

*The*  
**ECONOMIC  
 DIGEST**

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## Our Service to Readers

*Questions answered—Sources indicated—Facts checked*

Since first offering this Service in the January, 1949 issue, the Editors have been able to give assistance to numerous readers in matters that fall into one or more of the sub-titles described in this announcement. It is hoped that many more readers will avail themselves of this free Service, taking advantage of the resources that can be offered by the Economic Research Council to both professional economists and those who read this journal by avocation.

It is possible to present in *THE ECONOMIC DIGEST* only a small part of the mass of reading matter—reviews, speeches, private papers, as well as newspapers, journals and books from all over the world—scanned by the Editors and staff every month. The task of covering every sphere of economics, however, provides the Editors with material which they believe can be of great value to certain readers.

Subscribers are invited to submit any questions concerned with economic facts or to submit their own writing or theses for factual criticism which, for obvious reasons, cannot be elaborate.

Readers are also invited to write to the Editors commenting on this journal; and suggestions designed to improve its value and interest are always most welcome.

Letters of inquiry should include stamped addressed envelope for reply and should be addressed to The Editors, Reader Service, *The Economic Digest*, 18 South Street, London, W.1

### The Economic Digest

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*The full employment policy is proving to be the crucial test of social democracy. The incentives and conditions for high achievement require more than mere equality*

# Liberty, Equality and Full Employment

By HONOR CROOME

**T**HE policy of full employment has had and will increasingly have a revolutionary effect on society. Full employment has never been defined to the general satisfaction. As interpreted to-day it leads to the alternations of cumulative inflation on the one hand and permanent circumscription of economic liberty on the other. This latter interpretation can be described as demanding an intense and permanent sellers' market for labour, with the volume of demand so manipulated that the number of vacancies shall always be heavily in excess of the number of job-seekers. "A permanent sellers' market for labour means a permanent upward pressure, or more accurately an upward pull, on wages, a corresponding upward movement in costs, a further monetary stimulus (since the increased costs must not, *ex hypothesi*, be allowed to choke off demand) and so on cumulatively. That is, if the 'upward pull' on wages

is to be allowed to take effect. At present it is inhibited—at least partially—by the acquiescence of the T.U.C. in the Crippsian policy of personal income limitation.

"In a state of inflationary pressure, practically every job is undermanned. Wages, in this situation, can only move up, never down, and upward movements themselves are limited by the fear of making inflation overt; so no adequate differential can be established to encourage change. Yet, in the national interest, change there must be; some occupations must be more favoured than others, some must be discouraged. The solution—the only possible solution when neither the carrot of better pay, the stick of wage reduction, nor even the ultimate sanction of dismissal, is available—is the use of physical authority; the Control of Engagements Order, the little-used and repugnant direction of labour. How inadequate this solution is,

when used as sparingly as now, the published figures of the distribution of labour make abundantly clear. To reconcile the national plan, and indeed the national requirements, with the present degree of over-full employment, much more drastic infringements of liberty are needed.

Liberty, as the wage-earner sees it, is the freedom to choose whether he shall or shall not stay in the particular job—not the occupation in which he finds himself. "Individually and collectively, then, the workers may be expected to demand the maintenance of such a degree of inflationary pressure, of over-full employment, as will preserve with a wide safety margin the freedom they most value—with little regard to other freedoms which they consequently lose, and still less for freedoms, valued by other classes, which have never much interested them anyway."

#### *Ethics of Advancement*

The divergence of class attitudes with regard to liberty is matched and reinforced by an equally wide divergence as to what can roughly be called the ethics of advancement. The good trade unionist has a profound dislike for the freelance, and his methods. "Action should be collectively determined; benefits should be collectively assessed; the norm should be collectively established; and the individual's only business is to share—of course on a footing of democratic equality—in the taking of these decisions and loyally to co-operate in implementing them. Solidarity is the supreme working class virtue, and individualism is correspondingly open to condemnation in all its manifestations. Excellence is suspect; he who excels might constitute himself a pace-maker. Resourcefulness is suspect: it may lead to the cutting of collec-

tively sanctioned corners. Imaginative innovation is suspect, no less because it is rarely the outcome of collective action than because it may threaten a vested interest in the obsolete. All must travel in convoy, at the pace of the slowest; whoever follows a privately chartered course is, almost by definition, a pirate.

"It is perfectly true that in the heyday of private enterprise the co-operative element in economic and social life was stunted and neglected, to the loss, not merely economic but spiritual, of all society. It is perfectly true that even to-day a far higher place needs to be given to consultation and team work, and that the rousing of a sense of common purpose, of social solidarity, in other matters than the mere determination of wages, hours and conditions, is one of the first needs of good government in economic matters. But it is also true that individual excellence, resourcefulness and imagination are more supremely necessary than they have ever been; that those possessing them are as essential to the economic and social health of the community as the ductless glands are to the living body; and if all incentive and encouragement is to be withheld from them in the name of the anti-individualist majority ethic, the economy will become not merely mediocre but cretinous. The power bestowed by full employment on the wage earners is, among other things, a power to pith and emasculate society."

"The danger that full employment may, contrary to expectation, be the enemy of liberty, is sufficiently demonstrated. But its effects, direct and indirect, in bringing about an equalitarian society are no less potentially revolutionary. Its direct, or directly economic, effects are admirable but accompanied by temporary inconveniences and dis-

locations; its indirect or political effects are admirable only to the class-war partisan.

"Its direct effect, once the worst obstacles to mobility have been overcome by relief to the housing shortage and the development of educational and training facilities, is to bring fully into play the good old classical principle of Net Advantages; more pay for the less pleasant jobs, less pay for more pleasant ones."

"Coal is the outstanding and obvious example. Agriculture is another. But all through the structure of occupations, real freedom of choice consequent on full employment may be expected to bring about disconcerting changes in relative wage costs, corresponding to the newly-effective subjective valuations (and the newly-exploited abilities) of the working population. These changes and adaptations are right, proper and desirable. But they and their consequences must be treated realistically. If miners and other workers in intrinsically unpleasant jobs are to get much more of the national income, others—other workers—must get less. Reductions in wages must be no less possible than increases; and the present tacit assumption that no reduction is ever thinkable, let alone enforceable, must be dropped. In conditions of over-full employment it is unlikely ever to be dropped; whether it will be dropped under full employment as I have roughly defined it, or whether it will persist as a cause of strikes and of frictional unemployment, and as an influence constantly working towards an inflationary state, depends on the good sense of the workers."

Mrs. Croome next deals with the plight of the middle classes. "On paper, the Labour ideal, like the Communist, is a classless society. In

fact, Labour policy is to bring about the one-class society, which is quite a different thing. The classless society would abolish all divisions, other than those of taste, ability and general congeniality, between man and man—and would, presumably, so constitute itself as to prevent the emergence of whatever degree of economic inequality would in itself enforce division. Any lesser degree of inequality, and any natural divergence of tastes, habits and standards, it could safely ignore—and indeed welcome as constituting at once a useful dynamic and an enriching diversity. The one-class society, on the contrary, takes as its canon a given set of class standards and aims at imposing these on its entire membership, deploring, discouraging and if possible prohibiting any divergence from the norm of the chosen class. The chosen class in this country is, of course, the urban artisan class."

#### *Privileges are Necessary*

The final section of the article is entitled, "The Renaissance of an Elite." The point stressed is that whatever may be the argument against the middle classes, nothing weakens the case for a privileged class as an essential to progress and civilization.

"One may wholeheartedly agree that the privilege should be open to all who qualify for it, and denied to the incompetent; that it should carry with it no flavour of social exclusiveness; that the less reputable means of earning it—the exercise of monopoly power, the battenning on public ignorance, above all the exploiting of a working population held under by a chronic 'buyers' market' for labour—should be made as impossible as legal reform and economic policy can make them. Or one may modify the first of these principles, in the

interests of continuity and the family, to allow inheritance still to play some diminished but significant part. There is left in any case the ideal, not of a one-class society, an amorphously uniform mass in which the only outlet for aspiration is the possibly sinister drive for personal power, in a bureaucratic hierarchy, but of an *élite* drawing to itself all the highest ability of every type, enjoying the conditions in which that ability can fructify for the common good, and permeated with the conviction that—to go back to the phrasology of an older order—*noblesse oblige*. Privilege, in such a setting, loses its colour of injustice. On the one hand the wide educational ladder, the emphasis on merit, *la carrière ouverte aux talents*, on the other the recognized responsibility of the privileged to justify themselves by devotion, the full use of their gifts, and adherence to a code of civilized behaviour, should make it easy for the masses (themselves freed from primary poverty) to accept the principle that both the incentive and conditions for high achievement demand a departure from equality.

### **No Injustices**

“None of the above argument should be interpreted as a plea for a return to the injustice, the crippling deficiencies, the waste and the frustration of pre-war society with its chronic under-employment. The golden age of the middle classes was not a golden age for the worker. Even if his material standards were higher than the Labour Party encourages its supporters to believe (and moreover were rising decade by decade) his human dignity and sense of freedom were cruelly incomplete. There is no reason nor justification for giving the maintenance of full employment, and the reality which

it bestows upon democratic forms, a lower priority than it now holds among the aims of good government, any more than there is reason for jettisoning all aspirations towards social justice and returning to the tooth-and-claw rule of the strongest. But inflation-plus-repression is no more to be exclusively identified with full employment than the one-class society with social justice.

### **The Ideal Policy**

“A policy could ideally be framed to ensure that, given relative wage levels compatible with a distribution of man-power answering to current relative demands and scarcities, and a general wage level compatible with balance-of-payments equilibrium, no man could lack work for longer than it took him to move from one job to another. That ideal is very different from the present implied promise to underwrite any increase in wages regardless of its relation to productivity. The former leaves the free price system in workable order, the latter enforces authoritarian control; the former preserves the value of both personal and institutional savings, the latter inexorably destroys them. It is not, fortunately, inconceivable that the citizens of the new social democracy will realize this; and, rightly insisting on the safeguarding of their livelihood and most valued liberty by the first type of policy, will refuse to pay the price of the second. Small savers, friendly societies, the trade unions themselves, have, after all, an interest in the safeguarding of property; and even the most indifferent and unadventurous individual has some preference for buying what he likes rather than what he does not like and choosing the occupation which he finds most congenial rather than the one to which the planners direct him.”

# They are saying...

## Mr. THOMAS E. DEWEY, Governor of New York

It is high time we stopped thinking of our economic aid to Europe as American charity or as a hand-out to old friends who have fallen on evil days. Europe is just as important to us as we are to Europe.—*Williamstown, Mass., June 21, 1949.*

## Mr. NIGEL BIRCH, M.P. (Flint, Cons.)

I have been informed that if all dividends paid by all motor companies were eliminated altogether the wholesale price of a motor car would go down by about £8 and the retail price by £10.—*House of Commons, May 20, 1949.*

## Mr. PAUL HOFFMANN, Director, E.C.A.

The Studebaker Motor Corporation passed directly from handicraft to mechanised mass-production. From 1859, when it was founded, to 1908, workers worked sixty hours a week, produced goods worth \$1,800 a year per man and their wages rose only from \$10 to \$12 a week. In the forty years from 1908 to 1948 about \$100,000,000 worth of machinery was put into the plant, with the result that output per man rose fivefold, working hours were reduced to 40 a week, and wages rose to \$130 a week, or more than tenfold.

"High wages through high productivity" is the right slogan.—*Washington, July 7, 1949.*

## Mr. G. J. G. FISHER, British Rayon Delegation to U.S.A.

The American workers work a forty-hour week, and they work every minute of it.—*Washington, July 7, 1949.*

## Mr. ROBERT BOOTHBY, M.P. (Aberdeen and Kincardine E., Cons.)

If we take no account of indirect taxation, a man earning £10 a week now works for 12 weeks a year for nothing. A man earning £5,000 a year works six months of the year for nothing. It is a long time to ask a man to work for nothing, however passionate his zeal for the common welfare may be as a citizen.—*House of Commons, May 19, 1949.*

## MR. ARTHUR HORNER, Secretary of Miners' Union

At the beginning of the year the mining industry's labour force was 727,000, and a target of 735,000 has been set for the end of the year. This week it is down to 722,000 and if it continues to shrink at the present rate it will be down to nearly 700,000 at the end of the year—a catastrophe which neither the country nor the Government can face.—*Porthcawl, July 7, 1949.*

## Sir JEREMY RAISMAN, Deputy Chairman of Lloyd's Bank

The domestic price level inside many European countries is definitely too high to justify the exchange rates at present in force.—*Quebec, June 30, 1949.*

## Mr. HENRY L. STIMSON, Formerly U.S. Secretary of State

No private programme and no public policy, in any sector of our national life, can now escape from the compelling fact that if it is not framed with reference to the world, it is framed with perfect futility.—*Colorado Springs, June 21, 1949.*

# Commonwealth Immigration

## *Britain Cannot Meet Demand*

*The population of this country will not yield the number  
or kind of immigrants needed by our  
partners overseas*

THE needs of the countries of the Commonwealth for man-power differ, both in the numbers of the immigrants they want to absorb and in the kinds of occupations for which they require them; but all are affected by the greatly increased industrialization in their countries. They want from us therefore skilled workers and technicians as well as, if not more than, agricultural workers, and in the present economic conditions of Great Britain, there remains that element of disharmony, of which the Committee on Empire Migration wrote (in 1932) between the economic needs of Great Britain and those of other countries of the Commonwealth. Nevertheless, the British Government's policy is to encourage emigration to other parts of the Commonwealth.

There has been some public discussion of proposals, originating mainly in Australia, for mass emigration from Great Britain to other parts of the Commonwealth. These proposals have been put forward on a number of grounds (a) the vulnerability of the sparsely populated countries, particularly Australia; (b) the vulnerability of the densely populated British Isles under the threat of atomic bombs and other developments in war, and (c) doubts about the economic future of Great Britain, all leading to the argument that for the prosperity and safety of the Com-

monwealth a large scale redistribution of man-power is desirable.

It is relevant to any consideration of proposals of this sort to understand the limitations under which a policy of Empire migration on traditional lines is likely to have to work in future. For this purpose it is necessary to look at the needs of the Commonwealth for population in relation to the capacity of Great Britain to supply immigrants.

A table on p. 534 sets out the white populations of Great Britain and some of the other countries of the Commonwealth in 1931 and 1947, with rough estimates of the numbers they might reach in 1980 by natural increase alone.

The age structure of the overseas countries is at present favourable to population growth, but the growth to be expected by 1980 is not large when measured against the total Empire population. Average family size in Australia and New Zealand has been falling in much the same way as that of Great Britain. The Roman Catholic population of Eire and French Canada and the Dutch Afrikaners in South Africa have larger families, but there is evidence that the small family pattern is spreading among these too; in any case, those sections of the population are small relative to the population of the Commonwealth as a whole. The Irish will for some time, par-

ticularly if their low marriage rates increase, be able to increase their population very rapidly, or send out emigrants; but in the long run if present trends continue, the white population of the Empire as a whole will at the most be stationary; and without immigration Canada, Australia and New Zealand will remain sparsely populated.

We have no detailed knowledge of the capacity of these countries to absorb increases of population; but it seems a reasonable assumption that even with double their present populations they would still be far from being over-populated. As a rough illustration of this point we give figures of population and density per square mile.

It will be seen that, even with double their present populations, Canada, Australia and New Zealand would still have lower densities than the United States, which is far from being over-populated.

It is generally accepted that these countries could easily continue to grow at the rate of 2 per cent. per annum. At this rate, it would take Canada, Australia, New Zealand and South Africa 35 years to double their present population, and with the pre-war rates of natural increase they would require the following annual flow of immigrants: Canada, 110,000; Australia, 85,000; New Zealand, 18,000; South Africa, 13,000; total, 226,000.

Towards this hypothetical requirement of 226,000 immigrants a year, Great Britain's normal contribution in the setting of a sub-replacement family size would not be great. Even if fertility in Great Britain rose to, and were maintained at, a little above replacement level—which is the most that seems probable—the volume of spontaneous emigration from Great Britain, even if all or nearly all emigration was to the

Commonwealth, would still be far short of what the overseas countries would need if their aim was to maintain a rate of growth of 2 per cent. per annum.

Assume, for instance, an annual average of 700,000 live births in Great Britain—which is the number approximately required to maintain a stationary population of the present size—the number of young people reaching the age of say, 20, each year would not exceed 650,000. If 10 per cent. of them emigrated each year—a higher average than in the 19th century—the annual supply of migrants from Great Britain would be only 65,000 a year, that is less than a third of the estimated total. It is not to be expected therefore, that the other parts of the Commonwealth could rely on emigrants from Great Britain alone to maintain their pre-war rate of growth.

#### *Inducements to Emigrate*

The discouragement to emigration which is inherent in the small family pattern might be offset to some extent by raising the inducements to emigrate—assisted or free passages, assistance in housing and finding employment, co-ordination of social security provisions and so on. But it is necessary to keep in mind that there is a limit to what can be offered in these ways. The limit is set by the standard of living in the receiving countries; the immigrants, that is, cannot be established in a more favourable position than the people already there, and if Great Britain's balance of payments problem is solved, the difference between conditions and prospects for the average person in Great Britain and in any of the receiving countries is not likely to be great and the material inducement to emigrate would be small.

A further possibility of offsetting the tendency to less emigration is

offered by combining encouragement of emigration with a policy of selective immigration to make good any shortage that might arise in Great Britain. This combined policy has much to commend it, for it would ensure that the needs of the rest of the Commonwealth for man-power were met as far as possible from people of British stock and that Great Britain, with its much larger population, would take on as much

as possible of the problem of assimilating people of non-British stock.

#### Natural Increase Prospects

	Total Population (millions)		
	1931	1947	1980
Great Britain.....	44.8	48.2	47.5
Northern Ireland.....	1.3	1.3	1.5
Total.....	46.1	49.5	49.0
Eire.....	2.9	3.0	4.0
Canada.....	10.3	12.6	16.0
Australia.....	6.5	7.9	9.0
New Zealand.....	1.4	1.8	2.5
South Africa.....	1.8	2.4	3.5
Total.....	22.9	27.4	35.0
Total for all countries	69.0	76.9	84.0

#### Density of population in certain countries in Europe and of European origin

Country or Area	Population in 1947 (thousands)	Density per square mile
Great Britain.....	48,188	547
Eire.....	2,972	155
Europe (excluding U.S.S.R.)	383,444	212
United States.....	144,121	47
Canada.....	12,582	3.5 ( 9.2 per habitable sq. mile) <sup>(1)</sup>
Australia.....	7,581	2.5 ( 4.4 " " " )
New Zealand.....	1,802	17.3 (21.3 " " " )

(1) The figures in brackets of density per habitable sq. mile allow for areas of ice-bound or desert land.

#### Ages of British Emigrants from the U.K. to Non-European Countries, 1948

Ages at Last Birthday	Total to British Empire	To Foreign Countries			Grand Total 1948	Grand Total 1947	Grand Total 1938
		United States	Other Foreign Countries	Total			
<b>EMIGRANTS from the U.K.</b>							
<b>MALES :—</b>							
TOTAL, 1948.....	63,125	8,122	1,826	9,948	73,073	—	—
TOTAL, 1947.....	46,303	6,213	2,066	8,279	—	54,582	—
TOTAL, 1938.....	13,230	762	1,385	2,147	—	—	15,377
<b>FEMALES :—</b>							
TOTAL, 1948.....	70,190	11,478	2,549	14,027	84,217	—	—
TOTAL, 1947.....	51,697	12,342	3,022	15,364	—	67,061	—
TOTAL, 1938.....	15,778	1,230	1,759	2,989	—	—	18,767

**Note :** This table is a summary of the original, which included figures for different age groups. These showed that the largest number of emigrants were men and women between 35 and 44 years of age, and children under 12. The third important group consisted of men and women between 25 and 29 years of age.

# E.C.A. Examines Continental Housing Problems

*Can surplus softwood in U.S.A. and Canada be made available to relieve the shortage in Europe?*

**T**HROUGH the O.E.E.C., the Marshall Plan countries have been asked to review their housing requirements in relation to other phases of the recovery programme, to determine whether:

1. Lack of housing is a factor in contributing to labour shortages in key areas where an increased labour supply would result in substantial production increases.

2. Inadequate housing is a factor in the levelling-off of worker-productivity and the low morale reported in many areas.

3. In areas with poor housing facilities, but possessing unemployed labour and other local resources, such resources should be utilized in a large scale housing programme.

"Housing is held back not only by the lack of man-power and savings and the urgent need for other types of investment, but is also limited by shortages of lumber," says the E.C.A. Report on Lumber.

Three measures would assist in solving the shortage. They are: Re-entry of Eastern Europe into the forest products export market as a major contributor; continuance of high production levels in Western Germany, and shifting demand to North America for the deficit from European sources.

An outstanding feature of Western Europe's recovery programme is the reduction in the imports of lumber from the Western hemisphere, undoubtedly planned by the Mar-

shall Plan countries to reduce their dollar expenditures. Although available lumber in both Canada and the United States was higher than at any time since the war, exports to Marshall Plan countries declined.

Only 158,000,000 board feet were exported to Marshall Plan countries in 1948, as compared with 560,000,000 feet in 1947. A scarcity of dollars in Europe during the first half of 1948 was eased during the second half by E.C.A. grants, but shipments of lumber from North America to Europe continued to decline.

Demand-supply trends indicated that 2,000,000,000 board feet could be exported from the United States to the rest of the world in 1949-50. If areas other than Western Europe are to take no more than in 1948-49, some 1,500,000,000 feet would be available for Marshall Plan countries.

## *Interchangeable Sources*

The only major exception to the general trend of re-establishing pre-war sources of supply, as indicated by programmes submitted to O.E.E.C. by the Marshall Plan countries, is the proposed distribution of import volume between Canada and the United States in 1949-50. The plan shows a divergence from the historical pattern in favour of Canada.

The two sources, in general, are interchangeable. E.C.A. recommends that the Marshall Plan countries consider revising plans for import purchases from North America

to give the United States at least an opportunity to compete on the basis of price and quality for its traditional share of the total.

Of the total lumber imports by Marshall Plan countries from all sources in the pre-war period, 20.7 per cent. was from participating countries, 66.8 per cent. from Eastern Europe, 8.9 per cent. from Canada and 3.6 per cent. from the United States. The 1948-49 programme contemplated that 48.6 per cent. of the total import requirements would

come from participating countries, 31.2 per cent. from Eastern Europe, 12.8 per cent. from Canada, 5.9 per cent. from the United States and 1.5 per cent. from other Western Hemisphere and sterling areas.

The 1949-50 estimates indicate 43.7 per cent. from participating countries, 40.1 per cent. from other European sources, 12.9 per cent. from Canada, 2.5 per cent. from the United States and 0.8 per cent. from other Western Hemisphere and sterling areas. *Washington, June 22, 1949.*

## New Houses for £600 Each

FIFTY members of the British Legion branch of the Birmingham Post Office Factory wanted houses. Unless something happened, they would have to wait for them, it was clear, for years and years and years. They resolved that something should happen. If the Government could not build houses for them in a reasonable time, they would build them themselves. They decided which trade each man should learn. A war veteran cripple should be timekeeper; some men knew wood-working, electrical wiring, etc., from their work in the factory. Others must learn bricklaying, tiling, plumbing and plastering. They found a teacher, a clerk of works who knew a great deal and when he didn't know found someone who did. In a few months those 50 men had been trained in their spare time into masters, seconds and labourers.

Now for the finance. Each man subscribed £20. With that £1,000 and with help from a building society, they acquired the land and set to work. The Birmingham Corporation officials were helpful and

the Building Trade Union did not object. The men work evenings, Saturdays and Sundays, and are giving up their holidays this year. Their women folk provide them with tea and refreshments on the job. The houses are designed by a prominent Birmingham architect, who gave his services free, in admiration of the determination of these men. The men have their own concrete-mixer, their own lorry to bring materials to the site, their own tools. The houses are going up on a site which bears a notice that it is the housing estate of the Birmingham Post Office Factory branch of the British Legion. At the foot of the notice board you may read the words: "Houses built by our own hands!"

The average cost of building a council house is, I suppose, about £1,600. The economic rent on such a cost is too high for the tenant to pay without help. So the State pays in effect about half the rent, which means that those of us who don't live in council houses have to pay a good part of the rent of those who do. The cost of these Birmingham

houses has been put provisionally at £850, but it is expected to be able to reduce it to £600. The houses will be let, without any subsidy from the State, at no more than the rent of a council house. The men who have built them will be tenants of their own collective estate.

*From Time & Tide, London, July 9, 1949*



## Housing Policy Abroad\*

*Britain is the only country which has improved on its pre-war housing standards. But we are still behind in the provision of equipment and the inclusion of heat and light in services provided*

THIS report covers the United States, Sweden, Denmark, Holland and Australia in relation to housing agencies and finance, standards and costs, rent policy and price control. The conclusions drawn are as follows:

(1) Much greater emphasis is placed on home ownership in other countries than in England—whether the ownership is that of private individuals, as in the United States and Australia, or co-operative as in Scandinavia.

(2) British housing policy differs from that of other countries in concentration on houses to let, and in the use of local authorities to do the building.

(3) Lump sum subsidies are not intended to stimulate house building, but to provide houses to let at low rents. Here, again, British practice differs from that of most other countries.

(4) Every country makes some financial contribution towards the rent of houses for the poorest or largest families. The English system of standard subsidy has the advan-

The first pair of houses will be ready for occupation in a week or so from now. Afterwards another pair will be ready every three weeks. Within a few months these 50 men will be living in homes they have built for themselves.

tage of administrative simplicity, but suffers from a lack of flexibility; as the subsidy is generally in no way related to the income of the tenant, it is both wasteful in its distribution and fails to help many of the families in most need of it. Other countries have "differential rents" schemes varying from the Swedish system calculated on the number of children and ignoring family income below a certain figure, to the Australian method of making rent a fixed proportion of income.

(5) It is significant that each country accepts an ideal maximum rent income ratio of 1 to 5. It is interesting to note the great similarity of actual building costs, though the increases in each country have varied greatly. Britain appears to be the only country which has actually improved on pre-war housing standards, which are now ahead of Sweden and America in respect of room space but still behind in the provision of equipment and the inclusion of heat and light in the services provided.

# Production v. Distribution

*The Government Committee on Resale Price Maintenance reveals a conflict between two aims—cheaper distribution and maintenance of quality, continuity and ready supply in production*

OUR inquiry has revealed a conflict between two apparently contradictory aims—the need on the one hand to encourage the development of more economical methods of distribution and the reduction of retail prices, and on the other hand to maintain the quality, continuity of production and ready supply to the public of established British brands.

We are satisfied that the elimination of price competition over the greater part of the distributive trades is not consistent with the need for the maximum efficiency and economy in production and distribution so necessary in the present economic circumstances. Bearing in mind, therefore, the probable continued growth of branding and standardization, we have been concerned to find some solution which would mitigate the harmful effects of resale price maintenance as now in operation and guarantee a substantial degree of flexibility in the distributive structure.

In arriving at our conclusions we have drawn a distinction between the fixation and maintenance of resale prices by an individual manufacturer and the collective administration of resale price maintenance schemes. The effects upon the public interest of these two methods of maintaining prices and their impact on the economy are, in our opinion, different.

We take the view that the manufacturer of a branded article remains responsible for the quality of the goods sold under his own brand; he

cannot, therefore, be indifferent to the terms on which his goods are sold to the public. Our evidence has shown that well-known branded articles are particularly liable to be used as loss-leaders by distributors and we are satisfied that their use in this way has not brought any permanent advantage to manufacturers, distributors or the shopping public as a whole. Resale price maintenance offers a convenient means of protecting brands against misuse by distributors in this or other ways.

*We recommend that no action should be taken which would deprive an individual producer of the power to prescribe and enforce resale prices for goods bearing his brand.*

Producers are not, in our opinion, entitled to use resale price maintenance to obstruct the development of particular methods of trading, to impede the distribution by another manufacturer of competitive goods or to deprive the public of the benefits of improvements in distribution. Public policy requires adequate distribution of goods with provision for such price reductions as are justified by low-cost distribution or by a regular policy of distributing surplus profit to the customer.

*We recommend that the appropriate Government Departments should invite consultations with the principal national organizations in trade and industry to consider the most satisfactory means of ensuring that this policy is made effective.*

We can find no adequate reason to

justify a manufacturer either in interfering with the terms on which the distributor disposes of another manufacturer's goods or in surrendering any part of his interest in the resale prices of goods bearing his brand for this purpose. Collective price maintenance schemes appear to us to have led to the comprehensive regulation of competition in the distributive trades and to have impeded the development of economical methods of trading and prevented the reduction of distributive costs and prices. Associations of traders designed to bring their collective

power to bear to maintain their members' prices are, in our view, undesirable and we note that the Commission set up under the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948, has already been asked by the Board of Trade to investigate two of the industries from which we received evidence.

*We therefore recommend that steps be taken to render illegal the application of sanctions which extend beyond the remedies open to an individual producer for any breach of resale price maintenance conditions.*

**Average Gross Margin Earned by Retailers in 1938**

<i>Class of Article</i>	<i>Retailers' gross margin expressed as a percentage of retail sales (Retailers purchasing through wholesalers only)</i>	<i>Wholesalers' gross margin expressed as a percentage of retail sales (Figures in brackets are margins as per cent. of wholesale sales)</i>
Stationery, ink, pens and pencils	34	16 (25)
Chocolates and sweets	34	8 (12)
Pottery, glassware, hollow-ware and ironmongery goods	32	17 (25)
Electrical goods	30	12 (17)
Newspapers and periodicals	28	10 (13)
Chemist goods	28	11 (15)
Cigarettes and tobacco	16	4 (5)
Groceries, provisions and household stores	15	6 (7)

*From Cmd. 7,096, H.M. Stationery Office, 2s. 6d.*

**Annual index numbers of sales per week by areas from 1937 to 1948**

**(Average weekly sales in 1947=100)**

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Scotland	56	59	61	69	69	71	70	76	79	90	100	114
North East	58	60	63	69	68	70	70	76	79	89	100	115
North West	60	62	65	72	71	72	70	76	78	90	100	113
Midlands and South Wales	61	63	67	75	73	74	72	77	79	88	100	116
South of England	59	62	67	70	69	68	65	71	75	88	100	115
London (Central and West End)	65	61	53	43	41	48	48	48	63	85	100	108
London (Suburban)	65	68	68	67	62	66	67	69	75	90	100	114
Total, Great Britain*	63	65	66	69	67	68	67	71	76	88	100	114

\* Including unallocated sales.

*From Board of Trade Journal, July 10, 1949*

# TABLOID DIGEST

**MACHINE AGE** A century ago the physical work in the United States was done principally by men and animals—men doing 22 per cent of it and animals 51 per cent. The other 27 per cent. was done by mechanical devices. In 1900 men were doing only 15 per cent. of it, animals 33 per cent. and mechanical devices 48 per cent. By 1948, men in the United States did only 4 per cent. of the physical work required, animals did only 2 per cent, and all the rest—94 per cent.—was done by mechanical devices. Nor was this all. The shift brought with it more than a five-fold increase in the output of goods per man hour worked, not to mention improvements in quality and utility.

*..Economist, London, July 2, 1949.*

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**BLACK MARKET WOOL** Leading wool merchants in New England state that about 10 per cent. of all the raw wool imported into the United States from sterling sources—mainly Australia—in the last few months has been paid for in sterling acquired at about 25 per cent. discount. This, they say, is done largely by the less reputable firms in the trade, but it has become so substantial that the firms which do not like to do that trade are at a serious disadvantage. They have, in fact, sent a deputation to Washington to ask if



the Government could not find some way, in conjunction with the British Government, to stop the leak. Meanwhile, spinners will not hold wool stocks beyond their immediate needs, leaving the risk of devaluation to the merchants, who have stopped buying Australian wool for the time being. A considerable part of the wool trade in "cheap" sterling is done with firms resident in Holland, which import the raw wool and sometimes put it through one simple treatment before re-exporting it to the United States as Dutch merchandise.

*Manchester Guardian, July 9, 1949.*

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**ROAD TRANSPORT FIGURES** Great Britain, with 19 motor vehicles to every mile of road, has the most crowded high-

ways in the world. The United States, seventh on the international list, has 12 vehicles to every mile. Out of every £ earned in Britain, 1/6 is spent on running cars, lorries and buses. This works out at £648,000,000 from a national income of £8,500,000,000—£13 for every man, woman and child in the country. In the old days, a trotting horse usually covered 8 miles an hour. Travelling between Euston and Trafalgar Square, or Ludgate Circus and Commercial Road, a 20-horsepower car averages less than 7-m.p.h. during business hours. Road transport is the third largest industry in the country, only agriculture and building being larger. Employees number 1,300,000. Ten million tons of coal are transported by road every year.

*British Road Federation Limited,  
May 26, 1949.*

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**FISH IDEAS** Ways of building up the world's food supply by tapping new fishery resources and by fish-farming are suggested in a group of papers submitted by scientists from all over the world to the U.N. scientific conference on the conservation and utilisation of resources, opening on Aug. 17, at Lake Success. An expert from the Philippines reports that there are nearly 1,500,000 acres of fresh and salt water swamps in his country which could be converted into fish ponds capable of producing as much as 445,000,000 lbs.

*Lake Success, June 23, 1949.*

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**FRANCO-GERMAN AGRICULTURE?** French and Western German agriculture together would be able to cover the food requirements of the two countries if France's agriculture could reach the pre-war yield in Western Germany. It is interesting to note that at the invitation of the French Minister for Agriculture, German agricultural experts have visited Paris for an informal exchange of ideas.

*Die Gegenwart, June 15, 1949.*

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**REDUCE GOLD PRICE!** What has become of the bill in Congress returning the price of the gold ounce from \$35 to \$20.67 prevailing in 1932 and years earlier? If the price is put back to \$20.67 by act of Congress, that would be a blow at inflation. An honest dollar would teach

people how to count again. Our present dollar is three-fourths counterfeit, worth about \$.25 gold. Most other moneys are all counterfeit.

*Letter, New York Times, July 4, 1949.*

**BELGIUM & STERLING BLOC** Mr. Arneye, economic adviser to the Banque de Bruxelles, said in New York that the Benelux nations in their struggle for economic union were a "symbol" of what might be accomplished by Europe with the same degree of co-operation. In common with Switzerland, he continued, Belgium is opposed to the British policy of carrying on all Marshall Plan trade of the inter-European variety in terms of sterling. Such a plan, he asserted, can be the opening wedge for making a sterling bloc of the Western European nations. Belgium has always been an advocate and practitioner of free multilateral trade and ready currency convertibility. Also among the basic reasons for this policy is the role of Belgium as primarily a converter of imports.

*New York Times, June 22, 1949.*

**BIGGEST U.S. CONCERNS** The following are the twenty-five largest American manufacturing concerns, with assets stated in millions of dollars:

1949

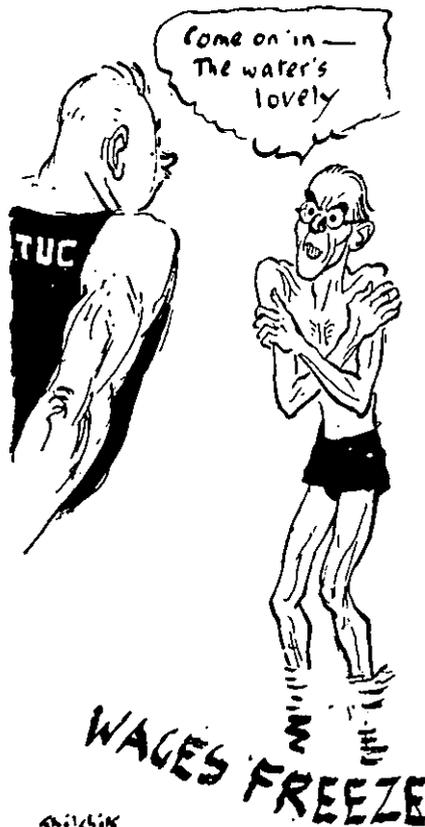
Standard Oil Co. (N.J.)	\$3,526
General Motors Corporation	2,958
U.S. Steel Corporation	2,535
E. I. du Pont de N. & Co.	1,585
Standard Oil Co. (Ind.)	1,500
Socony-Vac. Oil Co.	1,443
Texas Company	1,277
Gulf Oil Corporation	1,191
General Electric Co.	1,177
Standard Oil Co. of California	1,075
Bethlehem Steel Corporation	1,029
Ford Motor Co. (1948)	1,026
Cities Service Co.	992
Western Electric Co.	786
Un. Carbide & Car. Corporation	723
Sinclair Oil Corporation	710
Westingh. Electric Corporation	694
American Tobacco Co.	687
Inter Harvester Co.	672
Anaconda Copper Mining Co.	660
Shell Union Oil Corporation	641
Allied Chemical & Dye Corp.	597
Phillips Petroleum Co.	579
Kennecott Cop. Corp.	575
Chrysler Corporation	541

Total..... \$29,179

*National City Bank of New York,  
June 6, 1949.*

**WHEN WAGES RISE** The American Federation of Labour declares that, although wages must move steadily upward this year to restore and increase consumer buying, "wage increases should now be based on past or future increases in productivity to prevent undue rises in costs, and company earning power should be considered." It adds that "action that would start price inflation again must be avoided by government, management, and unions." "Perhaps your employer's prospects are excellent," the A.F.L. continues, "but if his profit margin is being squeezed by price declines, your future will be more secure if you help him to improve his competitive position. A wage increase may depend on a plan for union co-operation to prevent waste, save expense, cut costs, improve production."

*Labour's Monthly Survey,  
Washington, June 20, 1949.*



*From Time & Tide, June 25, 1949*

# European Balance Sheet

## 1948—1949

*Europe needs more freedom in commercial transactions, and better co-ordination in the fields of credit, prices, costs and foreign exchange. This is realistic planning, and it can be done with an eye to international co-operation*

SINCE the war, most European countries and several others outside Europe have tried to restore balance in their foreign trade by way of a curtailment rather than an expansion, the main feature of their control of foreign trade being a cutting-down of imports. Considering that for almost every country in Europe the deficit in the balance of payments still persists, there must surely be some particular reason why the cutting of imports does not eliminate the trade deficit as had been hoped. As a matter of fact, most countries find that the curtailment of imports leads to a reduction in exports. An example (from actual life) may be cited to show the connexion between imports and exports: in a country whose monetary reserves were almost exhausted a licence was refused for the import of a machine costing about \$50,000; since the would-be importer could not do without the machine in question (fortunately not a very complicated one), he managed to get it made in his own country at a cost equivalent to about \$70,000. But what effect did this have on the home market at a time when full employment already prevailed? It is not likely that the making of the machine led to a reduction in domestic demand; on the contrary, the probability is

that such demand was increased because of the additional spending at home to which the manufacture of the machine gave rise. More money being spent internally, production for domestic purposes would surely not be reduced; and, that being the case, the workers and other factors of production required to produce the machine must have been taken from the export industries—with the net result that exports were reduced and, maybe, by a larger amount than it would have “cost” to allow the importation of the machine.

Again and again, instances of a similar process will arise as long as imports are being curtailed. What looked like an “economy” designed to “save” foreign exchange thus turns out to be an indirect way of reducing exports, and often to a larger extent, a vicious spiral being set in motion which can only be arrested by the adoption of a wholly different policy.

Thus it comes about that refusal to import more of non-essentials than certain minimum quotas can easily result in a more than proportionate reduction in exports and to a consequent aggravation of the trade deficit. The exclusion of non-essentials of foreign origin does not, as experience shows, induce people to save more; other goods are de-

manded in their place; it is usually found that a host of small new industries spring up to satisfy the need for the goods which cannot be imported; many of these new industries involve a sheer waste of effort, since the domestic production is generally on too small a scale to be economic and is unduly expensive in other ways. While in foreign trade the attitude is to look askance at the importation of anything but essentials, an exaggerated stimulus is given to the domestic production of luxuries, which are generally not subject to regulation in the same way as necessities, the price of which is often kept down—an example of the preposterous contradictions to which controls may lead. And little knowledge is needed about European economies to realize that for many of them it is of paramount importance that the distinction between "essential" and "non-essential" should disappear from the tenets of current trade policy.

But is it not a fact that, as regards a large number of products, a more equal distribution of income after this second world war has greatly reduced demand? That may be so in the case of a few luxuries perhaps, but it surely does not apply to the great mass of goods often styled non-essentials. And it would seem to be for the consumer himself to decide how he wishes to dispose of the income left to him after payment of all dues and taxes. Curiously enough, it is apparently sometimes assumed that even in the "free enterprise countries"—and that means practically the whole Western world—it is the governments which always decide what should be bought from abroad. But, with the exception of particular instances of "bulk buying" (strictly limited to a few necessities), it is the consumer who, in the last instance, decides whether a thing can

be sold; governments may refuse to grant import quotas, but even the granting of quotas does not mean that actual trade takes place; whether the goods will actually be imported and ultimately sold to the consumers will depend on the consumers themselves.

Though foreign exchange control may have to be maintained as a safeguard against abnormal movements of capital; it would be dangerous to allow fear of such undesirable movements to prevent a return to adequate liberty for normal transactions and then to let whatever control is necessary over capital movements interfere unduly with freedom in the field of current transactions. What is clearly called for is the re-establishment, with the least possible delay, of a normal regime in which commercial transactions and other current operations can be effected without excessive formalities and with the certainty that for all current operations the necessary foreign currencies will be obtainable when required. To fulfil such a condition the exchange regime must obviously aim at being "self-sustaining," which

#### ASSEMBLY OF EUROPE

*Representatives of the states of Western Europe, nominated by their Governments, will gather in Strasbourg on August 10 for the first meetings of the Assembly of Europe. For their service, and the interest of the many people who will be studying their deliberations, the remaining articles in this issue are devoted to problems connected with the economy of Western Europe.*

means that it will obtain the necessary exchange from the market itself—and a market freed from artificial limitations as regards all current account operations.

The trend should clearly be towards greater freedom as regards foreign exchange transactions. It has to be remembered that the real cost of exchange control is not to be measured simply by the expenses of the administration, a heavier item being the loss of time and effort—not to speak of the actual loss of trade—through the cumbersome formalities, the delays and uncertainties which seem to be inseparably connected with such a vast undertaking as the application of effective exchange control.

#### *Weakness of Controls*

It would be a mistake to underestimate the difficulties in the way of an advance towards a more normal system of foreign payments, with greater competition from abroad. Control, with its curtailment of imports, seems to many a necessary means of "saving" foreign exchange—but then it is forgotten that expenditure inhibited in one direction mostly leads to increased expenditure in another, to the detriment of exports. Vested interests have also grown up which are in no way anxious to see a dismantling of restrictions. But, despite all obstacles and hesitations, it will be necessary to arrive at a situation in which restrictions are no longer the rule and freedom the exception and one in which ordinary trade in merchandise, the movements of tourists and the regular exchange of services can take their course without interference dictated by monetary considerations. Creditor countries naturally incur little or no risk in admitting imports more freely, but debtor countries must also be aware

that the practice of keeping out non-essential goods, if applied all round, would soon prevent them, too, from ameliorating their trading position.

It is, indeed, becoming increasingly clear which will be the countries with the best chance of standing up to international competition: it will be the first countries to revert to a system of greater freedom by adopting a policy, in which each set of measures in the fields of credit, prices, costs and foreign exchanges contributes in a harmonious way to the establishment of a balanced position. When contradictory policies are pursued, as has happened only too often in recent years, it becomes almost impossible to re-establish the credit position without which no genuine contribution from savings will be forthcoming as a durable basis for investments. In these matters, the general public, even though it may be uninformed about many technical details has, after all that has happened, acquired a knack of judging whether the steps taken are likely or not to achieve the desired results.

#### *True Planning*

More is needed of true planning, which consists less in fixing "targets" than in determining precisely what measures should be taken in different fields over (say) the next six or 12 months in order to correct unbalanced positions and achieve further progress. An essential task will be to bring back into operation those parts of the mechanism of adjustment which the modern economy has at its disposal for the purpose of keeping a balance between supply and demand on the markets, between payments and receipts in the balance of payments, etc., and it is then especially necessary to ensure that no artificial creation of monetary purchasing power, beyond what

is really earned by contributions to production, upsets the balance at home and in relation to other economies. It is neither more nor less planning that is needed, but planning of the proper kind. All too often unco-ordinated—and, what is worse, contradictory—measures are adopted by separate branches of the administration having little or no contact with one another. This is then mistakenly given the name of "planning," whereas real planning must, first of all, aim at a proper harmony in the lines of official action and, secondly, relate these measures to the manifold free activities of the people as producers, traders, income-earners and consumers, so that their various efforts are fitted into the general picture under conditions conducive to all-round balance. And this kind of planning must, further,

be undertaken with an eye to what is happening in other countries and what opportunities are offered for co-ordinated action on an international scale. It may well be that no measures would be more likely to combat any deflationary tendencies appearing in the various economies than a speedy abolition of quantitative and other trade restrictions, for that might give just the right expansionist impetus now needed. It is dawning upon the peoples that there is no solution in separation; that those who protect their markets from foreign influences are liable to be less capable of sustaining competition and improving their standards of living, and that, indeed, a truer harmony and added strength are to be found in developing appropriate forms of international co-operation.



## *A Summary of Facts and Figures*

¶ The somewhat arbitrary character of many of the interventions and prohibitions imposed by the Foreign Exchange Control cannot fail to have a cramping effect on such capital movements as are undoubtedly desirable.

### *American Aid*

¶ It is the size of the real income per head which enables the United States to extend aid to so many other countries. Thus, the total aid for the first fiscal year of the E.R.P. came to little more than 2 per cent. of the national income in the United States, while the amount of current private savings in the United States is estimated

to have been equal to 15 per cent. of the national income.

### *Effect of E.R.P.*

¶ The full European Recovery Programme soon had a profound effect in the recipient countries and in the world at large. As the first and most signal result it must be mentioned that the external aid helped to keep up the volume of international trade—not only in relation to the dollar area but, through the operation of the payments scheme, within Europe as well; if the aid had not been forthcoming, several countries which could not afford to dip more deeply into their already badly depleted

monetary reserves would have had no choice but to cut down their imports still further.

### Triangular Trade

An expansion of the volume of trade almost always represents a gain in itself; but triangular trade, in which overseas countries sell raw materials to the United States while buying a variety of machinery and manufactured articles from Europe or in which part of the earnings of such countries is spent by their nationals visiting Europe, has the further advantage of helping to solve the dollar problem; for trade of this kind makes it possible, so to say, to get round the U.S. tariff, since most raw materials are duty-free. Encouragement of triangular trade is not, of course, a short cut to solving the dollar problem, but it helps up to a point, and in this field, as so often in human affairs, a solution must be sought along many different lines.

### Reversal of Price Trend

¶ A reversal of the price trend may administer a salutary shock, in which case the sobering effect would lead to the elimination of inefficient traders and producers and the resumption of proper business calculations. The consumer would once more be served with efficiency and consideration, and quality would again count. Each phase of business has, however, its own difficulties; producers faced with falling quotations begin to ask for price support to be given them by the government, and other new problems arise. Many maladjustments (including, for instance, the maintenance of unrealistic exchange rates) may have only slight adverse effects so long as the boom lasts, since sales are then easy, but such maladjustments will

make themselves increasingly felt when a buyers' market prevails once more. The gradual return to a normal structure of demand will necessarily call for a return to the normal structure of production, and this will often involve a new relation between the output of capital and consumers' goods and an adaptation of agricultural production to the general rate of recovery.

## THE VITAL STATISTICS

### Increase in Wages from 1937 to 1948

Countries	Money wages in national currency	Money wages converted into dollars
	Indexes: 1937=100	
Belgium.....	420	284
Czechoslovakia.....	259	148
France.....	1,140	191
Italy.....	5,280	175
Netherlands.....	182	175
Sweden.....	197	215
Switzerland.....	187	187
United Kingdom.....	183	149
United States.....	213	213

### Exports as Percentage of Imports

(special trade)

Country	1938	1940	1947	1948	1949 1st quarter
	percentages				
Western European Countries					
Belgium a.....	94	52	72	85	105
Denmark.....	05	57	75	80	76
France.....	66	43	61	66	83
Italy.....	93	54	47	71	72
Netherlands a..	74	33	44	55	93
Norway.....	66	55	48	56	57
Sweden.....	89	75	62	80	80
Switzerland....	82	78	68	69	77
United Kingdom a....	51	70	63	76	85
North America					
U.S.A. b.....	157	198	268	178	183
Canada.....	124	120	108	117	103d
South America					
Argentina.....	99	170	100	-	-
Brazil.....	100	140	93	103	-
Chile.....	136	110	105	120e	-
Peru.....	132	123	92	97	-

a Including trade with overseas territories.

b General imports and exports including re-exports.

c Proceeds of copper and nitrates not available for payment for imports. If these items were excluded, the proportion of imports covered by exports would be as follows: 1938—40 per cent.; 1940—39 per cent.; 1947—27 per cent.

d January and February.

e 11 months.

Gold and Foreign Exchange Holdings of Latin America <sup>a</sup>

Country	1938	1946	1948
Total	768	3,929	2,703
Argentina	426	1,696	613
Brazil	59	760	757
Chile	33	69	53
Colombia	27	176	84
Cuba	2	266	317
Guatemala	9	47	43
Mexico <sup>c</sup>	28	180	44 <sup>d</sup>
Peru	21	35	44
Uruguay	73 <sup>c</sup>	291	241
Venezuela	63	252	386
Other countries	27	157	121

Source: International Monetary Fund, International Financial Statistics, April, 1948. Figures for December of year stated.

<sup>a</sup> Holdings of central banks, treasuries and other governmental institutions.

<sup>b</sup> November 1948.

<sup>c</sup> Gold holdings only.

<sup>d</sup> August 1948.

From World Economic Report, United Nations, 1948

## United States: Current Surplus Covered by Receipt of Gold

Items	1946	1947	1948
	in billions of dollars		
U.S. exports of goods and services	15.0	19.7	16.8
U.S. imports of goods and services	7.2	8.4	10.5
Balance	+ 7.8	+11.3	+ 6.3
Sale of gold to the United States	0.7	2.8	1.5
Percentage relation between the sale of gold and the active balance on current account	.9%	25%	24%

## United States Government Aid to Foreign Countries

## A. Unilateral transfers (a)

Period	Straight lease	UNRRA and post-UNRRA aid	Civilian supplies for occupied territories	Greek-Turkish aid	E.R.P.	Other government transfers <sup>b</sup>	Gross unilateral aid	Less reverse transfers <sup>c</sup>	Net unilateral transfers
	in millions of U.S. dollars								
1945	7,613	589	871	—	—	442	9,515	2,875	6,640
1946	209	1,524	539	—	—	245	2,517	238	2,279
1947	—	788	980	74	—	430	2,272	460	1,812
1948	—	84	1,263	349	1,867	1,073	4,636	328	4,308
Total	7,822	2,985	3,653	423	1,867	2,190	18,940	3,901	15,039

## B. Long-term loans and investments (d)

Period	Lend lease credits	Surplus property <sup>e</sup>	Export-Import Bank	Subscriptions to the International Bank	Monetary Fund	Loan to United Kingdom	Other	Total outflow	Inflow	Net outflow
	in millions of U.S. dollars									
1945	830	63	35	—	—	—	12	940	99	841
1946	600	841	945	317	5	600	12	3,320	90	3,230
1947	2	274	796	318	2,745	2,850	80	7,065	174	6,891
1948	—	249	453	—	—	300	21	1,023	336	687
Total	1,432	1,427	2,229	635	2,750	3,750	125	12,348	699	11,649

<sup>a</sup> Not including net private payments: viz. 1945—\$473 million; 1946—\$598 million; 1947—\$563 million; 1948—\$603 million.

<sup>b</sup> Including Interim aid to France, Italy and Austria, the Chinese aid programme, war damage payments, grants to the International Refugee Organization and other transfers.

<sup>c</sup> Including Lend-Lease settlements.

<sup>d</sup> Not including net private outflow: viz. 1945—\$454 million; 1946—\$26 million; 1947—\$744 million; 1948—\$761 million.

<sup>e</sup> Including ship sales.

## *A Policy for World Business*

*If Europe would increase her exports to the under-developed countries, they could sell more to those countries from which Europe is obliged to import so heavily. In addition, war-damaged and under-developed countries need more capital; this calls for the restoration of multilateral trade*

**E**CONOMIC conditions improved considerably in many parts of the world from 1947 to 1948, but economic activity has been showing a tendency to level-off and, in a few countries, to decline since the middle of 1948 and the early months of 1949; in addition, the far-reaching post-war dislocations of international trade have remained acute.

The second half of 1948 and the beginning of 1949 appear to represent a turning point in post-war economic developments. For the first time since the end of the war there was a reversal of the upward trend of prices, a check to the expansion of production and some increase in unemployment in a number of countries.

The easing of supplies of food, raw materials and fuel was reflected in price declines. During the latter part of 1948 or the first half of 1949, successive declines occurred in prices for grains, cocoa, non-ferrous metals, timber, natural rubber, fuel oil, cotton and wool. The drop in food prices was reflected in a tendency for the cost of living to level off and, in a few cases, to decline, and was accompanied by general relaxation of rationing and other controls.

For the first time since the end of

the war, there was, according to preliminary estimates, a slight decline in the index of world industrial production during the first quarter of 1949. The index dropped two points from the peak reached in the last quarter of 1948, but was still 8 per cent. above the corresponding quarter of 1948. This decline was attributable primarily to the drop in United States production, which occurred as a result of a fall in effective demand caused by the weakening of some of the special post-war factors previously sustaining high levels of activity and employment. In addition, there has been a slackening of the rate of increase of production in a number of other countries.

There has also been a limited increase in the number of unemployed in several countries although, with few exceptions, unemployment figures are still relatively low. Unemployment increased significantly in the early part of 1949 in a number of European countries and in the United States.

By the second quarter of 1949, inflationary pressures had weakened materially in many areas of the world, and in a few countries, notably Belgium, the Western Zones of Germany, Italy and the United States, the problem of inadequate

effective demand was arising. Underlying these developments was the increase in the supply of consumption goods, especially food, and the reduction of pent-up demand, owing to the saturation of such demand and to the exhaustion of accumulated liquid assets by the mass of consumers. In some countries there was also a noticeable slackening of private investment, especially in residential construction.

Coal and lignite, which before the war had provided 69 per cent. of the world's energy, in 1948 provided only 59 per cent. of the total. Petroleum, natural gas and hydro-electric power increased their share of the total, in the order named. Although coal and lignite diminished in relative importance as sources of energy, there was a substantial increase between 1937 and 1948 in the amount produced; the solid fuels remained a more important source of energy than all the others combined.

#### *World Production.*

The increase in world production of fuel and power between 1937 and 1948 was attributable largely to developments in areas undevastated by war, notably Canada, the Middle East, Venezuela and the United States; among war-devastated countries, the Union of Soviet Socialist Republics was the only major producer to reach production levels substantially above those of the pre-war period. In Europe, although 1948 production was still about 7 per cent. below pre-war, it was 10 per cent. above the 1947 level and, even with reduced imports of coal from outside the region, the consumption of fuel and power in Europe rose to 98 per cent. of the pre-war level. In the Far East, both production and consumption of fuel and power were far below pre-war levels.

The combined pressure of invest-

ment, export surplus and budget deficit, as measured by the ratio of their sum to aggregate income, did not change considerably in most countries in 1948. On the whole, private and public investment continued at the high level of the preceding year. Decreases in import surpluses in a number of net importing countries were generally offset by increases in government revenue or, in some instances, reductions in government expenditure. In the United States the process was reversed; the decrease in the export surplus was offset by an increase in Government expenditure and by a reduction in taxes.

#### *Trade Expansion*

World trade has continued to expand since the middle of 1947, though at a slower rate than before that time. For the year 1948 as a whole, the quantum of trade exceeded that of 1947 by about 4 per cent. In the last quarter of 1948 the quantum was only 2 per cent. below the average quarterly level of 1957. Since trade normally undergoes a seasonal expansion in the last quarter of each year, it was not as close to the 1937 level as this comparison may suggest. Undoubtedly, however, the somewhat lower level of 1938 was exceeded. The average unit values of trade, which may not accurately reflect the movement of the prices of goods entering into trade, fell slightly in the first quarter of 1948, but subsequently continued to increase throughout the year. To some extent this increase may reflect the rise in the share in world exports of "soft currency" countries in which, on the average, the level of export prices is higher than in hard currency countries.

The general indices for world trade conceal large differences in the movement of trade of particular

countries. Exports of the majority of countries were growing in the course of 1947 and 1948. Those of certain countries, such as Germany, that had fallen to a very low level during and immediately after the war, were indeed expanding very rapidly during 1948, though still remaining far below the pre-war level. Conversely, United States exports, which have risen more since the 1930's than those of any other important trading country, tended to decline, absolutely and relatively, from the early part of 1947 till late in 1948.

### *Three Problems*

At the present time three central and inter-connected problems appear to overshadow other difficulties affecting international commercial and financial relations. The first involves the adjustment required on account of the industrialization of under-developed countries; the second, those on account of the rehabilitation of Europe's trade; and the third, those related to the present one-sided reliance of both developed and under-developed areas on net imports from the United States that have to be financed by capital transfers—grants and inter-governmental loans, or liquidation of gold and dollar reserves—of a compensatory rather than a commercial nature.

If the industrialized countries of Europe (including the United Kingdom) continue to maintain a heavy import balance with the United States, Canada, Argentina and Australia, among other countries, it appears that this import balance will eventually have to be financed by a net export to under-developed countries—particularly those which, like the majority of countries in the tropical belt, are complementary with the United States in their production and have or may develop an active balance of trade with that

country through their export of primary products. At the same time, the strain which the financing of industrialization will exercise on the under-developed countries is likely to limit their ability to import articles of consumption from Europe, and to reserve their purchases in large part for capital goods.

It is true that at present the United States is the chief exporter of capital goods. But the supply of such goods available for export from both the United Kingdom and Continental Europe has increased rapidly and it may be that the types of such goods that are produced in Europe will find a more ready market in the countries in the early stages of industrial growth than United States capital goods, produced largely for use in countries where labour is relatively scarce and the capital-intensity of industries accordingly very high. If this surmise is correct, the rehabilitation of Europe's external trade and the economic development of the vast areas which have hitherto lagged behind in economic growth—two of the most important and difficult tasks at present facing the world—would be interlinked and mutually support each other. The export surplus of industrial Europe to these under-developed areas would have to be financed by an export surplus of these areas to the countries from which Europe must be expected to import on balance, particularly the United States, Canada, Australia and Argentina. Naturally, should the export balances of the highly developed countries of Continental Europe to the United Kingdom be restored, the pressure which is now on them to establish export surpluses to the under-developed areas, would be greatly reduced.

Doubtless, other solutions to current international trade problems are possible. Furthermore, it is not

## Indices of Production—(1)

## ENERGY

## World Major Sources, 1947 and 1948 (1937=100)

Item	1947	1948
Coal and lignite.....	106	110
Petroleum.....	148	166
Natural gas (a).....	178	198
Hydro-electric power.....	153	162
Total above sources of energy.....	121	129
Total electric power.....	163	179

Source : Based on data supplied by the Statistical Office of the United Nations.

- a. The United States, with total production approximating 140,000 million cubic metres, is the only major consumer of natural gas; Canada, Roumania and the Union of Soviet Socialist Republics, were the only other countries that produced more than 1,000 million cubic metres for use as fuel.

## MINING AND MANUFACTURING

## National Indices, 1938, 1946, 1947 and 1948 (1937=100).

Country	1938	1946	1947	1948
Argentina.....	104	151	162	-
Austria a.....	-	-	51	78
Belgium b.....	81	74	86	93
Bulgaria.....	108	122	148	179 c
Canada.....	95	147	162	169
Chile.....	97	129	136	143
Czechoslovakia.....	-	-	83	98
Denmark.....	100	101	116	129
Finland b.....	102	107	119	137
France.....	91	70	85	99
Germany :—U.K. and U.S. Zones.....	110	27	32	51
French Zones.....		-	-	49
Greece.....	109	52	66	70
India d.....	105	109	106	116 e
Ireland.....	97	109	113	130
Italy.....	99	-	85	89
Japan.....	107	20	25	33
Mexico.....	99	125	129	130 f
Netherlands.....	102	70	91	110
Norway.....	100	100	115	125
Poland.....	108	82	109	141
Sweden.....	101	137	139	144
U.S.S.R. b.....	111	110	135	171
United Kingdom.....	93	91	98	110
United States.....	79	150	165	170

Source :—Statistical Office of the United Nations.

a Including electricity until 1948.

b Including electricity and gas.

c Based upon 11 months.

d Including electricity.

e Based upon 10 months.

f Based upon 9 months.

suggested that changes in trade of the kind indicated above would suffice to re-establish equilibrium in international transactions. It would be extremely difficult for industrial Europe under any circumstances to build up an export balance to the under-developed countries large enough roughly to offset its import balance with other areas, or for the under-developed countries to shift

their present import balance with the United States to a heavy export balance. In fact, in the majority of both the war-damaged European countries and the under-developed countries outside Europe, the urgency of rehabilitation and development calls for investments at a rate well exceeding that before the war. Both the high investment, and the high consumption that usually

### Indices of Production—(2)

#### ELECTRIC POWER

##### World and Regions, 1947 and 1948

Area	1947 (1937=100)	1948 (1937=100)	1948 (1947=100)
World.....	163	179	110
Asia (excluding U.S.S.R.) .....	116	123	106
Europe (excluding U.S.S.R.) .....	127	143	112
U.S.S.R.....	150	175	117
Africa .....	182	196	108
Latin America.....	188	206	110
Oceania and Australia.....	193	214	110
United States and Canada.....	207	224	108

Source :—Based on data supplied by the Statistical Office of the United Nations.

#### MINING AND MANUFACTURE

##### World, 1938, 1946, 1947 and 1948 (1937=100).

Period	World	World, excluding United States	World, excluding Germany, Japan and United States
1938.....	93	102	100
1946.....	107	82	97
1947.....	121	96	112
1948.....	135	114	131
1947 quarters :			
First.....	115	86	102
Second.....	121	96	113
Third.....	122	98	114
Fourth.....	127	102	119
1948 quarters :			
First.....	129	107	124
Second.....	133	112	130
Third.....	135	114	130
Fourth.....	141	123	140
1949 first quarter.....	139	124	141

Source :—Statistical Office of the United Nations.

accompanies investment, tend to absorb goods which would otherwise be available for export and imply a heavy demand for imports. Under such conditions these countries would naturally benefit from a resumption of the inflow of foreign loans and direct investments. But experience shows that such capital tends to shun countries from which dividends and debt service payments, usually taking place through multilateral transactions, cannot be transferred. Accordingly, the restoration of multilateral trade would also help to solve the third of the problems indicated above.

It might be thought that the devaluation of over-valued currencies so as to close the existing—and, it appears, widening—discrepancy between prices in different countries would constitute the easiest way to solve the present difficulties of international trade and finance. The indications are, however, that this is an over-simplification of the prob-

lem. It is undoubtedly true that one could conceive of a set of international exchange rates that would be compatible with international equilibrium and free convertibility of currencies. But it is also true that the full benefits of multilateral trade depend on the establishment of trading channels which in turn would be contingent upon changes in the nature of production and consumption in all the countries involved. The establishment of equilibrium rates and free convertibility alone, quite apart from the technical difficulty of computing the set of exchange rates involved, would be likely to have grave repercussions on national employment and prosperity in numerous countries. The problem of combining the maintenance of high levels of employment and national prosperity with international integration and equilibrium is therefore one which can hardly be solved in a short time or by schematic methods.

## War Debts Should Be Segregated

By R. F. HARROD

**S**TERLING convertibility is necessary if Britain is to recover, and that valuable institution, the sterling area, to be saved from complete disruption.

One point, not mentioned in the statement (by the Chancellor of the Exchequer and the Secretary of the U.S. Treasury, July 11, 1949), is all-important: it should be discussed next September with a view to the formulation of a joint Anglo-American policy, and much preparatory work will be needed. A comprehensive settlement of Britain's external ex-war debts is required. These stood at £3,676 million at the end of 1945. At the end

of 1948 external sterling liabilities were £3,362 million. (Cmd. 7,648).

What is needed is a complete segregation of all the old balances and an orderly scheme for slow repayment, subject to postponement clauses on defined conditions (analogous to the waiver clause in the United States Loan Agreement). At present we are subject to constant pressure for the *ad hoc* repayment of sums on account, while some holders, not always the most deserving, find clever ways of realizing at a discount through black markets.

So long as this condition obtains we shall never succeed in making sterling convertible.

# Rebuilding Germany's Foreign Trade

*The work of JEIA is succeeding beyond all expectations.  
Nevertheless, Germany is still handicapped by shortage of  
capital, and further aid may be needed after 1952*

SINCE the end of the war, Western Germany has been the object and beneficiary of a unique experiment. For the first time in history, the victors have been expending their human and financial resources for the benefit of the vanquished. At a cost of about a billion dollars a year, most of which is borne by American taxpayers, the Western Allies have been rebuilding their former enemy.

Before the war, Germany held a key position in the European economy and was one of the largest traders in world markets. She sold large quantities of coal and fertilizers, as well as machinery, precision instruments, optical goods and other high quality merchandise throughout the world, and many countries, especially the neighbours of Germany, depended on her for such goods. At the same time, Germany was equally dependent on foreign nations for a considerable portion of her foodstuffs, as well as iron ore, wood pulp and other essential raw materials. Under such conditions, trade between Germany and the rest of the world was vital to the welfare of both.

In 1945 it was recognized that, if stability in Europe was to be restored, Germany must resume her place in international commerce. But she was not in a position to do so without help from outside. There-

fore, upon the economic unification of the British and United States Zones of occupation, a Joint Export-Import Agency (JEIA) was established with the mission of reviving and supervising German foreign trade. With factories in ruins, sources of raw materials cut off, banks closed and money almost worthless, this was a Herculean task. But, despite these obstacles, William John Logan, director-general of JEIA, reports that the project is succeeding beyond all expectations.

In the first two years of JEIA operation, Bizonal Germany's export earnings rose steadily from \$30 million in the first quarter of 1947 to \$266 million in the first quarter of 1949. Imports averaged about \$183.5 million quarterly in 1947 and about \$350 million in 1948, and totalled \$388 million in the first three months of this year. The bulk of the imports was financed with foreign aid, which averaged somewhat more than \$200 million quarterly. The remainder was purchased with export proceeds.

This trend continued even more markedly in April and May of this year, when export deliveries exceeded \$100 million in each month. Imports in April amounted to \$154.3 million. Export earnings at the current rate, therefore, are about two-thirds of the cost of imports, as compared with less than half the cost

a year ago. If ECA imports, amounting to \$48.9 million, are subtracted from the import total for April, the remainder of \$105.4 million was almost earned by exports. It is noteworthy that export proceeds are running far ahead of the objective of \$62 million monthly established by the Organization for European Economic Co-operation for the fiscal year 1948-49.

Of necessity, coal has been a major item of export. Shipments of this commodity, however, have remained comparatively stable for the past two years, while general exports, including manufactured goods, have risen sharply, attaining an average monthly value of more than \$50 million in the first quarter of this year and totalling more than \$60 million in April. The objective under the OEEC budget is \$32 million monthly. The most notable gains have been made in exports of iron and steel, metal products, textiles and textile products.

The situation presents an interesting contrast to that in the Russian Zone. While Western Germany is working toward a trade balance, Eastern Germany is reported to be exporting more than twice as much as it imports. This does not mean, however, that Eastern Germany is building up foreign balances available for future purchases. The export surplus goes to Russia free of charge in the form of reparations. Money wages in the Russian Zone are high; but prices are correspondingly high, rations are small, supplies of unrationed goods are meagre, and the standard of living is lower than in Western Germany. While the Western Allies build up their zone of occupation at their own expense, Russia is exploiting Eastern Germany after the time-honoured fashion of conquerors.

When JEIA was first organized,

Mr. Logan points out, no banking facilities existed through which Germany could carry on foreign trade, and the agency was obliged to serve as buyer, seller and banker. In accordance with Military Government policy, the intention was to restore the conduct of affairs to German hands as rapidly as was feasible. Long strides in this direction have been taken, the most important of which was the establishment in November, 1948, of a new export procedure, whereby German exporters may, with certain specified restrictions, sell their products freely on world markets in accordance with normal trade customs. Two months later a new import procedure was adopted, accomplishing much the same result in that field. Meanwhile, some 175 foreign trade banks had been accredited, considerably reducing the delays in handling documents which formerly had to be channelled through one of the 11 JEIA offices.

### *Programme of Agreements*

A major phase of JEIA activity has been its trade agreement programme. With German officials and experts taking an increasingly important part, agreements covering more than \$1,100 million of exports and imports have been negotiated with 25 countries. All of these are now in effect.

At the same time JEIA has been obliged to concern itself with a number of tangential activities which are necessary to foreign trade but are taken for granted in a normal economy. It has been necessary, for example, to arrange for shipping and insurance services, re-establish business contacts, and provide facilities whereby German business men can travel abroad and foreign business men can visit Germany. Con-

siderable attention has been given to the problem of hotels for foreigners, not only to provide accommodations for business men but also to revive the tourist traffic, which formerly was an important source of foreign exchange. A plan to permit foreign visitors to travel freely throughout the three Western zones, with access to all German hotels and restaurants, is now in effect.

In an appraisal of the outlook, the unanswered and apparently unanswerable question is how much of the progress achieved is permanent and how much is temporary stimulation due to the inflow of foreign funds. Despite outside assistance, German recovery is still handicapped by a shortage of capital. There is a tendency in some quarters to assume

that a self-supporting position will not have been reached by the time the present programme ends in 1952, and that some form of continued aid, either governmental or private, will be forthcoming.

Whether this will be the case, or whether such continued assistance will in fact be required, is unpredictable. But the very substantial improvement that has been achieved with the aid already given is beyond question. Certainly the objective of a self-supporting Germany has not yet been reached. The progress made in that direction, however, is sufficient to encourage the hope that the task of transforming the German economy from a burden upon American and British taxpayers to a bulwark of international stability and prosperity can be accomplished.



## Official Policy of the United States

ON the occasion of the departure for Germany of Mr. John J. McCloy, designated to be the U.S. member of the Tripartite High Commission for Western Germany, the U.S. State Department issued a statement of policy from which the following points are extracted:

Official figures on trade indicate that Germany is already making a substantial contribution to overall European recovery. A sharp increase in German imports from other Marshall Plan countries points to the re-establishment of Germany as one of Europe's most important markets. As an outlet for her neighbours' products, Germany is a key factor in the expansion of trade which is necessary for Europe's economic recovery.

Total import deliveries to the U.S.

British Zone during the first quarter of 1949 averaged about \$13,000,000 per month greater than the monthly average during 1948. Nearly one-third of Bizone's imports during the first quarter of 1949 came from E.R.P. countries. Marked increase in the rate of imports from the Netherlands, Sweden, Belgium and Luxembourg, Denmark and France were reported.

In addition, Germany is essential as an exporter of "hard" goods to her European neighbours. Figures show that Bizone exports during the first calendar quarter of 1949 were 77.5 per cent. greater than the average reported for calendar year 1948. Of these exports—which were largely "hard" goods—more than 80 per cent. of the total went to E.R.P. countries. *Washington, July 2, 1949.*

# Benelux Falters

*The gradual freeing of trade between the three Benelux countries is delayed by differences between Holland and Belgium. Devaluation of the £ might help them over the first hurdle*

ALTHOUGH the Benelux conference in the Hague in March decided that on July 1 a new phase of co-operation should start between Belgium-Luxembourg and Holland, no agreement was reached on this "pre-union" before July 1. This pre-union should start the gradual freeing of trade between the three Benelux countries and bring about the systematic co-ordination of their commercial and monetary policy towards third countries.

In both countries it was expected that textiles would be freed from import restrictions into Holland (abundance and unemployment in Belgium's textile industry, shortage and rationing in Holland). It soon became clear that the Dutch textiles industry opposed a freeing of imports from Belgium, since it felt it was unable to compete with the Belgian industry.

The Dutch-Belgian differences are also related to the differences in the economic policy of the two countries. Some Belgians think that Benelux has functioned only unilaterally so far because Belgium follows a policy of the "open door," whereas Holland sticks to austerity.

There is also a difference in the monetary policies of the two countries. Holland has attached herself to the "transferable sterling" group, whereas Belgium is attracted by the dollar area. *La Libre Belgique*, the

leading Catholic paper, says that Holland demands that Belgium should accept from her weak currencies, including sterling, and grant her credits in hard currency. The paper of the Dutch Social Democrats, *Het Vrije Volk*, points out that "unrestricted imports would quickly bring Holland into a situation similar to bankruptcy. In addition, this freedom would stop any possibility of planning production and thus preventing future unemployment. If Benelux is turning away from the £ sterling, Britain will turn away from the Continent."

Belgium wants to establish the franc as a hard currency, Holland wants to maintain a link with the £ sterling. In Dutch government circles there are obviously doubts whether it would be advantageous to let the guilder become a hard currency similarly to the franc. It is feared that this might lead to a serious reduction of Dutch exports to the sterling area; such a reduction would prevent the achievement of an equilibrium in the Dutch balance of payments. On the other hand, it is realized that the preference shown to the sterling area has unfavourable effects on Dutch costs of production. One thinks in Holland that a devaluation of the £ might change the whole situation in such a way that the present differences of opinion might be much more easily overcome.

# The Problem of French Recovery

By R. V. ROSA

*Federal Reserve Bank of New York*

WHY is France the neediest country in Europe to-day? The primary explanation of the French need for outside assistance does not seem to lie in any of the more obvious direct effects of the war, nor has there been any major change in the traditional French position in world trade. "France has not, because of wartime readjustments, become fundamentally any more dependent than she was before the war upon the earnings of her exports. She is still, in the potential of her man-power and resources, one of the best balanced and promising of European economies.

"The French distress is instead much more closely associated with the dislocation produced by inflation.

The inflation had its source, of course, in problems generated by the war and the occupation. But the basic reason for the continuance of inflation after 1947, in the writer's view, has been the French attempt to impose an ambitious programme of new investment (the Monnet Plan) upon her economy, without accepting forthrightly the sacrifices, in voluntary or compulsory saving, which such a programme implies. To attribute the inflationary pressure to 'over-investment' is not to question the French need for a vigorous investment programme; that need has become increasingly evident since the First World War. Nor would the investment necessarily prove excessive if it were not for the long-standing weakness of the French fiscal system—a weakness going back many decades.

"Foreign aid has, in effect, filled part of the gap between scheduled investment and the 'natural' savings (or tax surpluses) of the French economy. But even in the magnitudes thus far available, foreign aid could not do the entire job. The remainder of the gap has been filled by credit expansion, and the peculiarly 'forced' savings which that expansion implies. Meanwhile, the pattern of output in the French economy has been distorted toward fulfilling the transitory demands of the few who have profited from inflation. A structure of production and trade has been created which diverts indigenous and imported resources from the investment programme itself, which necessitates



M. MONNET

*From The Economic Journal, June, 1949*

use of much of the foreign aid in sustaining a minimum consumption standard for the working classes, and which will in the end have to be destroyed, at considerable waste of resources, once the inflation collapses or is choked off by effective Governmental action.

"None of the steps undertaken by any French Government up to December, 1948, were powerful enough to strike the major cause of continued inflationary pressure. By forthright reduction of the invest-

ment projected under the Monnet Plan, and by energetic tax reform as a preface to later restoration of the investment cuts, the French may still halt their disruptive inflation before a 'bust' produces paralysis and chaos. No programme which is adequate can be easy; there will be innumerable difficulties in carrying through these measures. But they do appear to offer the only promising outline of a solution to the problem of inflation which has barred the road to French recovery."



## Two Years of the Monnet Plan

At the time the plan came into operation recovery was already in full swing. What the plan did in the main was to divert resources from consumer industries to essential industries. Investments in basic industries absorbed almost the total franc counterpart of Marshall Aid with preference for nationalized industries, a policy not universally approved.

In 1948 the production targets were not generally attained and in some cases the gap between estimates and actual achievements was considerable, as, for example, in the case

of coal, steel and cement. The electricity industry nearly reached its target: only the petrol refining industry exceeded the estimate.

The plan has now undergone various modifications and some of the targets are much less ambitious. But, though many of the goals have not been attained, there have been remarkable strides in industrial activity; the national revenue is estimated to be 18 per cent. higher than in 1946 and exports have been doubled. The next target, M. Monnet says, is to "produce better and cheaper."

*From The Financial Times, June 24, 1949*



## Weak Spots in U.S. Economy

The first weakness in the U.S. economy is that more people have a choice between spending now or waiting than has ever been the case in any other country. A second element of concern is the fact that a considerable number of people have entered business during the postwar years without the necessary capital, experience or ability to make a success. Also, small businesses, which branched out under the impetus of war work, have naturally sought to keep up their volume. A third cause of concern is the high and rigid breakeven point established by the cost increases of the inflation period.

*—From Monthly Letter, National City Bank of New York, June, 1949*

## “The Economic Munich”\*

By PHILIP CORTNEY

THE author is an American industrialist and, at the same time, a student of economics. The occasion of the book was the signing of the International Trade Organization Charter at Havana, which, in his eyes, is “The Economic Munich.” Not that he is opposed to any form of trade organization, but the form evolved seems to him to result in the restriction of international trade and the undermining of the competitive system for the sake of providing a wrong solution of the British problem. In his view America ought never to have entered into complicated and difficult negotiations in the Charter without first having helped Britain to solve the problems of freely-convertible currency and free international multilateral trade.

### *Conditions of Nationalism*

In particular his criticisms are directed against those clauses of the Charter under which all countries undertake to maintain full employment without regard to consequences such as inflation, exchange control and restrictions of international trade which encourage isolationist and nationalistic planning.

Mr. Cortney regards the Keynesian theories and, still more, the distortions of these theories by Lord Keynes' disciples, as responsible for the current epidemic of economic fallacies. His point of view is

markedly influenced by British economists, particularly Professor Robertson and Professor Lionel Robbins, whom he quotes on more than one occasion.

He draws special attention to the chapter dealing with post-war depressions and devaluations. The lesson to be drawn from the great depression of 1929 is that the gold standard, which is one of the best servants of internationalism, was killed by *wrong monetary and credit policies* and by the wrong investment policies of the United States and Great Britain.

The general line of policy he proposes is first of all assistance to Britain to restore the free convertibility of sterling, thereby eliminating exchange control—described as a “diabolic instrument of nationalism and the archfiend of human liberty.” All efforts should be directed toward restoration of an international gold standard and the free convertibility of currencies, stabilizing them at the present value of gold with some devaluation.

### *Debts and Tariffs*

He also favours an arrangement for the liquidation of the short term debts contracted by Great Britain during the war. This having been done, the next step is to reduce American tariffs as much as politically possible, and to refrain from

competing with Great Britain, for exports, in the British Commonwealth. The development of backward countries should be fostered by the inter-

mediary of Great Britain, Britain furnishing chiefly the tools and equipment and America supplying most of the capital.

### Charter Under Fire (2)

## The Principles are Right

By Dr. J. HERBERT FURTH

*Board of Governors, Federal Reserve System*

It is not the power of economic sanctions that will keep the members of the Organization from abusing the escape clauses. Quite apart from all Charter provisions, a country applying measures of commercial policy harmful to other nations has to be prepared for retaliation; it decides to apply them only if it believes that the beneficial results will out-

weigh the detrimental. Similar calculations may well enable a country to violate the Charter provisions with relative impunity. The limits of the escape clauses will be observed only if the public, including the economic theorists and practitioners, realize that the principles of the Charter are the best foundation of world prosperity and world peace.

### Charter Under Fire (3)

## Gains Outweigh the Losses

By Professor JOHN A. LOFTUS

*School of Advanced International Studies*

As regards the escape clauses, they are not numerous, they are not sweeping, and they are by no means loosely controlled. When the "transition period"—admittedly of indeterminate duration—is over, the grounds on which nations may seek to escape their commitments under the Charter are strictly limited; the areas of commercial policy in which they may seek latitude for autonomous national decision are for the

most part circumscribed to those areas such as agricultural raw materials in which conflicts between our own domestic policies and our generally liberal international policy postulated latitude; and the conditions under which autonomy may be exercised are (as in the case of the "economic development" and "regional preference" exceptions) so closely defined as to make nationalist

and regionalist outcomes much less likely than a multilateral outcome.

Under these circumstances the

value of the commitments, would appear to outweigh the limited risk embodied in the escape clauses.

### Charter Under Fire (4)

## Escape Clauses Must be Watched

By Dr. MARGARET S. GORDON

*Berkley, California*

THE most serious question mark in relation to the entire Charter, in my opinion, concerns the loopholes regarding the application of quantitative import restrictions, particularly to meet balance-of-payments difficulties. Continued widespread use of import quotas (and/or exchange restrictions) will render valueless many of the tariff concessions which have been concluded or may be negotiated in the future. This is a problem which will test the strength of both the ITO and the Fund, and its solution will clearly depend on the extent to which the world's leading democracies can achieve economic stabilization.

On the whole, the ITO Charter

seems more thoroughly acceptable if it is regarded as a first and somewhat experimental step toward the development of a comprehensive code to govern international trade relations rather than as a final and unchangeable document. Fortunately, there is a requirement for a general review of the Charter's provisions five years after it becomes effective. It is to be hoped that during those five years the Organization will take every advantage of opportunities to build up information and experience which will form the basis for constructive amendments and possibly for the elimination of some of the more dangerous escape clauses.

*Items (2) (3) and (4) from Proceedings of American Association—  
American Economic Review, May, 1940*



### Food Subsidies Penalise Large Families

One of the arguments which is often adduced in favour of these food subsidies is that they help the large family, since they keep down the cost of feeding each member of the family. But they are a most wasteful way of giving such help. They keep down the price of food to the unmarried and childless as well as to the large family. If £100 million were cut off the present food subsidies of some £450 million per annum, this might raise the cost of living by about 2 per cent.; and the funds could be used to finance schemes of the kind which the Royal Commission proposes. From the demographic point of view part of this sum would "count twice on a division." The relative position of the large family would be improved not only by the net absolute relief given to it but also by the 2 per cent. decline in the standard of living of the childless.

—Professor J. E. Meade, writing in *The Times*, June 27, 1940

*Politicians dream of a single currency for Western Europe. A former Commissioner of Inland Revenue discusses the conditions of a more practical project—full convertibility of currencies*

## How Exchange Rates Can Be Stabilized

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

**I**F the currencies of Western Europe can be made freely convertible at rates of exchange which vary only within very small limits, such, for example, as existed in the old days between currencies on a full gold standard, all the advantages of a single currency will be achieved without waiting for the political integration which is an essential condition of a completely unified currency.

Currency restrictions are forced upon the countries concerned by the difficulties which they experience in balancing their external trade. It follows that the restrictions cannot be removed unless the underlying difficulties are solved. For some of the countries of Western Europe the difficulties were beginning to develop before the war; for all of them, the war brought such impoverishment, such dislocation of production and such a severance of the normal channels of world trade that a wide gap was left between (a) the cost of imports necessary for post-war rehabilitation and for the maintenance in the meantime of a reasonable standard of living, and (b) the proceeds of the sale of exports and other available means of payment for imports.

The natural reaction in any country which is faced with this deficit on its foreign trade is, on the one

hand, to impose restrictions upon all imports which are not essential to the twin purposes of rehabilitation and the maintenance of reasonable living standards, and on the other hand, to encourage all possible exports. Unfortunately, this action by individual nations in Western Europe has had two undesirable consequences: (a) the shutting out by some countries of Western Europe of imports which they obtained traditionally from other countries of Western Europe, thus worsening the position of these latter countries, and (b) the development of bilateral trade agreements in which countries have sought to restrict their trade to countries which can both supply them with their urgent needs and can also take in direct exchange the goods which the first country can export. This bilateralism is one of the worst features of the attempts by separate countries in Western Europe to solve their problems independently.

One of the conditions of aid under E.R.P. is that the countries of Western Europe should produce a joint programme of production and recovery designed to make the whole area ultimately independent of external assistance. Other conditions are: (a) that each participating country must take the financial and monetary measures necessary to

stabilize its currency and establish or maintain a valid rate of exchange, must balance the Government Budget as soon as practicable, and must generally restore or maintain confidence in its monetary system; (b) each country must co-operate with other participating countries in facilitating and stimulating an increasing exchange of goods and services and in reducing barriers to trade.

The fullest co-operation in the European Recovery Programme is both the starting point of all immediate action for the integration of the economy of Western Europe, and the vital testing ground of the ability of the countries of Western Europe to achieve greater unity. If we fail in the immediate objectives under E.R.P. we shall manifestly fail to unite Europe.

#### *Future Possibilities*

Although the agreement of programmes and plans under E.R.P. is only the first stage in uniting Europe, this agreement is thus a very significant indication of future possibilities and constitutes the jumping-off ground for the next stage. In this first stage monetary arrangements play an important role.

The aid received under E.R.P. will assist the recipient countries to balance their budgets. Only firm financial control within each country can, however, ensure that the budget is balanced and that the currency is not continuously inflated. No amount of co-operation or assistance from outside can be a substitute for this internal discipline. No complicated piece of financial jugglery or manipulation with the exchange can relieve a participating country of its duty not only to itself but to the rest of Europe to put its own internal finances on a sound basis.

Once the internal finances of the

participating countries in Western Europe are stabilized, and in consequence, the dealings in their currencies can take place at stable rates of exchange, the way is open to the next stage which consists of the removal of the more onerous of the exchange restrictions. The process can be carried on with full regard to the provisions of the Bretton Woods Agreement, and indeed the continuance of instability or the maintenance of currency restrictions beyond a period of emergency would be breaches of that agreement.

It could be argued that when we have reached the stage that European currencies are stable and are freely exchangeable we shall be back to the freedom which existed under the gold standard. That is true, but it does not go far enough. It is not sufficient that we should go back to gold standard conditions of monetary stability. Such a system would still leave unsettled much of Western Europe's redevelopment problems which require large capital movements, and would also leave Western Europe very vulnerable to recurrent trade depressions. One of the weaknesses of the gold standard, and it is a weakness which would exist in Western Europe if we stopped short at this stage, is that with the appearance of signs of a trade recession there is an irresistible tendency for each country unilaterally to take deflationary and protective measures which collectively have the opposite result from what is intended and turn the fear of depression into reality. It is at such times that freely exchangeable currencies at fixed rates of exchange result in an irreconcilable conflict between internal and external financial policy *unless the internal financial policies of the countries concerned have been co-ordinated and reconciled.*

What is needed is an extension over Western Europe of the best and more permanent features of the sterling area system—a system born of the instinctive desire of a number of countries to follow the financial policy of the one country which, at that time, promised a reliable system of financing foreign trade. The later restrictive developments of the sterling area are products of war difficulties and were unavoidable. It would be a mistake to concentrate on these restrictions and to forget the essential and permanent soundness of the sterling area system with its implicit co-ordination of financial policy.

Unquestionably much can be done in the earlier stages of European co-operation before attempting to co-ordinate the internal financial and economic policies of the participating countries, but in the long run, if capital is to flow freely to the areas where it can be most profitably employed and if the danger of individual action leading to the vicious circle of restrictionism and depression is to be averted, an attempt must be made to reconcile those policies.

Co-ordination will be necessary in (a) budgetary policy (b) long term capital development plans (c) the general levels of wages and prices, and (d) labour movements.

So far as budgetary policy is concerned, it is now well understood that the exact balance of each year's budget by each country is neither a necessary condition of financial stability nor necessarily desirable. In some years surpluses may be desirable to prevent over-employment and loss of efficiency due to the misdirection of resources which over-employment brings, in other years deficits may be desirable to prevent unemployment with its own forms of inefficiency and misdirection. But

if one country of Western Europe aims at a surplus while another aims at a substantial deficit, then, in the absence of fortuitously compensating factors, it may be impossible to maintain the existing rates of exchange or the existing pattern of trade. Without an exchange adjustment there will be a tendency for exports from the second country to the first to become quite unprofitable, and for the exports from the first country to the second to expand embarrassingly. It is at this point that the danger of restrictive and protective action arises, and, whether the action is taken in the currency field or in the tariff field, it would be to the long term detriment of both countries. This is just one example of the long term need for co-ordination of general budgetary policy, which does not, of course, mean co-ordination of the details of the budget. Other examples can be drawn from the field of taxation, where inconsistent policies could lead to serious difficulty.

### *The Modern Budget*

The modern conception of budgetary policy extends beyond the Government's own income and expenditure and embraces the economic and financial policy in its effect upon the whole economy of the country. Defence requirements, and the other heavy commitments of modern governments in such fields as social insurance, make it necessary to survey the utilization of the whole resources of the country and the extent to which those resources are augmented by import of foreign capital and depleted by the export of capital. Although co-ordination of these economic budgets and capital programmes of Western European countries is not essential for the realization of the immediate objectives of a United

Europe, it must form part of the longer term plan if the economic resources of the area are to be developed on a continental basis and if financial stability is to be assured for any length of time.

### *Preventing Waste*

Co-operation in fitting together capital programmes could prevent the altogether wasteful diversion of resources to build excessive capacity for the same products in different countries or the erection of a number of small uneconomic units when one or two large units well sited could give Western Europe lower costs and therefore greater economic power. This co-operation would need to extend to such matters as the common development of hydro-electric power and to the provision of capital by one country to another in an orderly fashion where it is demonstrable that investment in the second country is of mutual long term advantage.

When national budgets and economic budgets are reconciled, fears of a flight of capital or of other disturbances to the economy in one country by action in another will disappear because capital movements will have been allowed for in the co-ordinated programmes. Conditions will then exist for the fullest development of the industries and trade of Western Europe on modern lines and taking full advantage of local specialization. This specialization does not involve the wholesale uprooting of existing industries, but rather the gradual settling down of new or redeveloped industries in the most favourable places. In this way European competitive power can be enhanced by the improved location of her industries.

In the process of co-ordinating budgets and in reconciling financial

policy as a whole, the policy on the general level of wages and prices will, of necessity, have been covered. There must not be rising levels of wages (and prices) in one country and falling levels in another due to financial instability. A policy of *over-full* employment, which leads to an acute shortage of labour and to attempts at the direction of labour to essential occupations, leaves the government of a country very much at the mercy of individual groups of wage-earners, and such a country would be unable to enter into, or keep, commitments on wage and price levels. It follows, therefore, that such a policy is inimical to the success of co-operation in Europe. When financial policy has been co-ordinated it is probable that agreed development in one area rather than another will point to the need to allow movements of labour to take advantage of the new conditions. Without freedom of labour movements the full advantages of co-ordination cannot be achieved.

### *Building Confidence*

It may be asked whether financial co-operation on the lines indicated could stand up to the blasts of trade depression. The answer is that if enlightened co-operation of this kind removes one of the greatest causes of depression, and if confidence in a sound monetary system can be developed before the onset of depression, mutual understanding and concerted action should prove sufficient to prevent the member countries from taking those independent protective measures against each other which must always lead to deepening depression, and are obviously opposed to the long term interests of each member, and of all members collectively.

*Western Europe is suffering from purely national planning. Marshall Aid countries could work for a limited equilibrium in the non-dollar world by developing complementary markets and removing obstacles to trade*

# Disastrous Planning in Europe

## *Nationalist Trend Should Be Reversed*

**I**N a study of Europe's markets, the *Economist* makes the following points:

(1) The restoration of European production has been achieved. The problem of Europe's markets and foreign trade is not following the same smooth passage.

(2) The problem of the dollar gap remains. It is doubtful if the uncovered balance with the United States can be reduced much below \$2,300 million before 1952.

(3) Recession in America is unlikely to result in spectacular falls in the prices of primary products because of the price support programmes of the American Government. At the same time European exporters will find it harder to sell in the American market and to compete with American products in other markets, especially South America.

(4) Developments in intra-European trade present a difficult problem with Belgium and Switzerland all-round creditors and France an all-round debtor.

(5) The Bizone area of Germany creates another problem. It has developed a large export surplus with Western Europe, but continues to rely on the United States for imports. The problem is complicated by the shrinkage of trade with Eastern Germany; the loss of the Eastern market

aggravates the lack of balance in Western European trade.

(6) The long term plans of the Marshall aid countries are based on the idea of national autarky, with little regard for industrial specialization. The truth is that Western Europe is involved in the worst form of planning. Liberalism at least allows the nations to benefit by an international division of labour. Genuine international planning would allot to each nation the tasks most suitable to it. But purely national planning inevitably aims at autarky because autarky can be controlled and free multilateral trade cannot. Under its present plans Europe will emerge from the Marshall era less economically unified than it went in.

(7) The problem of the dollar gap is essentially an American problem. European countries have it in their power to pursue the unprogressive and restrictive course of cutting imports. An expansive solution can be made effective only by the United States; if it expands its purchases or lends consistently, the major disequilibrium in world trade will vanish. Otherwise, not.

(8) But it is possible for the Marshall Aid countries to work for a limited equilibrium in the non-dollar world, by developing complementary markets and removing obstacles to trade. This problem in trade with

Eastern Europe must be taken up with real purpose. Investment in overseas dependencies is of great importance.

(9) Extensions of convertibility of currencies on the basis of sterling, as a step towards the extension of multilateral trade, is a possibility, now that by the system of transferable sterling accounts in both Western and Eastern Europe, sterling has become to a limited extent an international currency.

(10) The present disastrous trend of European planning must be reversed. A return to complete liberalism is out of the question, since no European economy is ready to leave itself completely at the mercy of external and automatic forces. But it might be possible to reverse the trend of autarkic nationalism by moving in two directions simultaneously. In certain key

industries where over-expansion is already certain, in steel, textiles, oil refining and artificial fertilisers, and possibly in certain other sectors such as mining, electricity and transport, OEEC should press on with the task of producing genuine co-ordination of capital investment. In other fields of production the way back towards competitive flexibility may be found, as the British Government has proposed, not through fancy monetary schemes which do not correspond to reality, but by the simpler and more obvious device of enlarging import quotas and liberalising the grant of import licences. Unless some such change of method is adopted, Western Europe will continue to hammer itself into its own autarkic strait-jacket and by 1950 it may find that it has deprived itself of all power of movement, even of the power to breathe.

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# The German Farmer at the Crossroads\*

By Professor HEINRICH NIEHAUS

**I**N the short space of 70 pages, Professor Niehaus discusses the position of the farmer in the whole economic and social structure. The book is meant as a contribution to the working-out of a new agricultural policy for Germany after the collapse of so many old illusions, but its arguments are of general interest.

Part I discusses income as an indication of social position. Although work not only provides income, but also satisfaction by itself, status in social life depends normally on the size of the income, and not so much on its absolute size as on its relative size compared with the income of others. Little material is available in Germany to compare agricultural incomes in Germany with those of other groups, and the author uses the results of his own research. Neither in the market economy before the depression of the early 'thirties nor under the planned economy under the Nazis before the last war did agricultural incomes reach the level of the income of socially comparable groups in the towns (workers, salaried employees, civil servants). How did this discrepancy arise? The author thinks that the problem should be viewed from three angles: farmer and market, farmer and technique, farmer and society.

Part II also deals with these three problems. Agriculture is not suf-

ficiently adapted to market conditions. It cannot restrict production during a depression proportionately to the decline in demand. Whereas industry reduces production and thus counteracts a decline in prices, agriculture feels the full impact of a depression in a fall of prices. This analysis, of course, applies only to a "market economy" which is restricted to agricultural products, whereas industrial products are protected to some extent by monopolies. As long as the 19th century principle of "free competition" was accepted by industry, agricultural prices were better maintained than in the system of decayed competition prevailing after the First World War. There were only two agricultural crises during the 19th century. Even after the crisis of the last two decades of the century, which was caused through the development of grain production overseas, European agriculture was quickly able to adjust itself.

In 1910 a German author (G. Hildebrand) forecast the end of Europe's industrial domination because the overseas countries would themselves become industrialized and require their agricultural surpluses. This tendency was interrupted by the first war. Overseas agricultural production was increased. On the other hand, competition in industry was decreased

\*"Der Bauer in der Wirtschafts- und Gesellschaftsordnung." Versuch einer agrarpolitischen Orientierung. (Agrarwissenschaft und Agrarpolitik. Hoffz. Köln and Opladen, 1948. Westdeutscher Verlag.)



through cartels, etc., which led to restriction of industrial production in times of crisis so that agriculture, which was not organized in this way, had to bear the full brunt of the crisis. Agricultural production even increased during the depression.

Agriculture has two ways to strengthen its position against industry: it could fight for the restoration of general free competition, or it could try to organize itself in order to influence the market. As early as the end of last century attempts were made everywhere to organize the market for agricultural produce (e.g., the elevator companies in the U.S.A., the attempts to introduce grain monopolies in Continental countries).

During the great depression agricultural policy in most countries was designed to improve the conditions of farmers through price stabilization, etc. Moreover, to make these measures effective, the State took a much larger hand in the regulations than it did for industry.

As regards the effects of these measures in Germany, they were certainly successful during the depression (the same applies to many other countries). After the depression state control in Germany prevented an increase of prices and thus was more advantageous to the consumers than to the farmers.

Modern agricultural technique can also be adapted to the requirements of smaller holdings. There is, therefore, no inherent contradiction. Mechanization was first developed in the "expensive" cultivation carried out in overseas countries; but these have never recognized the value of "soil conservation." On the other hand, Europe is now adapting the new techniques to its own needs.

Although modern "capitalist" thinking has affected the German financiers, it has not done so to the same extent as in the towns.

Although the farmer applies it to his production, he often does not apply it to his holding itself. Nevertheless, the old traditions have been weakened.

The planned economy has strengthened the profit motive among the farmers. North German farmers were more affected and more easily organized than those in Southern Germany. In general, the author says, Protestant farmers are more inclined to be organized than Catholic farmers quite apart from the contrast between North and South. German Protestantism has always been much more closely identified with the State than Catholicism.

A planned economy can only function so long as shortages are not too big. After Germany's collapse, planned economy degenerated into a paralyzing system of control which lost all authority.

### *Freedom and Order*

Part III discusses the principles on which economic and social order should be founded in order to conform to the character of the European independent farmer.

Controlled economy is to be abolished as far as possible in Germany in order to restore the authority of the State over personal responsibility. A controlled economy such as was in force in Germany after the war until the currency reform last year, can never be the aim, but only the breakdown of any reasonable agricultural policy. But the problem whether there would be a free or planned economy applies not only to Germany, but is world-wide.

In a discussion of recent studies of free and planned economy (von Dietze Röpke, Hayek, B. Wootton), the author points out that some of these writers prefer an orientation

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move towards a competitive system, and others towards a planned system. The followers of the competitive system want to avoid the dangers connected with monopolies, the others emphasized that a "planned" economy should not be confused with the controlled economy (Swangswirtschaft) set up during the war. Both are guided by ideals. The followers of a free economy would permit State intervention in order to bring about their ideal. It will, however, be very difficult to decide in practice what interventions are still appropriate or not. Protection by tariffs is considered by some writers permissible, but not compulsory producer organizations or import quotas. The real importance of such measures depends, however, on the general conditions prevailing at a particular time. A prohibitive tariff can be more damaging to the export interests of a country than an import quota. Followers of a free economy are against monopolistic price policies. It is not enough to prohibit cartels, since "imperfect com-

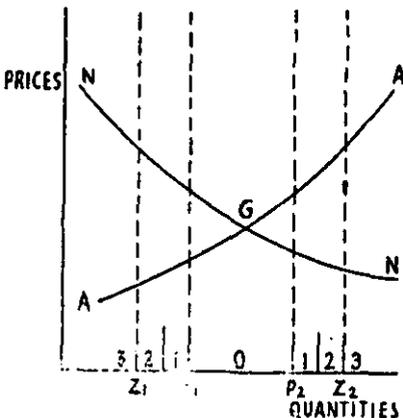
petition" is a result of modern conditions. Complete competition can only be restored in such cases through State intervention. If such an intervention is considered permissible, it is difficult to decide where intervention should end. The problem, therefore, is whether present-day democracy is able to perform such a task.

This is also the weakness of the idea of planning. How can the best types be induced to take up the leading posts in a planned system? In fact, any social system is worth exactly as much as the people who produce it and live in it.

For the farmer the danger lies in the theory of the best order, but in the reality of bad order. Agricultural policy should, therefore, not be dogmatic. There is a relative superiority of the different systems according to the market conditions, as is shown in the diagram. In the present German situation the farmers should lay the stress on freedom.

### MARKET CONDITIONS AND ECONOMIC SYSTEMS

This diagram shows the range of market conditions within which the different economic systems function. The key is as follows:



- AA —Supply curve. NN —Demand curve.
- G —Ideal equilibrium price.
- O —Range of normal fluctuations of quantities and prices within a free market economy.
- P<sup>1</sup> Z<sup>1</sup>—Range within planning functions under conditions of specific shortages.
  1. First phase, maximum prices, etc.
  2. Second phase, directions for cultivation, and compulsory collection of crops.
  3. Phase of destruction, collapse of the measures for collecting the products.
- P<sup>2</sup> Z<sup>2</sup>—Range of workable surplus planning.
  1. First phase, minimum prices, fixed prices.
  2. Second phase, planning with production quotas.
  3. Phase of destruction, collapse of supporting measures.
- P<sup>1</sup> —Critical point when supply is deficient (and protection of consumers becomes necessary).
- P<sup>2</sup> —Critical point when there is a surplus of supply and prices are falling (and protection of producers becomes necessary).
- Z<sup>1</sup> —Critical point of planning to avoid shortages.
- Z<sup>2</sup> —Critical point of planning to avoid surpluses.

## Shorter Book Notices

### EMPLOYMENT AND EQUILIBRIUM

by A. C. Pigou (Macmillan & Co. Ltd., London, 18/-)

This second edition has provided the author with an opportunity to remove, as he says, a serious mistake in the first edition. Employment as a whole is the main subject. Unemployment is not the result of a single cause or, indeed, of a number of causes acting independently. It arises because a number of factors are

balanced against one another in a particular way. The declared purpose of the book is to elucidate certain dominant characteristics of a system of interconnected factors which are jointly responsible for unemployment. The book is addressed to professional economists.

### CATALOGUE OF ECONOMIC AND SOCIAL PROJECTS

No. 1 (United Nations, Lake Success)

The title sufficiently indicates the scope of this publication. It is a sign of the times and of that "documentary and oratorical inflation" of which a British representative on a U.N. committee recently complained, that there are here

listed no fewer than 739 items. They vary enormously in importance, of course, but many are of first-rate importance, and this is an indispensable book of reference to any research student.

### WELTWIRTSCHAFTLICHES ARCHIV

(Hoffmann and Campe Verlag, Hamburg)

This well-known German economic quarterly has now resumed publication. As in the past, short summaries are given of all articles, in English, French and Spanish. Among the contributors to the

first issue of the new series are G. Mackenroth (Interest in Capitalist and in Socialist Economy), E. Schneider (The Liquidity Theory of Interest), and A. Loesch (Monetary Theory).

## Worth Reading -

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- The Work of the International Refugee Organization.** SIR ARTHUR RUCKER, *Royal Inst. of International Affairs*, London.
- Packaging Plays an Important Part in Selling British Products Abroad.** *Board of Trade Journal*, London, July 2, 1949.

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