES : An official in charge of an industrial region in Lower Saxony maintained that there was only one napkin available for two new-born babies. Further inquiries showed that the production of textiles in the British Zone had fallen to about 17 per cent. of the 1936 level, leather and shoe production to about 39 per cent. During last winter production of consumer goods was almost at a standstill. At the present rate of textile production every inhabitant of the British Zone has a reasonable chance of getting a new shirt in 15 years, a pair of socks in 7 years, a pullover in 31 years, an overcoat in 48 years and a handkerchief in 97 years.—PETER RATAZZI, Slough (*Time and Tide*, Sept. 6.)

STATE MEDICINE IN NEW ZEALAND : A partial State Medical Service has been in continuous operation in New Zealand for the past 10 years, instituted by the Labour Government, which has remained in office since 1935. It is described as "free", though actually it is financed under social security legislation which mulcts the citizen of over 10 per cent. of his income.

Since the war the whole position has been fully reviewed in the House of Representatives.

The cost of the security benefits has mounted sharply. During the year ending March 1 this was £34,819,105, as against £20,935,481 for the previous year. Figures presented to the House of Representatives some weeks ago showed these particular increases :

Drug Bill : £563,000 in 1943 to £1,439,686 in 1947.
Medical Benefits : £1,016,000 in 1943 to £1,760,574 in 1947.
Hospital Benefits : £1,539,000 to £1,986,288 in 1947.—SIR GRAHAM-LITTLE, M.D., M.P. (*Daily Telegraph*, Sept. 3).

EMIGRANTS AND THE CRISIS : Under the free and assisted passages schemes which came into operation last April the Australian authorities are prepared to receive applications from persons in the following occupational groups : Metal trades, including mechanical and electrical engineers, boilermakers, welders, sheet metal and foundry workers ; textile and clothing operatives ; building and civil engineering trades ; brick and pottery workers ; machinists in the clothing and textile, printing, canvas and leather trades ; boot factory operatives ; sawmill and timber workers ; architects and surveyors ; pharmaceutical chemists, doctors and dentists ; nurses and domestics.

Surely these are some of our most seriously undermanned occupations ? Not only Australia but also Canada, New Zealand and South Africa are eager to receive young skilled workers from Britain ; and apparently it is only the lack of ships that is preventing a rush of emigrants. But can it be denied that such an efflux at the present time would be a further grave blow to our hopes of overcoming the economic crisis ? It seems incredible that the British Government should at this moment be committed to paying half the cost of assisted passages under the Anglo-Australian agreement.—BRINLEY THOMAS (Professor of Economics), University College of South Wales and Monmouthshire (*The Times*, August 27).

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