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SEEN IN PERSPECTIVE

The Forgotten Factor

By GRAEME DORRANCE

ALL the official discussions of our international position have tended to overlook the problems raised by changes in the prices of our imports and exports. *The Economic Survey* takes little account of this question. In the debate on the Budget the Chancellor said that in 1949 we had a deficit in our balance of payments of £70 million, and he hoped that we would have a surplus of £50 million in 1950. He added these two figures together and gave £120 million as the amount of resources which would have to be diverted from domestic consumption to correct our balance of payments.

In this argument the Chancellor was at fault. When international prices are shifting, any net balance figure expressed purely in monetary terms tends to give a false picture of the real costs incurred. And this is particularly important because devaluation last September, set in motion forces which are certain to cause a series of price changes. For instance devaluation was bound to worsen our terms of trade.

This may seem a paradox, but an example will make it clear. If before devaluation a certain model of a British automobile sold for £1,000 or (approximately) 4,000 dollars, and if the price of wheat was 2.00 dollars per bushel in New York, then by selling one automobile we were able to buy 2,000 bushels of wheat. Assuming that after devaluation there was no change in the sterling price of the automobile or the United States price of wheat, the result would be a fall in the dollar price of the automobile to 2,800 dollars, or the equivalent of 1,400 bushels of wheat—14/20 of the previous amount.

But if by lowering the price of automobiles we were able to double their sales in the United States, we would be able to buy 2 x 14/20 or 1.4 times as much wheat as formerly. Thus while we worsened our terms of trade we would improve our balance of payments. To put it another way, by being willing to offer a higher price in terms of British goods for American wheat we are able to obtain more wheat. Yet we have to double our efforts to increase our imports by less than 50 per cent.

The following table outlines the

movement in our terms of trade over the past thirty years. The index of the terms of trade is obtained by dividing the import-price index by the export-price index. Thus a decline in the terms of trade index means an improvement: it measures a fall in the real cost of imports.

U.K. TERMS OF TRADE[1]
(1949 Average = 100)

Year		Import Prices	Export Prices	Terms of Trade
1920–1930	Av	53	58	97
1931–1935	Av	30	36	84
1936–1939	Av	34	39	87
1946	Av	72	78	92
1947	Av	88	88	100
1948	Av	98	98	100
1949	Q1	101	99	102
	Q2	100	100	100
	Q3	96	100	96
	Q4	104	101	104
1950	Q1	109	103	106

From this it can be seen that we started the post-war period with our terms of trade somewhat better than their average level after World War I. In fact the position in 1946 was almost the same as that in 1922, except that prices of both imports and exports were about 45 per cent higher. On the other hand they showed a serious deterioration over the position of the 1930's, when Britain managed to balance her foreign accounts largely by paying low prices to her raw material suppliers.

From the end of the war until about the middle of last year the world-wide shortage of all the things we import led to a continued increase in their price. The comparative stability of prices and costs in the United Kingdom resulted in a smaller rise in the price of our exports. The result was a continuous worsening of our terms of trade, which contributed materially to our balance of payments difficulties.

The change in the economic climate last summer resulted in a sharp fall in the prices of our imports while continued high levels of demand at home kept our export prices up. As a result our terms of trade improved, but we were unable to find purchasers for our goods. This situation led to the devaluation of September 18 last, which had a bad effect on our terms of trade but gave us an opportunity of improving our balance of payments.

What are the probable developments of the next few months?

It would seem reasonable to assume that we have already experienced the immediate effects on world prices, of the change in United States business activity and of the British devaluation. Therefore our import prices should be reasonably stable in the future. There may be some further rises in the prices of British exports, but these should be limited if we hope to expand our overseas sales.

Perhaps import prices have risen almost as much as they are likely to. If so they should be stabilized about 10 per cent over their 1948 level. Export prices may rise rather more in the next few months, so that over the entire year they may average five per cent above last year's levels. This would mean a worsening of our terms of trade by five per cent. of last year's average, but an improvement of one per cent. over the level of the first quarter of this year.

While such movements may help in easing our balance of payments position, they increase the internal inflationary pressures. The following estimates are obtained by taking the forecasts of our balance of payments as given in *The Economic*

1. *From Bulletin of London and Cambridge Economic Service, May 1950.*

Survey and revaluing them in terms of 1949 prices:

UNITED KINGDOM BALANCE OF PAYMENTS, 1950
£ million

	At 1950 Prices	Revalued at 1949 Prices
Imports ...	2,170	1,975
Exports	2,000	1,900
Visible Balance...	−170	−75
Invisible Balance	+220	+220
Current Balance	+ 50	+145

2. *Calculated from figures in The Economic Survey, 1950 (Cmd. 7915), p. 18, and price assumptions contained in text.*

It is thus £145 million for the current account balance which the Chancellor should have added to last year's deficit of £70 million, to get the total demand on our resources for correcting the balance of payments. The shift in the terms of trade also contributes to the fact that only about one third of the increase in our national output will be available to meet the increasing demands of Government and people for more money to spend on social services, consumer goods, and amenities.

SALIENT FIGURES OF THE MONTH

		Latest Month	Increase (+) or Decrease (−) on a Month Ago	Year Ago
"BUSINESS" INDICES				
Production	(1946=100)	* 131.0	+ 1.0	+ 9.2
Purchasing Power	do.	* 107.0	− 2.1	+ 0.7
MANPOWER				
Total manufacturing industries ...	(thousands)	8,402	− 14	+177
Cotton spinning and weaving ...	do.	* 331.1	+ 0.5	+ 9.5
Coal (on colliery books)	do.	704	− 2	− 23
Reg. unemployed (G.B.)	do.	† 329.0	− 18.3	+ 4.1
PRODUCTION				
Index of production	*(1946=100)*	* 142	+ 7	+ 12
Coal (average weekly output)	(thousand tons)	4,378	+ 56	+ 56
Steel ingots and castings (do.) ...	do.	330	+ 5	+ 17
Cotton yarn (do.)	(million lbs.)	* 19.0	Same	+ 1.1
Woven wool fabrics (do.)	(million linear yards)	* 37.17	− 2.48	+ 0.37
Passenger cars (do.)	(thousands)	10.20	+ 0.03	+ 2.66
Commercial vehicles (do.)	do.	5.27	+ 0.11	+ 1.13
Permanent houses completed ...	do.	19.39	+ 5.32	− 0.77
TRADE				
Value of imports	(£ millions)	† 211.0	− 10.3	+ 23.5
Value of exports	do.	† 156.0	− 28.4	+ 18.6
Freight train traffic	(million tons)	5.70	+ 0.06	+ 0.12
Retail sales	(1947=100)	* 133	+ 11	+ 14
FINANCE				
Currency in circulation	(£ million)	1,240	+ 11	+ 5
Deposits in London Clearing Banks	do.	5,783	− 58	− 32
Provincial cheque clearings (av. working day)	do.	6.15	− 1.06	+ 0.23
WAGES AND PRICES				
Weekly wage rates	(1947=100)	110	Same	+ 2
Retail prices	(1947=100)	113	Same	+ 4
Wholesale prices	(1930=100)	† 249.8	+ 4.4	+ 23.2
Basic materials	do.	† 334.4	+ 12.8	+ 33.8
Intermediate	do.	† 277.9	− 0.2	+ 18.1
Manufactures	do.	† 228.4	+ 0.8	+ 3.7
Import prices	(1938=100)	128	+ 3	+ 11
Export prices	do.	118	+ 2	+ 6

* February. † April. All other figures refer to March.

Challenge of Atlantic Union

By J. S. SCHREIBER
Editor, Le Monde

What are the implications of the French Prime Minister's conception of an Atlantic High Council?

FROM the economic viewpoint three problems arise: (1) the relations between the national economies of the European Continent; (2) the relations between these economies taken together and the sterling area; (3) the relations between these two together and the dollar area. Taken separately these problems may have no solution, but they can be solved by substituting for a European Payments Union an Atlantic Payments Union including America and Canada.

In the next decade difficulties of an entirely new kind will arise, but also new possibilities. In Germany, Italy and Belgium unemployment is already considerable. Britain, France, Germany and almost all other European countries have already entered the era of over-production, that is to say incapacity to absorb production in their internal markets and the impossibility of exporting to markets abroad.

But the new problem is much more threatening in America, where the number of unemployed is five millions—a figure which is considered dangerous. This however is nothing to what may come about in the future. With a working population increasing by 700,000 a year and the general level of productivity rising by 5 per cent., the latest calculations put the number of unemployed in the United States alone at 12 millions by 1955.

Already the American Government is buying and storing 5,000 million dollars of surplus agricultural production. In industry technical and mechanical improvements replace an ever growing number of workers. Already a campaign has been launched for reducing the working week to thirty hours and for doubling the period of holidays. But these strange new prospects for the Atlantic world are of small account in comparison with possible developments in the future arising from the varied applications of nuclear energy. From this picture of the future the conclusions to be drawn are as follows:—

(1) That the problems of America and Europe, today very different, will quickly be fused; (2) that the common problem is the adaptation of social and economic formulae to the new technical revolution; (3) that this technical revolution transforms considerably ideas of the future, and in particular modifies profoundly the basic assumptions of the Marxist historical forecast.

The problem of the next ten or twenty years, the central problem of the "cold war" is this: Will the Atlantic Society be capable of adapting itself to the new technical revolution? If not, the Soviet world will gain ground by the internal disruption of its adversary. But if it can, then there will be born

From Le Monde, April 30, 1950.

a new form of "post-capitalist" society which will no longer have much to fear from Communism, because it will have based itself on a much superior plan of historical development.

We can then expect that the natural evolution of human phenomena will bring about, little by little, an approach of the Stalinist Society to an analogous situation in the West. This will resolve the present conflict. The problem, therefore, is essentially one of vision and imagination: exceptional men from both sides of the Atlantic are needed to bring success to this gigantic enterprise.

Dollars Don't Build Bridges

By GEORGE C. McGHEE

Assistant U.S. Secretary of State for Near Eastern, South Asian and African Affairs

WE are discovering that there are limits to what American dollars can do to assist other nations, even where expenditures are effectively administered. There are many reasons for this: The lack of basic surveys by competent specialists; the lack of skilled technicians; the limitations on internal financial resources; the deficiencies in local administrative experience. In short, since there are so many other missing components, it is unlikely that direct, large scale financial aid would achieve the desired results.

Dazzling Prospects

These factors have been highlighted recently by a report of the United Nations Economic Survey Mission to the Near East, headed by Mr. Gordon Clapp, chairman of the board of directors of the Tennessee Valley Authority. Mr. Clapp concluded that the states of the Near East were, because of their basic lack of technical skills, administrative talents, local capital and other factors, unable to proceed with the large-scale development schemes which have dazzled many whose aspirations exceeded their resources.

He recommended that, instead of attempting to establish a Tennessee Valley Authority for the Tigris and Euphrates or the Jordan, there should be undertaken modest demonstration projects which could give the countries concerned experience in the balanced and unified development of a small area in all of its aspects, through proper use of water resources, afforestation, terracing, road building, and related projects. If the Near Eastern peoples can carry out such small programmes effectively, it will give them confidence and knowledge to proceed with larger schemes.

New York, April 11, 1950

"Point Four" Debunked

No Way to Close Dollar Gap

By Dr. JOHN H. G. PIERSON*

A cold douche for all those who imagined that American capital lavished on under-developed countries would prove a royal remedy for the world's economic maladies

THE aims of American economic policies include: (1) The Point Four programme for economic development; (2) Closing of the dollar gap—as far as possible by expansion of imports rather than by reduction of exports; (3) Domestic full employment; (4) National security; (5) Maximum individual freedom and initiative.

Much might be gained if serious attention were given to studying how to integrate three of these major elements—Point Four, the dollar gap, and full employment. The remarks that follow will be addressed to this subject.

I. POINT FOUR and the DOLLAR GAP

Point Four is often spoken of as one of the best ways of closing the dollar gap. Let us try to evaluate this claim.

The elements tending to support it are two, each with its own time cycle. First—for as long as the current flow of dollars going abroad exceeds the return flow of earnings and repayments, the dollar gap requiring official action to finance it is smaller by the amount of this net investment. Secondly, when the programmes of economic development have reached the stage of yielding results, the countries whose production has been thus increased are in a position to earn more dollars through larger exports; at the same time they and perhaps third countries as well, are in a position to save dollars, if they will, by importing less.

These two effects are quite dissimilar. What may be called the net investment effect does not narrow the export-import gap, but automatically reduces the amount of the gap that has to be filled by compensatory official financing. The increased productivity effect, on the other hand, can, if consciously directed to that end, actually help to narrow the export-import gap.

The increased productivity effect will not become noticeable until some time after development programmes are initiated. From a global point of view some of this beneficial effect is likely to overlap a still favourable net investment effect, each then reinforcing the other until further time has elapsed. One of the big uncertainties is how long the foreign investment process can be kept up before earnings and repayments turn the net flow in the other direction, making the dollar gap problem harder to manage rather than easier. The answer is not easy to find. Much will depend on the proportions between equity capital and loans, and on the rates of amortization applied to the latter, as well as on the magnitude and time-shape of the original capital movement as a whole.

The other big uncertainty has to

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From an address to the American Academy of Political and Social Science, Philadelphia, 15th April, 1950.

do with how much of the increased productivity effect will be retained to raise living standards in the countries being developed, in fulfilment of the major purpose of Point Four; and how much will be used to improve their export-import position.

On the whole, the immensity of the field waiting to be opened up by technical assistance and international investment suggests that Point Four can make solution of the dollar gap problem substantially easier. The fact that the net investment flow may eventually turn in the "wrong" direction is not an immediate worry.

On the other hand the size of the dollar gap at the present time, the very obvious difficulties of creating the confidence needed to get a vast amount of investment going, the delays before development programmes pay off in sufficiently greater productivity to make a marked improvement in the underdeveloped countries' export-import balances possible, and the great need on the part of those countries not to think only of their export-import balances but rather to enjoy as much as possible of the benefit from that greater productivity internally—all these things warn us that *Point Four, far from being the whole answer as far as the dollar gap is concerned, will prove for that collateral purpose too little and too late.*

II. DOLLAR GAP and U.S. FULL EMPLOYMENT

The essence of the relation between the dollar gap problem and the problem of maintaining full employment in the United States is that closing the gap will make maintaining full employment somewhat more difficult. This follows from the fact that closing the gap will, taken by itself, tend to reduce the overall size of the market for American products.

There seems to be a fairly prevalent belief that the aggregate demand for American products will be reduced only if the dollar gap is closed by reduction of exports, and not if it is closed by expansion of imports. This belief appears to be without foundation. Expansion of imports—even where the imports are commonly thought of as "non-competitive" (e.g. high-grade raw materials for industry or luxury goods)—will correspondingly reduce the purchasing power that might otherwise have been used to buy American goods and services. Thus American production and employment levels are bound to be affected, by way of demand side of the equation, regardless of whether export-import balance is achieved at a low level or at a high level.

It does not follow, however, that aggregate demand for American products will be equally affected by increased imports on the one hand and loss of export markets on the other. On the contrary, it seems fairly clear that the adverse effect will be quantitatively less if imports are increased than if exports are reduced.

For this there are several reasons: In the first place the direct effect, on aggregate demand for American products, of a loss of 1,000 million dollars of export markets is minus 1,000 million dollars, whereas the direct effect of an additional 1,000 million dollars of imports is almost certain to be minus *less than* 1,000 million dollars, since some part of the purchasing power used up to buy the new imports would otherwise not have been spent at all—these dollars being, so to speak, tempted

away from savings.

In the second place, if we are talking about sudden, large-volume changes, the indirect or derived effects are also likely to be less unfavourable when imports are expanded than when exports are contracted. This follows from the fact that certain of our industries are so heavily dependent on exporting (e.g. machinery, iron and steel products, motor vehicles, cotton, tobacco, and apples) that a major reduction in export totals might create difficulties that would spread far and wide and bring about substantial secondary losses of income and purchasing power.

Some of the new competition from a major rise in import totals would likewise pinpoint on particular industries and particular localities. But, on the whole, it seems likely that the impact from even a sharp rise of imports (e.g., imports of rubber, oil, wool, and a wide range of manufactured products such as textiles, china, glassware, chemicals, watches, etc.) would be more evenly distributed and have less severe secondary repercussions.

Imports and Exports

These points suggest that expansion of imports is likely to complicate the problem of maintaining full employment somewhat less than it will be complicated by the loss of export outlets. This conclusion is reinforced by the further consideration that expansion of imports is likely to mean more production and more employment for even the *same* aggregate dollar demand, because it will result in lowered costs and keener price competition.

When it is realized how a stepped-up interchange of commodities and services could help to knit the world together; how standards of living are raised when goods move freely about the world without hindrance or subsidy in accordance with comparative efficiencies; how our national security requires that we stockpile essential raw materials and in general retard the depletion of our own natural resources; and how an expansion of imports involving a reduction of trade barriers would tend to lessen governmental controls here and abroad whereas a forced contraction of exports would necessarily tend to intensify such controls; the case for trying to make the major adjustment through larger imports is very clear.

Closing the Gap

To achieve that result will require great efforts, however. It may be truly said that the loss of export markets is no less unwelcome to those immediately affected than the loss of domestic markets which are captured by foreign competitors. *Unfortunately, if barriers keep imports out, then, unless the government holds the gap open at taxpayers' expense, inability of foreigners to buy will drag our exports down regardless.*

Thus the attainment or preservation of full employment will be somewhat complicated by closing the dollar gap, regardless of which way this is done. Since the gap is about 6,000 million dollars wide at the present time, the probable impact from closing it deserves respectful attention.

One conclusion might be that the dollar gap should not be closed at all, or even narrowed. A better conclusion would be that the U.S. needs domestic policies to assure the maintenance of sufficient aggregate demand to support prosperity and full employment. If the dollar

gap needs to be closed, it is essential to create conditions, through sound prosperity policies, in which the effort to close it will not be frustrated by pressures to keep imports down and exports up.

III. POINT FOUR and U.S. FULL EMPLOYMENT

The argument is sometimes heard that we must aid the underdeveloped countries for the sake of our own full employment. This claim has been known to be made by representatives of underdeveloped countries, as well as by citizens of the United States. We should now be in a position to assess the merits of the argument.

The first thing our previous analysis shows is that any help we obtain from Point Four in maintaining production and employment in the United States must come from the temporary avoidance of the necessity to eliminate the export surplus and not from its actual elimination. *Point Four can promote better export-import balance in the world, or it can facilitate our full employment, but it cannot do both simultaneously.* Unless the underdeveloped countries' exports increase still faster than their imports. Point Four will not make any permanent contribution toward closing the gap. If it does make such a contribution, we will be all the more thrown back on the necessity of perfecting domestic full employment policy. We cannot have it both ways.

Gaining Time

In the net investment stage, Point Four can undoubtedly ease our internal problems more or less, depending on the size of the net investment outflow. Private savings going into foreign investment spare the budget the necessity of comparable or greater expenditures or tax reductions that would be required for maintaining the same volume of demand for American products. Heavy-goods industries geared to large export markets need not so suddenly contract. Farm surpluses need not pile up so fast. Readjustment processes are moderated or postponed. Time is gained to work out more lasting solutions. This may well mean that when exports and imports are brought into reasonable balance later on, the balance struck will be at a higher level than could be hoped for.

Real Basis for Action

To think that Point Four is a sufficient condition for full employment in the United States is to cherish an illusion. A vital connection, all too often overlooked, between Point Four and U.S. full employment runs in the reverse direction. If we can maintain full employment that will undoubtedly help Point Four. If a business recession develops or threatens, wise action becomes doubly difficult. In such circumstances the pressure to "economize" by cutting off assistance to foreign countries, including the underdeveloped countries, will be second only to the mounting pressure to keep imports out and increasingly subsidize our exports.

By contrast, the wealth and the good will flowing from a solidly based full employment will be a major factor in promoting development programmes all over the world, because they will allay doubts that we can afford to give generous and continuous aid.

Sterling Area Trade Patterns

First results of a research project designed to close the sterling aaea dollar gap

THE E.C.A. mission to Britain, in co-operation with the United States Department of Commerce, has launched a comprehensive research project to close the sterling area dollar gap, and submits the preliminary results of this study in three volumes (*Interim Notes; Charts; Statistical Appendix*).

In the pre-war period (this refers throughout the report to the average of the five years 1934 to 1938) the countries now in the sterling area had yearly payments to make to countries now in the dollar area which exceeded their current receipts from these countries by less than 400 million dollars. This deficit was more than covered by the gold production of the sterling countries, which amounted annually to the equivalent of about 500 million dollars. Thus there was no "dollar problem."

Rising Deficit

In 1948 the corresponding payments figure was roughly five times as great (about 2,000 million dollars). In addition, certain net payments had to be made to the dollar countries on capital account and certain current payments to non-dollar countries had to be made in gold and dollars. Including these payments the gold and dollar deficit of the sterling area for 1948 was raised to nearly 2,500 million dollars.

On the other hand during the decade since 1938 the sterling area gold production remained about the same and the value of gold has not changed, while the prices of the commodities which the sterling area buys from the dollar area are now nearly two and a half times as high as they were in 1938.

Had the purchasing power of gold in terms of goods and services been the same in 1948 as it was before the war the output in that year would have been sufficient to cover two-thirds of the dollar deficit on trade. In addition, one-quarter of the dollar gap in 1948 was due to the fact that the net balance on invisible account changed from a surplus to a deficit.

The adverse trade balance of the sterling area with the dollar area is estimated at 1,100 million dollars in 1948 (imports 3,200 million dollars; exports 2,100 million dollars) against 500 million dollars (imports 1,200 million dollars; exports 700 million dollars) before the war. Although the deficit had more than doubled, the proportion of imports paid by exports was 66 per cent. in 1948 against 58 per cent. before the war, though in the first half of 1949 the proportion was reduced to 53 per cent.

Price changes have made the deficits larger than they would have been at pre-war price levels. It appears that the volume of sterling area exports to the dollar area in 1948 was 40 per cent. to 50 per cent. above pre-war while imports went up in volume by only 10 per cent. or 15 per cent. Import prices had apparently risen to something like 240 per cent. of pre-war whereas export prices went up to something like 210 per cent.

From Preliminary Analysis of Sterling Area Trade Patterns (E.C.A. London) and The Statist, London, April 22, 1950.

These overall figures throw light particularly on the dollar problem of the United Kingdom in her capacity as central banker for the whole sterling area but they fail to bring out the significant differences between the positions of different countries within the group. In 1948 the sterling trade deficit with North America had increased since prewar by $628 million. For twelve countries in the group trade balances had worsened (increased deficits or decreased surpluses) by a total of 861 million dollars, but the other countries in the area improved their positions by a total of 233 million dollars.

The group with worsened balances was made up as follows: (1) Union of South Africa, 368 million dollars; (2) United Kingdom, 226 million dollars; (3) Hong Kong, 78 million dollars; (4) India and Pakistan, 68 million dollars; (5) British West Indies, 49 million dollars; (6) Bahrein and Kuwait, 33 million dollars; (7) Ireland, 28 million dollars; (8) Iceland, 9 million dollars; (9) Burma, 3 million dollars; (10) Iraq, 2 million dollars; (11) Southern Rhodesia, 2 million dollars; (12) British Guiana, 2 million dollars.

The countries with improved balances were: (1) British West Africa, 90 million dollars; (2) Australia, 66 million dollars; (3) British Malaya, 48 million dollars; (4) Ceylon, 24 million dollars; (5) New Zealand, 8 million; (6) all others, 7 million dollars.

Rouble Now Based on Gold

—Pravda

ACCORDING to Professor K. Platnikov, rouble buying and selling rates are determined in the U.S.S.R. by the "quotations committee" of Gosbank, and published periodically in the press, in contrast to the practice in capitalistic states where currency parities are fixed "spontaneously."

Unlike the currencies of the capitalistic countries, the Soviet currency has remained absolutely firm. The free-market gold prices of 65 dollars to 70 dollars per ounce, reported as being quoted in some European countries, are adduced as evidence for the thesis that by 1948 the market valuation of the dollar was approximately only half the official rate, which was pegged at 35 dollars per ounce.

The enormous strides made by the Soviet economy since the war and the deterioration of capitalistic currencies have produced a situation in which the purchasing power of the rouble has outstripped its official valuation, says the Professor. Accordingly the Soviet Government has decided to raise the official rate of the rouble and to calculate it no longer on the basis of the American dollar but on a more solid basis, i.e., on gold, in accordance with the gold content of the rouble.

From Pravda, U.S.S.R., March 5, 1950.

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Sterling Vital to World Trade

By Sir FRANK NIXON, K.C.M.G., C.B.

As a currency for world trade, sterling has everything that the dollar lacks. London is still the inevitable capital of the commercial world

THIS problem is every day more vital—the provision of a universally acceptable currency to finance the goods and services of the countries of the world among themselves and with the dollar area. Its solution is essentially a matter for the British and U.S. authorities and, in view of recent discussions, one may naturally wonder whether our people will show enough skill or the Americans enough realism.

In fact, a world currency cannot be created by negotiations between officials and economists. It can only arise and develop in a great maritime centre, nurtured by those who go down to the sea in ships and occupy their business in great waters. No centre which is not equipped and willing to *buy* as well as to finance, store, insure and transport across the seven seas the produce and manufactures of the world, in bad times as well as in good, can hope to acquire the knowledge, the skill, the judgment and the courage necessary to support a currency of world-wide serviceability.

When one thinks of a currency which has to meet the requirements of all the free world (and also to serve trade with the iron curtain countries) it would be folly to underrate or understate the importance of the pound sterling. Since the war there has been in circulation a lot of alarm and despondency about the pound. But battered and handicapped as it has been, sterling still covers 36 per cent. of the world's visible trade and a much greater proportion of its invisibles. In the total of international transactions it is a fair estimate that 50 per cent. are financed by movements of sterling. And it is on sterling that the special damage of the war and postwar disturbances

From Presidential Address, London Chamber of Commerce, London, April 26, 1950.

has most heavily fallen, notably in the Far East. As those areas and the volume of trade from them and elsewhere revive, sterling may be expected to cover up to 60 per cent. of world trade—this is in spite of the restrictions on international financing still arising from bilateralism and nationalist practices of all kinds.

Greater liberalisation of trade must strengthen sterling, just as a stronger pound, more widely used, must promote freer trade. The habit of holding pounds is returning to the world. A number of countries, for instance, France, Italy and Sweden, are steadily more content to hold and build up balances here. During 1949 although £218 million were released from the so-called blocked balances, £203 million were added to the unrestricted ones. So the City of London resumes its place as the banker of the world.

Those countries which have arranged to transfer sterling freely amongst themselves used these facilities on a very large scale last year; and all such transactions combined make the sterling area the largest multilateral trading area in the world. This no doubt accounts, in part, for the eagerness of many Americans to see the pound made immediately convertible, so that they and their exporters may escape from the narrow confines of the dollar area into the wider freedom available in the sterling system.

Although we have criticised our Government for clinging to controls we must recognise that they have shown their faith in sterling by leading the movement for liberalisation of trade in Europe. The liberalisation of 50 per cent. of all European trade by the end of 1949 and the plan to increase this to 75 per cent. by the end of 1950 were both British proposals. The continued growth of freedom in the exchange of goods and services which the sterling area confers upon the world, is thus a factor of prime importance in any currency discussion.

But between this and full convertibility of the pound there is a deep gulf. The next steps in the solution of the currency problem must have wide repercussions. They must include some arrangements in regard to the use of the famous sterling balances. They must take account of the whole complex of Anglo-American relations.

Our Government, as the guardian of sterling, could do much to speed on its restoration. Notably it could endow the commodity markets of this country with their ancient freedom. Free currencies and controlled markets go ill together. The traders' arguments against bulk buying and controls are fortified by the case for giving free play to the use of sterling.

"Rembours London"

It could also take some positive action. For instance it could, I believe, do much to assist the financing in London of external trade, i.e. trade between two overseas countries which does not touch these shores. This is one of the great functions of a world currency and for generations the shipment of goods all over the world was financed by bills marked "Rembours London."

The transfer difficulties which threatened to cripple international trade in the decade before the war, were largely overcome by the system of transfer guarantees built up by the Export Credits Guarantee

Department. But those guarantees have been available, almost exclusively, for direct exports from this country. They could be granted on a larger scale for external trade. No doubt such trade would still be subject to the rules of the Exchange Control—who would not, presumably, provide dollars to finance sales in soft currencies.

But within such limits, the E.C.G.D. under its present management is fully capable of overcoming the undoubted technical difficulties, and if encouraged by the Board of Trade could use its great abilities and wide powers to assist a much larger volume of external trade.

Thirdly, and perhaps most important, the Government should give far more attention and apply much more skill to the full and prompt statements of its views and of the supporting facts. The recent misunderstandings with the U.S.A. would not have arisen if our Ministers and officials had been duly sensible of the vital importance of carrying with them public opinion both at home and in the U.S.A.

How difficult it is, even today, to obtain a clear and comprehensive view of the British Government's case in these discussions! Contrast this with the position in the U.S.A. and in many Continental countries, where the Press seem to know the views and arguments of their Government as soon as they are announced—if not earlier. The City of London, which is not without experience in these matters, is anxious to support a sound policy for sterling. Our leading papers, which are read with respect and attention throughout the world, are equally ready to help—but we are told too little and too late. Let us be consulted more and, perhaps, lectured a little less.

By these methods Government can accelerate the return of sterling. But its restoration is ensured by forces that go far beyond this country. The traditions of centuries uphold it—the world's long experience of British integrity and fairmindedness. The seriousness of our people since the war, like their steadiness under its impact, has done nothing but enhance that reputation. We can be quietly confident that, as the disturbances of today settle down, London will once more provide the world with its great international currency.

STERLING BALANCES: AMERICA SEES THE LIGHT

There is no use being astounded because there is a connection between our aid to Britain and Britain's capacity to repay her war debts in Asia. The British could not export to Asia to pay off their debts if we did not make exports to Britain that Britain did not have to pay for.

Until rather recently—until, as a matter of fact, some Americans began to take notice of southern Asia—we have lived with the simple-minded *notion that Britain would be better off without these sterling balances*, and that just as we cancelled lend-lease, so India, Pakistan and the others ought to cancel the sterling balances. At the time of the British loan everybody in Washington thought that that was the answer. It just shows how profoundly ignorant we all were—and really worse than ignorant, to expect countries which are among the very poorest in the world, which suffered fearfully in the war, to make the same kind of contribution to the recovery of Britain that we were making.

Canada's Dilemma

Overall Surplus Hides Dollar Deficit

Last year buoyant business conditions resulted in increased imports of dollar goods to Canada. The rise was not covered by dollar exports, which remained at the same figure for 1948

FOR over a decade the movement of Canada's external trade has been beset by a series of difficulties arising out of the country's conflicting interests as a heavy importer on balance from the United States and a net exporter to countries chronically short of dollars.

Under pre-war conditions of multilateral trade, with the pound sterling convertible into U.S. dollars, Canada's trade balances with particular countries or areas were of little concern, provided that the over-all picture was satisfactory. But to-day, with deep-seated maladjustments in world trading patterns still persistent, and with restoration of convertibility not in early prospect, the dictum of bilateral trade that "if you want to keep on selling to us you must buy more from us" has become a matter of very practical moment. Hardly a day passes that some aspect of this situation is not brought home to Canadian exporters and importers alike.

Of challenging significance in relation to the foregoing is the recently-published official estimate of Canada's international transactions on current account in 1949, which is summarized in the accompanying table. Such transactions include not only merchandise exports and imports, but also external receipts and payments in respect of travel, interest and dividends, freight and shipping and other "invisible" items.

The reassuring aspect of the picture is that, over all, Canada did not live beyond her means on international account in 1949. Exports of goods and services, estimated at 4,072 million dollars for the year, were less than the comparable total receipts of 4,139 million dollars in 1948 but were still more than sufficient to pay for merchandise imports and other current expenditures which had risen to 3,879 million dollars from 3,686 million dollars in the previous year. The resulting credit balance of 193 million dollars in 1949 was, however, sharply reduced from the previous year's figure.

Of more immediate importance than the over-all results of international transactions, however, was

CANADIAN BALANCES OF TRADE IN GOODS AND SERVICES.

(*Millions of Dollars*)		1948	1949
In transactions with :			
United States	Deficit	401	604
United Kingdom	Surplus	488	445
Other Sterling Area	Surplus	129	145
Other ERP Countries	Surplus	229	182
Other Countries	Surplus	8	25
All Countries	Surplus	453	193

Figures for 1949 are preliminary estimates.

the hard fact that the problem inherent in Canada's contrary balances with the two main currency areas was accentuated rather than alleviated in the past year. Thus, the adverse current account balance with the United States ran up by 50 per cent. from 401 million dollars in 1948 to 604 million dollars in 1949. The increase of about 200 million dollars was attributable in the main to additional Canadian merchandise imports of about 150 million dollars from the United States reflecting both buoyant business conditions in Canada and the relaxation of that country's import restrictions during the year. Canadian exports of goods to the United States were virtually unchanged in the two years.

Among non-merchandise transactions, which contributed further to the widening of the deficit with the U.S.A., net tourist receipts were reduced by 48 million dollars since spending by Canadians travelling south of the border had, despite Canadian government restrictions, increased 51 million dollars while U.S. tourists expenditures in Canada rose only 3 million dollars. Reflecting the steadily-growing amount of U.S. investment in Canada, net out-payments of interest and dividends rose perceptibly. On the credit side, a major non-merchandise item was the net export of gold to the U.S.A. which showed a moderate increase.

In the areas of trade which last year yielded a surplus, Canada's "favourable" balance with the United Kingdom contracted slightly between 1948 and 1949, but the gap between the United Kingdom's earnings and requirements of Canadian dollars was still discouragingly large. Further, it will be noted that the unbalance with the rest of the sterling area was actually widened by a combination of higher Canadian exports and lower imports. By contrast, western European countries receiving ERP funds both bought less from Canada and sold more to that country, thus significantly reducing their deficit on current account with this country.

A noteworthy feature of the past year's international transactions was that, despite the large and growing deficit on current account with the United States, Canadian reserves of gold and U.S. dollars rose by 120 million dollars. Data sufficient to afford a full explanation have not yet been published but the main factors no doubt included purchases approximating 443 million dollars by overseas countries in Canada that were authorised and financed by the United States under the European Recovery Programme and an enlarged flow of capital investment into Canada directly from the United States.

CANADA'S PRICE SUPPORT PROGRAMME

According to the Minister of Agriculture, the net cost of supporting farm prices in Canada from 1946 to December 31, 1949, was 7.5 million dollars. Of this, 5.5 million dollars was spent in supporting the prices of apples, 1.8 million dollars for surplus potatoes, and 0.2 million dollars for beans. As of December 31, the Department was holding 2,985,000 pounds of honey, 40,695,000 pounds of butter, and 18,080,000 pounds of cheese. The losses on these commodities will not be known until they are finally disposed of.

Globe and Mail, Toronto, March 31, 1950.

Australia's Milk-Bar Economy . . .

INFLATION is now Australia's most acute internal problem. The new Liberal-Country party coalition may stand or fall by its ability to check the decline in real money values, a decline which is fast destroying the basis of Australia's traditional claim to high living standards.

Australia is still one of the very few countries in the world which combines the outward semblance of economic well-being with full employment. Nor is there any prospect of unemployment in the predictable future. Yet rising prices threaten to nullify wage increases of the past decade and to topple the whole structure of what the Prime Minister, Mr. Menzies, has himself described as "a seriously unbalanced economy."

Since 1938 the Australian cost-of-living indices have gone up by more than 60 per cent. But many economists reckon the real overall increase at nearer 75 per cent. Since 1946 the inflationary process has actually gathered momentum, and prices are now soaring at the rate of 15 per cent. a year.

This is what Professor D. B. Copland has described as "Australia's milk-bar economy." Industrialists are concentrating on the manufacture of quick-selling, high-profit luxuries to satisfy a post-war demand for luxuries, but are neglecting long-range development in primary and heavy industries.

Meanwhile the nation is wracked by strikes and threats of strikes as the powerful Labour unions demand that the real wage increases won during the war be jacked up now to keep pace with price rises. These disturbances hit hardest at the coal, steel, and transport industries, thus aggravating the "unbalance" of the Australian economy.

The inflationary pressure is being further aggravated by an immigration intake which is climbing towards a target of 200,000 a year. This, in a country of 8,000,000 with a 1 per cent. natural increase, involves a 3½ per cent. addition to the population every year. No other country has ever sustained a comparable increase for more than a year or two, except in the course of tremendous industrial expansion or with some readily available asset like gold to finance the settlement.

Such forced expansion might be combined with a rise in living standards if more capital were available within Australia or from outside Australia.

From The Manchester Guardian, April 26, 1950.

. . . *And Her Fears for the Future*

WITH its main income earned by a narrow range of commodities, Australia has always had reason, in the interests of solvency, to be watchful of the extent of its obligations abroad, of its expenditure upon imports and its overseas reserves. However, at a time when development is going forward, when men and money are moving in, an undue obsession with the trade balance, an inordinate desire to

build overseas reserves, can bring unbearable stress upon existing resources and frustrate the advance which is in prospect.

Australia's gold and balances held abroad at the end of February exceeded £460 million, which is more than three times the level at the end of the war and almost fourteen times the balance in June, 1939. The nation's overseas currency reserves are high. The need now is to concentrate upon acquiring material assets which will enable expansion to be sustained.

Nor need there be fear amongst local manufacturers that additional imports of the required kind will threaten local industry or employment. There is plenty of room in the market for many types of capital goods of both local and overseas manufacture.

It is for these reasons that the recent decision by the Federal Government to encourage imports of capital goods and commodities which will augment Australia's output of these goods is sound in theory and likely to prove a valuable contribution in practice to the restoration of stability and the settling of the boom.

AUSTRALIA'S TRADE BALANCES.
(Excluding Invisible Items).

Country	July-December, 1949 £ million			July-December, 1948 £ million		
	Imports into Aust.	Exports from Aust.	Excess of Exports	Imports into Aust.	Exports from Aust.	Excess of Exports
United Kingdom ...	125.5	106.6	—18.9	99.1	110.7	11.6
India	14.2	20.9	6.7	14.0	12.1	—1.9
New Zealand	2.1	10.1	8.0	1.8	8.6	6.8
Other British Countries (excluding Canada)...	21.0	24.1	3.1	18.1	29.4	11.3
	162.8	161.7	—1.1	133.0	160.8	27.8
U.S.A.	24.4	19.3	—5.1	16.4	16.9	0.5
Canada	6.8	4.8	—2.0	5.5	4.6	—0.9
Belgium and Switzerland	3.0	11.6	8.6	3.4	10.6	7.2
Other Countries ...	44.2	61.5	17.3	41.6	73.3	31.7
	241.2	258.9	17.7	199.9	266.2	66.3

From Monthly Summary, National Bank of Australasia Ltd., Melbourne, March 11, 1950.

COMPENSATION PAYMENTS

Revaluation payments to the end of March have been as follows (in £ million): Belgium and Belgian Congo 5.1, British Honduras 0.1, Brazil 9.9, France 0.3, Paraguay 0.2; Persia 10.9, Peru 1.1, Portugal 27.4, Switzerland 1.2, Uruguay 4.9, totalling £61.1 million. These payments have all been made from the Exchange Equalisation Account. In addition, the following payments have been made out of the Consolidated Fund:—International Monetary Fund £148 million, International Bank for Reconstruction and Development £25.4 million. A special payment of £600,000 to Brazil has also been made from moneys voted by the House in March.

Minister for Economic Affairs, House of Commons, May 1, 1950.

Economic Consequences of Falling Population

Twenty-four points from a Report by the Economic Committee of the Royal Commission on Population

EXTERNAL CONSEQUENCES

1. It is possible that in future the Eastern countries where populations are large and growing rapidly and where industrialisation is proceeding fast, may become importers of primary products on a considerable scale. The repercussions of such a development on Britain's capacity to obtain supplies overseas might be grave.

2. This is one (though not the only) reason for fearing the British balance of payments problem, which is acutely difficult at present, may remain a source of anxiety even in the more remote future owing to long-term economic developments. If so, we shall have cause to be glad that our numbers will soon cease to grow, for an increase of the population by 10 per cent. would call for an increase, according to our estimate, of about one quarter of the pre-war volume of British export trade.

3. If, however, pre-war conditions of abundance in the supplies of primary products available for export to world markets return and are maintained in the long run, it should be possible for Britain to find some way of overcoming her balance of payments difficulties. Whether this is likely to occur is a speculative question on which different views may be entertained; but it would be imprudent to assume that the problem will be of short duration.

4. So long as Britain has a birth-rate below replacement level, the maintenance of a large flow of emigration is neither practicable nor desirable. On the other hand, the arguments for allowing a substantial immigration would acquire increased force if the population were tending to decline.

INTERNAL CONSEQUENCES

5. It seems probable that after the wartime arrears of house-building have been overtaken the demand for additional houses will fall off rapidly. This will give an opportunity to raise housing standards by replacing inferior dwellings, but it will probably also become necessary to transfer part of the labour previously engaged in building houses to other work.

6. The altered trend of population is likely to exert similar repercussions, subject to a similar time-lag, on other forms of building and constructional activity; and the same broad morals apply, viz. that it will be wise to seize the opportunity to modernise and improve our capital equipment, but that there are limits to the extent to which it would be reasonable to

NOTE.—The Report from which these quotations are made is dated December, 1945, although not published until April, 1950.

carry such a policy.

7. Within a measurable period, therefore, the aggregate output of capital goods is likely to decline, and we shall then be faced with the task of effecting a transition from an economy adapted to a high level of investment activity to one adapted to a lower level of investment and a correspondingly higher level of consumption.

8. The common assumption that the aggregate of urban land values will continue to grow in future at much the same rate as hitherto may cease to hold good under conditions of stationary or declining numbers.

9. The difficulties of the budgetary problem are likely to be increased by the present trend of vital statistics. First, the buoyancy of the revenue will be reduced, as the population of working age ceases to grow. The existence of a huge national debt lends importance to this consideration.

10. Secondly, the charges falling on the budget for the relief of old age will rise materially, owing to the rapid increase in the number of persons of pensionable age. The automatic increase so arising may be expected eventually to exceed £200 millions. Increases of expenditure may also arise from measures designed to promote a recovery in the birth-rate.

11. Thus the altered population trend is likely to exert adverse long-run repercussions on both public revenue and public expenditure. In these circumstances the maintenance of low interest rates will be of prime importance, so as to keep the debt charge as low as possible.

12. These difficulties will limit the use that can be made in future of taxation as an instrument of economic stability and social progress, and cannot, therefore, be regarded lightly. But they do not express any probable inadequacy of productive resources to meet consumer's needs, and fundamentally therefore they represent a less disquieting problem than that of the adverse balance of international payments.

EMPLOYMENT

13. Stationary or declining numbers tend to make the maintenance of full employment more difficult. It will be increasingly unsafe in future to rely solely on the automatic adjustment of an unregulated economic system to ensure that our labour-power and productive resources are fully used.

14. Four objectives of policy will be especially important:—

(a) increased mobility of labour;
(b) appropriate location of industry;
(c) stability of investment, and the adjustment of saving to any long-term changes in investment;
(d) a steady and sufficient export trade.

LIVING STANDARDS AND NATIONAL WELFARE

15. For two reasons, a stationary population is likely to find it easier than one which is growing rapidly to increase its standard of life. First, the resources which a growing population would have to devote to maintaining capital equipment become available for raising standards.

16. Second, the amount of land per head ceases to decline when the population ceases to grow, with the

consequence that the difficulty of obtaining a supply of natural products (which may become serious for Britain in her changed international position) will be at least mitigated.

17. On the other hand, the cessation of growth has the disadvantages (a) that the average age of the population will increase; (b) that there may be some loss of the economies of large-scale production; (c) that the difficulties of maintaining employment will be increased.

18. If, however, employment policy is only moderately successful, we think that for Great Britain today the balance of economic advantage is strongly in favour of stationary as compared with increasing numbers.

19. Unless fertility rises, the population will not merely cease to grow but must in time decline. There can be no question as to the necessity of restoring our fertility rates sooner or later to replacement level, since the alternative is national extinction. There is, however, a question whether it is important that the recovery should be effected quickly enough to avert any material decline.

20. The consequences of a decline of numbers are broadly similar in kind to those of a cessation of growth, but may differ greatly in degree. There will be advantages from the fact that accumulated capital per head of population will increase; but these advantages are likely to be speculative, transient, and double-edged. A smaller population would be advantageous on balance of payment grounds, but it is difficult to forecast whether this advantage would be slight or important. There would also be a gain on the score of amenity.

21. The offsetting of the cessation of the growth of population—in particular, the extra difficulty of maintaining full employment—would acquire some added practical importance if numbers were to decline materially. The burden that might result from an increase in the proportion of dependants to the working population would, however, be less formidable than is often supposed.

22. Thus while a smaller population would, as such, be on the whole advantageous, the process of decline would be difficult. Whether there would be a net gain would depend mainly on the long-term development of our balance of payments position.

23. To the issues of population policy, however, three other considerations are relevant. First, a sub-replacement birth-rate will encourage immigration and so reduce the proportion of home-bred stock in the population. Second, intervention to raise the birth-rate is not likely to have quick results. Third, measures to aid parents and to improve the care of children will strike at one of the main causes of poverty and malnutrition.

24. We conclude accordingly that in Great Britain at the present day the case for reasonable and well-considered measures to mitigate the burden of parenthood is fully made out on economic and social grounds.

Wages in Full Employment

By S. R. DENNISON

In conditions of "over-full" employment it is impossible to formulate a wages policy that will both maintain stability and allow flexibility

IN Mr. Dennison's view the behaviour of wages is of central importance for the maintenance of a high level of employment. "Wages are more than a part of a stabilising mechanism; they are part of a price system which can help to secure those changes in the distribution of resources which are needed to meet the changing techniques and demands of a progressive economic society."

The subject is treated under five main headings—the problem of stability, wages and productivity, mobility of labour, the changing pattern of wages, and minimum wages. Mr. Dennison's conclusion is as follows:—

"It could be claimed that policy so far has had at least a moderate degree of success so far as stabilization is concerned. We have avoided serious inflation and there has been a good deal of restraint on the part of many trade unions. Moreover, there seems to be growing appreciation of the dangers which face a society which is determined at all costs to maintain a high level of employment but which cannot achieve stability of wages and prices.

"On the other hand, the price of restraint has been the maintenance of various controls which are hard to justify on other grounds and their manipulation to try to prevent a rise in money-wages and then to offset the effects of such increases as do occur, with possible retardation of our economic recovery. Moreover, the situation is continuously potentially dangerous—the margin of safety is narrow and we never know when there might not be a breakaway.

"The decision to retain free collective bargaining has, in effect, meant that over a large field economic policy is determined by the actions of trade unions. This original decision was, I believe, right. But it is, perhaps, too much to expect trade unions to assume a responsibility which accords neither with their primary functions nor with their organization; it is, surely, a mistake to require 'the employers' organizations and the Trades Unions to exercise a sense of duty as trustees for the country in the adjustment of wages and conditions and in the prevention of a rise of prices.'

The Government's Duty

"Responsibility for economic stability can rest only with the authority which assumes responsibility for maintaining a high level of employment; the prevention of inflation is not the duty of trade unions but of government. If government wishes to retain free collective bargaining, together with other free institutions, then it must create the conditions in which that system can fulfil its proper func-

From Lloyds Bank Review, London, April, 1950.

tions without a continuous threat to stability and social order.

"Within the wage-structure, the changes since the war have resulted in a growing rigidity, and it seems that the dominant factor in these changes has been the very high level of employment. The comparative failure to secure those changes in the distribution of labour among industries which have been set out year by year in the official Economic Surveys is only to be expected in conditions of over-full employment and narrowing wage differences.

Mobility of Labour

"It has been suggested that in conditions of a high level of employment, mobility of labour between occupations may require greater differences in wages than existed formerly. The trend towards equality of wage-incomes is a trend towards the elimination of those differences which provide the mechanism of change. This problem would remain even if the problem of stability were solved; indeed, it would be intensified, for stability would rule out any move which was necessary to enlarge existing wage-differences or to create new ones.

"There is also, however, a good deal on the credit side. Some of the pre-war differentials were, perhaps, difficult to justify on social grounds, and the war-time and post-war conditions may have provided that jerk which was needed to bring about desirable change—for example, the raising of the agricultural labourer and the coal-miner from their previous depressed levels, and possibly the improvement in many women's occupations.

"It has, however, been suggested that these changes have gone so far because of the very high demand for labour, and that if there were a recession from the present over-full employment there would be some reversion towards the pre-war relationships, as happened after 1921. The Royal Commission on Equal Pay, reporting in October, 1946, took this view, remarking that certain long-term influences which had been operating to place a higher valuation on women's work may have been permanently strengthened by war-time developments, but that the near future might prove less favourable to the claims of women than the immediate present.

"The existence of over-full employment is, indeed, the dominating element in these problems of wages, as it is in so many other spheres. The need for a 'wages policy' arises because of the determination to keep unemployment down to a minimum which is lower than ever before experienced for any length of time except during war. If this is put as the first objective of policy, to which all other aims must in some measure be subordinated, then it would seem impossible to formulate a satisfactory policy for wages which will at one and the same time maintain stability and also allow that flexibility which is the mechanism of economic change. Of the two problems, that of stability and that of flexibility, either taken singly may be insoluble within the governing condition of very high employment; an attempt to combine them in a single solution would be doomed to frustration, for they are inconsistent objectives.

"It is impossible to say by how much the objective of maintaining the maximum possible level of employment would have to be modified in order to make these problems capable of solution, but there

are grounds for believing that only a slight rise from the present level of unemployment, which is 1.8 per cent. of insured workers, would make an appreciable difference. It may be that we shall be driven by the sheer logic of events to make the choice between maximum employment with precarious stability and a good deal of rigidity on the one hand, and a less ambitious objective of employment together with more assured stability and some flexibility on the other.

"While we can agree with Adam Smith that 'what improves the circumstances of the greater part (of society) can never be regarded as an inconveniency to the whole,' and so welcome the improvement in the standards of a large part of the wage-earning population in recent years, it would be even more comforting if the improvements were more assured and better founded.

We need to remember the same author's dictum that 'the progressive state is in reality the cheerful and hearty state to all the different orders of society. The stationary is dull; the declining melancholy.'"

Ground Plan for New Wage Policy

Five positive suggestive suggestions from a Socialist writer on maintaining a general income-freeze

IN the existing economic situation the need for wage restraint remains, and it is important to minimise wage increases as far as possible. But it is now equally true that some wage increases are inevitable, and we would add, desirable. What has to be avoided is the unleashing of a general competitive scramble for all-round wage increases.

Stated positively, wage increases should be granted where the case for them is strongest, either on grounds of equity or on account of their economic effect in helping to raise production. In other words, the valuable, if extremely tentative approach to a national wages policy made by the Government in its *White Paper on Personal Incomes* in February, 1948, must be followed up.

The immediate need is for a new White Paper which will give a clearer and more specific statement of the criteria justifying wage increases at the present time. Naturally such criteria would have to be formulated in consultation with the Trades Union Congress and the employers' organisation, but the following would appear to us to be a reasonable approach:

(1) Some price—in terms of an overall increase in the wages bill—has to be paid for instituting long-overdue reforms in chaotic wages structures such as exist in the engineering industries. The claim of the Confederation of Shipbuilding and Engineering Unions for £1 a week increase probably has least justification of all the present union claims, but it cannot be met by a flat rejection.

It has been encouraged by the refusal of the employers to give a reasonable reply to the Confederation's proposal for a new wages

From Socialist Commentary, London, May, 1950.

structure. If the Government were to take the initiative and set up a court of inquiry with the task of making recommendations for the reform of the wages structure, it would be likely to have the double advantage of averting a serious dispute and changing a wages system which by its anomalies is a cause of many dissatisfactions.

Lower-Paid Workers

(2) The case of the lower-paid workers, as now presented mainly by the railwaymen and the miners, can only be dealt with by agreement on some kind of a national minimum, which would have to take into account subsidiary forms of remuneration (i.e. free coal or free transport). To agree on a national minimum as a criterion in considering wage claims is a very different proposition from establishing it by legislation, a proposal to which the trade unions are understandably opposed.

(3) Such a minimum must be related to the cost of living. This raises the whole problem of "the increased cost of living" as a justification for wage advances at the present time. The attempt should be made to secure agreement with the trade unions collectively on:

Living Index

(a) A social cost-of-living index based on necessities, which would exclude beer, tobacco, etc., and the effects of taxation deliberately employed for anti-inflationary purposes; and

(b) relating cost of living, as thus defined, only to the minimum wage, i.e., not taking an increase as a justification for all-round wage increases.

(4) Beyond the wage increases justified on any of the above grounds, other cases should, for the time being, be granted only in exceptional circumstances, where the existing wage level in particular occupations is demonstrably leading to inadequate recruitment of qualified workers. For example, a salary for school teachers might be justified on these grounds.

(5) Finally, a good deal of confusion exists on the relationship of wages to productivity. The White Paper of February, 1948, has often been interpreted as meaning that wage increases would be justified if they followed upon an increase in productivity in a particular industry or service. Clearly, changes in productivity *per se* cannot be taken to justify wage increases (or decreases) in the industry in which they take place, since they are the result of many factors which may be unrelated to the workers' own efforts (e.g. priority in the investment programme).

Incentives and Production

It is mainly the incentive effect of wage changes which has to be allowed for in a national wages policy. If a wage increase could be linked, with trade union consent, to a proposed reorganisation of an industry or service which would, say, reduce the labour force—as in the civil service, or on the railways—there may be a good case for granting it, but the retrospective approach has no justification.

Given agreement on national policy on these lines it would be possible for the trade unions to function as trade unions again without returning to *laissez faire* on the wages front. They would have some idea on what grounds wage claims might be made with some chance of success Indeed the dis-

cussion of the criteria would provide a suitable occasion for the unions to launch a big educational campaign among their members to clear up some of the mistaken ideas which still prevail, for example, on the extent to which wages can be improved at the expense of profits.

The arbitration tribunals would also have a policy to guide them in making their awards, and could exercise their independent judicial function by considering the merits of the claims according to principles and priorities set out in the White Paper.

Productivity and the Balance of Trade

By Professor ELY DEVONS
Manchester University

Increases in production will not solve the problem of foreign balance unless they take place within the framework of sound economic and financial policy

THE three main points which emerge from Professor Devons's analysis are firstly that in the measurement of production there can be no absolute precision, secondly that the estimate of the Central Statistical Office shows a greater increase than that of the London and Cambridge Economic Service, and thirdly that the increase in production in recent years has been by no means phenomenal or unprecedented.

"It should also be remembered that the whole of this analysis is concerned only with industrial production, and that this is only part of the whole field of economic activity. Industrial production is now normally taken to include manufacturing industry, mining, building, and gas, water and electricity supply. Roughly, in terms of employment, these industries covered in 1948, about one-half of the total economic activity. The sectors not covered are agriculture, transport, distribution, commerce and finance, services, public administration and the armed forces."

The analysis is divided into three parts—the level of production, production and employment, and production and foreign trade. Professor Devons takes the view that increases in production and productivity will not solve the problem of foreign balance unless they take place within the framework of the appropriate general economic and financial policy.

"The fluctuations in exports, contrasting with the steady rise in production, reflect, of course, the relative pressure of home and overseas demand, and the movement of the prices of British exports compared with those of our competitors. And there is no obvious and necessary close relation between these

From Lloyds Bank Review, London, April, 1950.

and the trend of British production and productivity.

"If increases in production and productivity are accompanied by rising incomes which result in increased demand in the home market, they will not lead to any easing of the foreign trade position. Thus, a general willingness to work longer hours would not help if the extra incomes thus earned all became increased expenditure—especially if the extra hours were paid at overtime rates. Indeed, such increases might merely aggravate the overseas balance, for while the increased level of production would make little contribution to exports, a higher volume of imported materials would be needed to support it.

"There is another fallacy in the view often expressed that increases in productivity per man should be accompanied by rising incomes. For productivity is measured by the production per man in terms of home output, but part of the expenditure from income is on imports. And there is no compelling reason why increased productivity in terms of manufacturing output should also mean a corresponding increase in the command over imports.

"Indeed, the depreciation of last autumn was an admission that if the United Kingdom was to meet its foreign trade problem it had to turn the terms of trade against itself. This meant making imports more expensive in terms of exports, and so reducing 'productivity' of a given volume of British manufacturing output in terms of its command over imported food and raw materials.

"Still less will an increase in production and productivity necessarily help the solution of the particular problem of the dollar gap. For even if a substantial part of the increased production is exported, it might merely go to the reduction of sterling balances. Nor does an increase in production of itself indicate that we are having any greater success in making goods of the type and style that will sell in dollar markets or in competition with dollar imports in third markets. The index number of production attaches no greater importance to goods that can be sold in such markets than to those which can only be sold easily at home or in the sterling area.

"It is these arguments which lie behind the common-sense view that the volume of production now matters less than producing goods of the right type and quality at competitive prices."

World Industrial Production: 4% Rise

FOLLOWING a notable increase in the fourth quarter the volume of world manufacturing and mining production in 1949 was 4 per cent. higher than in 1948. World industrial production has gained steadily since the end of World War II, and in 1949 was 40 per cent. above the 1937 level. Excluding the United States, the index of world industrial production was almost one-third higher in 1949 than in 1937, having increased 15 per cent. since 1948. Annual world output since 1946 is shown in the table overleaf.

Of the 21 countries for which national indexes of industrial production are published in the U.N.

 From Monthly Bulletin of Statistics, United Nations, Lake Success, April, 1950.

Bulletin of Statistics, only two—the United States and India—reported industrial output in 1949 below that of 1948; the figures were 8 per cent. and 2 per cent. respectively. The most impressive gains in 1949 were achieved in the following five countries (figures show percent increase over 1948):

Western Zone of Germany 48 per cent; Austria 3 per cent; Poland 27 per cent; Greece 19 per cent; Japan 37 per cent. Production in France and the Netherlands rose approximately 10 per cent., while output in the United Kingdom was 6 per cent. higher in 1949 than in 1948.

WORLD INDEX OF MINING AND MANUFACTURING PRODUCTION.
1937=100

	World.	World ex. U.S.A.	World ex. Germany, Japan, and U.S.A.
1946	107	82	97
1947	121	96	112
1948	135	114	131
1949	140	131	146

Fall in Production of Sugar . . .

THE production decline in 1949/50 as compared with the previous year is more significant than appears at first sight. It comes at a time when high levels of national production, employment, and income—coupled with the progressive removal of restrictions on consumption — have given an impetus to higher sugar consumption. Furthermore, world population is increasing by approximately 25,000,000 persons a year, or at a rate of slightly more than 1 per cent.

SUGAR PRODUCTION BY CONTINENT
(In thousand metric tons, raw value)

Continent	1934-38	1948/49	1949/50 (Estimate)
Africa	1,170	1,501	1,473
Asia	9,230	8,233	8,119
Europe (excluding U.S.S.R.)	6,498	6,747	6,718
North and Central America	6,900	10,169	10,139
South America	2,133	3,216	3,083
Oceania...	1,834	1,996	1,974
World Total, excl. U.S.S.R.	27,765	31,910	31,506
U.S.S.R.	2,800	1,800	2,300
WORLD TOTAL	30,565	33,710	33,806

WORLD POPULATION, SUGAR PRODUCTION, AND PER CAPUT AVAILABILITY OF SUGAR (Excl. U.S.S.R.).

Year	World Population	Sugar Production	Per Caput Availability
		(Metric tons)	(kg.)
1937	1,965,000,000	27,765,000	14.1
1948/49	2,175,000,000	31,862,000	14.7
1949/50	2,200,000,000	31,506,000	14.3

From Commodity Report on Sugar, F.A.O., Washington, February 10, 1950.

. . . And in Seasonal Stocks of Wool

WORLD WOOL BALANCE SHEETS, TENTATIVE ESTIMATES.
(Seasons beginning 1st July).

	1934-38	1947/48	1948/49	1949/50
	(1,000 metric tons, greasy basis)			
Apparel-type wool				
Stocks, beginning of season ...	800	2,030	1,730	1,430
Production	1,360	1,300	1,350	1,360
Supply	2,160	3,330	3,080	2,790
Consumption	1,350	1,600	1,650	1,640
Stocks, end of season ...	810	1,730	1,430	1,150
All wool				
Stocks, beginning of season ...	950	2,180	1,890	1,590
Production	1,720	1,690	1,700	1,700
Supply	2,670	3,870	3,590	3,290
Consumption	1,700	1,980	2,000	1,990
Stocks, end of season	970	1,890	1,590	1,300

From Commodity Reports on Wool, F.A.O., Washington, March 13, 1950.

FOREIGN CAPITAL IN INDIA

Between August 15, 1947 and the end of 1949, negotiations for foreign participation in Indian industry were completed for 75 projects, involving a total investment of 213 million dollars. Thirty-eight projects are for the manufacture of consumer goods, 21 for capital goods, and 16 for electric power. Thirty-two projects, with an investment of 168 million dollars, are under government auspices, while the remaining are private. Nearly two-thirds of the foreign participation is from the United Kingdom, with Switzerland and the United States next in order of importance.

From Indian News Digest, Bombay, March 16, 1950.

Diesel Engine Cuts Transport Cuts

In 22 years the Diesel engine has become one of the most efficient units in British transport

ONE of the most striking road transport developments in the last twenty years has been the growth in diesel traction for the heavier vehicle. The diesel engine made its first appearance in a commercial vehicle in this country in 1928 and the increase in diesel-engined vehicles is summarised in Table I opposite.

The advantages of the diesel are most evident in the commercial vehicle of 4½ tons upwards, as indicated by the figures of commercial vehicles registered for the first time in the United Kingdom in 1948. (See Table II)

There are many factors to account for this increase in the popularity of the diesel engine, but the fuel cost factor is one of the most important. Apart from the inherent economy of the diesel engine, the fuel it uses is considerably cheaper than motor spirits, although this advantage will inevitably tend to disappear as the demand for the former product rises. Table III presents a comparison based on 1948 prices between a petrol and a diesel vehicle each carrying a load of three tons and running 500 miles per week.

Thus the fuel bill for the diesel vehicle is a little over half that of the petrol vehicle, although the saving in running costs is partially offset by the increased amount which must be allowed for depreciation. For heavier vehicles the fuel economy of diesels is even more striking. Similar figures[1] for vehicles carrying a ten-ton load are shown in Table IV.

The figures for large omnibuses are impressively in favour of diesel engines. A 56-seater running 500 miles a week was estimated to cost 3.40d. per mile in fuel of petrol-engined and 1.70d. per mile if diesel-engined before the 1950 Budget—a saving of 50 per cent. in favour of the latter.

Heavy Taxation

A factor to be borne in mind, in passing, is the high taxation on motor fuel, which has stood at 9d. a gallon from April 1938 until April 1950. This produced £46.3 million for the Exchequer over the year ended March, 1949. Added to the £52,715,000 received from motor vehicle and driving licences, the total of £99,016,000 paid by road users represented 2.5 per cent. of the national revenue, and only a small fraction of this amount has been expended on roads. This figure will be materially increased by the 100 per cent. increase in the motor-fuel tax from 9d. to 1s. 6d. per gallon, and the 33⅓ per cent. purchase tax on commercial vehicles imposed in the 1950 Budget.

In the railway sphere the replacement of steam locomotives by diesel

From The Statist, London, April 22, 1950.
(1) *From The Commercial Motor Tables of Operating Costs 1948-9.*

TABLE I

Year	Omnibuses and Coaches		Goods Vehicles		Total	
	Total	Diesel	Total	Diesel	Total	Diesel
1934	45,689	2,398	413,320	4,317	459,009	6,715
1938	53,005	17,322	494,866	8,621	547,871	25,943
1947	62,399	34,037	669,691	19,968	732,090	54,005
1948	68,457	39,567	769,187	24,057	837,644	63,624

TABLE II

	All goods vehicles		Vehicles of 4½ tons upwards	
	No.	%	No.	%
Oil-engined	5,070	4.9	2,560	67.2
Petrol-engined	96,936	95.1	1,249	32.8
Total	102,006	100.0	3,809	100.0

Table III

	Pence per mile	
	Petrol	Diesel
Fuel	1.53	0.81
Lubricants ...	0.13	0.16
Tyres	0.52	0.52
Routine maintenance... ...	0.24	0.24
Repairs and overhauls	0.95	0.85
Depreciation ...	1.14	1.58
Total... ...	4.51	4.16

Table IV

	Pence per mile	
	Petol	Diesel
Fuel	3.06	1.53
Lubricants ...	0.20	0.21
Tyres	1.52	1.52
Routine maintenance... ...	0.46	0.46
Repairs and overhauls	1.55	1.55
Depreciation ...	1.82	2.21
Total... ...	8.61	7.48

or diesel-electric is proceeding at an accelerating pace. Already in the U.S.A. 47.5 per cent. of passenger car-miles, 31.5 per cent. of freight-ton miles and 47.2 per cent. of the total shunting hours of the United States railways are done by diesel-electric locomotives. In this country progress is slower for obvious reasons, but already many diesels are used for shunting work, and experiments are taking place with main-line locomotives. Comparative operating costs between steam and diesel-electric shunting locomotives derived from experience in this country in 1947 are given in Table V.[2] The steam locomotives were of the 0-6-0 tank type, weighing approximately 50 tons and capable of 2,300 lb. tractive effort and the diesel-electric locomotives

Table V

RUNNING COSTS IN PENCE PER SERVICE HOUR.

	Steam	Diesel-electric
Fuel	51.5	18.5
Lubricants ...	0.5	1.4
Water	1.5	Nil
Wages (driver) ...	33.0	33.0
Wages (fireman) ...	25.5	Nil
Maintenance, repairs, overhauls	20.4	15.1
Total... ...	132.4	68.0

(2) *Institute of Petroleum and Institute of Fuel. Joint Conference on Modern Applications of Liquid Fuels, 1948. Paper by F. H. Horner on Diesel Rail Traction.*

were 0-6-0, 350 h.p. 47 ton capable of 3,300 lb. tractive effort. (See Table V)

The capital cost of the diesel-electric is, of course, much higher than that of the steam locomotive—£23,000 against £9,000—and the life is shorter—30 years against 54. Nevertheless, the diesel-electric can be used 7,300 hours per annum as against 4,700 hours for the steam locomotive, and the hourly capital costs work out at 38.4 pence for the former against 18.1 pence for the latter.

A similar story could be told of the economy in fuel costs of the marine diesel engine over the marine steam turbine at least for powers up to 8,000 h.p. Of 1,070 ships under construction in the world in July 1949, 717, about two-thirds, were motorships[3]. Moreover, many ships driven by steam now have oil-fired boilers in preference to coal-fired on account of the greater economy of the former. Indeed, 78 per cent. of the world's shipping in 1949 consisted of either oil-burning or motor ships, as against only 54 per cent. in 1939.

The economies of marine diesels are in fact more striking than those of other sorts, for the heavy, slow-running marine diesel engine can run on a heavier and cheaper fuel. Experiments conducted over a period of three years with an oil tanker, the *Auricula*, for example, showed a saving of £7,734 a year by the use of a normal grade of boiler fuel in her engines instead of the customary grade of diesel oil.

A potential challenger to the pre-eminence of the diesel is the gas turbine, which has already established its efficiency in the somewhat limited sphere of "jet" or "jet-prop" propulsion of aircraft at high speeds and great altitudes. Its successful development on a large scale for land transport must await further experiment, but at present engineers have not succeeded in giving it a sufficient thermal efficiency to rival the diesel, though it possesses other advantages, such as a small number of moving parts.

It is also not yet certain what type of petroleum fuel will become standard in gas turbines At present the most commonly used is kerosine, a comparatively expensive product, but the technical difficulties to be solved before a heavier and cheaper fuel can be used are by no means insurmountable.

(3) *Lloyds List. July*, 28 1949.

REASONS FOR RISE IN BUILDING COSTS

Two of the main recommendations of the report issued by the Building Industry Working Party are: (1) that an appropriate system of incentive schemes is an imperative requirement if output in the industry is to be adequately increased, particularly under conditions of full employment; (2) that a determined effort must be made to remedy existing arrangements for the issue of licences and permits which cause delays and uncertainties, are inimical to efficiency and make pre-planning of jobs impossible.

Cost-of-Living Index in Sweden

A Dangerous Instrument of Policy

By ULRICH HERZ

There are similarities between the cost-of-living indices in Britain and Sweden. In each instance an improvised and unscientific instrument is exercising too great an influence on policy

THE cost-of-living index of the Swedish Social Board is designed to measure the changes in the cost of living of the social stratum (workers and clerks at a certain income level) that provided the material for the construction of the "index family's" budget, the "index family" being a statistical creation showing the average conditions. In practice this index may be said to serve two closely-related purposes.

First, the cost-of-living index has to provide the parties in the labour market with a basis for deciding the question of the relation between nominal wages and real wages.

Secondly, the index may give the *Government* the possibility of carrying out an income-distribution policy that aims at an unchanged standard for the "index family" (or, if circumstances are such that a reduction of the real standard of living for the whole population is unavoidable, at the maintenance of the existing relative "shares" in the distribution).

The utility of the cost-of-living index in both these respects will depend first and foremost on whether or not the distribution problem that is to be solved has reference to the social stratum of the "index family." At present we have little or no knowledge of the "spreading effect" (with respect to different income groups) of a general change in prices. Consequently we know very little of the representativity of the cost-of-living index for social groups other than that of the "index family."

From this point of view it is highly desirable that we should have parallel cost-of-living indices for other social groups, especially for those that may be supposed to have a different type of consumption from that of the present "index family" (for example rural populations, old-age pensioners, large families, etc.). Such series are now being worked out by the Social Board. Until we have a more secure basis for judging the representativity of the present cost-of-living index we should always be careful not to regard this index as a general measure of the cost-of-living development in different groups of the population. This role of caution has not always been observed in political discussions.

Another question, however, is whether the cost-of-living index of the Social Board gives a true picture —in its present form—of the changes in the cost-of-living for *the social class of the "index family."* This question may generally be answered in the affirmative. With

the care that is devoted to the gathering and treatment of the material and the refinement that the index technique itself has achieved, there is no reason to "distrust" the index. The insolubility of the theoretical index-problems discussed above is scarcely of such great practical importance as to distort the results to any significant extent.

What Do We Measure ?

What, however, makes the cost-of-living calculations questionable from the point of view of practical politics is the uncertainty as to what it is that is to be measured. As is well known, it is especially the question of the role of taxes, social services and price subsidies in this connection that has given rise to discussion and differences of opinion. How these matters are to be treated from the index point of view depends entirely on how the objects of the cost-of-living index calculations are formulated. The decision in this question is a matter of pure convenience. From the scientific standpoint no other conditions can be made than that the objective chosen should receive a proper formulation and also that, when chosen, it should be kept to consistently.

For my part I wonder whether it would not be best for the cost-of-living index to be given such a definition that public measures aimed at bringing about a redistribution of income should in principle *not* be allowed to influence the index figures The latter should, therefore, exclusively reflect the effects of changes in market prices, and in this connection it must be premised that these do not contain any element of (indirect) taxation. (For various reasons the last-named condition cannot be maintained in practice.)

The argument for such a solution consists in the fact that the *motives* for an income redistribution on the one hand and for compensation for high living costs on the other are of entirely different kinds. Social advantages of the "children's allowance" type are intended actually to *raise* the standard of the family with children, not to compensate it for any increase of the cost-of-living.

According to this reasoning, of course, direct taxes should also be excluded from the index calculations, quite independently of whether an increase in the tax for a certain income category corresponds to a proportional increase of the possibilities for collective consumption for the same category The division of the total tax burden among the different income groups is itself decided by other motives than a desire to give compensation for increased living-costs.

What To Avoid

The discussion on the decision to subsidise prices following devaluation, in the writer's opinion, served to prove that an index definition which does *not* keep clear of the distribution policy point of view may easily spread confusion. There is danger that the original purpose of the index may be lost sight of. While the index was originally constructed as an instrument to show whether a change in the cost of living for the "index family" had occurred, after the devaluation it was a matter of preventing the index from showing any effects.

The motive of price subsidizing was based on the distribution

policy: it was not desired that the burden of the devaluation should be borne by the social group of the "index family." But another motive was mixed with this: it was not possible to allow the index to rise, since this would have set the price-wages spiral in action. Subsidization, which in the existing circumstances was unavoidable, was however capable in two ways of causing misconceptions of the aim of the index calculations.

Political Device ?

On the one hand the method chosen—that of keeping the cost-of-living index as nearly unchanged as possible—obscured the fact that the decision *de facto* implies a redistribution of income in favour of the "index family," and therefore to the disadvantage of other social groups. On the other hand the price subsidization measures gave fresh nourishment to the deeply rooted suspicions of the index, which for many now more than ever appeared as a "political" device.

Both these misapprehensions are based, in the opinion of the writer, on the fact that the definition of our present cost-of-living index is not completely consistent, in that the frontier against the redistribution aspect is not drawn clearly enough.

The root and origin of the dilemma that people found themselves in after the devaluation was however ultimately to be sought in the fact that the authorities had bound their hands by the index clause in the 1947 agreement on the salary conditions of state employees. The unconditional gearing of wage demands to the index figure allowed of no other solution than subsidization.

The unfortunate thing in such a linking is principally that no regard is taken of possible changes in the total supply level of the social economy. In an extreme case it is conceivable that an increase in the index may reflect a precisely similar percentage reduction in the supply of goods and services in the community. In such a case a mechanical compensation must therefore imply a redistribution in favour of the "index family," and therefore in fact an "over-compensation" for this social group.

From the points of view here put forward we come therefore to the conclusion that an unconditional, automatic gearing of salaries to the index may lead to unreasonable consequences and must consequently be considered unsuitable. The index calculations should remain *indicators* for such changes in the standard as are *not* caused by decisions motivated by distribution policy.

"Index Thinking"

In this unadulterated form they could *guide* both the parties in the labour market and the Government as to the attitude they should take up in the controversies on distribution policy. But these attitudes should be determined also by other factors than a superficial "index thinking." The Government and the economic interest groups should not bind themselves in advance to allow their actions to be dictated by the outcome of the index calculations. In that case, too, it would not be necessary to take the doubtful course of every now and then changing the scale of the useful instrument that the index series constitute.

Must German Trade Look East?

By JEAN LAFOREST

The Eastern European market is worth 500 million dollars to Germany, who might become the industrial arsenal of the Soviet world

GERMANY'S industrial production is at present about nine-tenths of the level of 1936. The index for the Trizone has been moving between 90 and 100 for several months. The index for the Soviet zone should by now have exceeded 80 per cent; the target for the end of this year is 103.

In 1936 20 per cent. of the total industrial production was absorbed by war preparations and only 80 per cent. was reserved for commercial purposes. At present, German industry is demilitarized. As industrial production approaches the 1936 level, the commercial potential is about one-fifth larger than pre-war.

In their memorandum to O.E.E.C., the Federal Authorities forecast a level of 120 (1936 = 100) for Western Germany in 1952-53.

There is general agreement that this programme will be surpassed in reality. In any case, however, if armaments production remains prohibited, "commercial" production will be 50 per cent. higher than the pre-war volume. In other words, Western Germany alone will have as much to sell at home and abroad in two years' time as the whole Germany of 1936.

Before the war, Germany played a leading part in intra-European trade. Monopolizing 35 per cent. to 40 per cent. of the trade between West and East, Germany had ensured for herself a dominating position in the Danube basin and the Balkans.

The collapse of the Third Reich has created a gap in Central and Eastern Europe which Russia is going to fill by literally upsetting the European equilibrium. The Soviets have secured a market for their raw materials and a source for a maximum of manufactures and they have turned towards the West the growing pressure exerted by the reborn German industrial potential. In addition they hold a major trump: to re-open for Germany, under certain conditions, the Eastern market.

Western Markets

In 1938, German exports to Central Europe and the Balkans represented 284 million dollars. In normal times, Germany sold in the East as a whole 400 million dollars to 500 million dollars; this would be 1,000 million dollars at current prices, of which two-thirds came from Western Germany.

In spite of a quick growth in Western Germany's exports to the "people's democracies"—trade has trebled within a year—they amount only to 60 million dollars at present. There is therefore, an excessive pressure on the Western markets where Germany is opposed by international competition. The

From Le Monde, Paris, April 19, 1950.

Eastern European market, of which Russia holds the key, is in German eyes worth more than 500 million dollars—not a trifle compared with total German exports which were only 1,100 million dollars in 1949. The more German production increases, the greater becomes the value of the Danubian and Balkan markets.

But the Soviets have still other trumps to play. It depends mainly on their good will whether trade between the Trizone and Eastern Germany, which are largely complementary, can be intensified. And the example of Eastern Germany, which conducts half of her foreign trade with Russia and a quarter with Poland, may be followed by others. Foodstuffs supplied by Russia could advantageously replace American shipments and relieve the dollar shortage. Finally there is the attraction of the Chinese market. Between 10 and 12 per cent. of Germany's exports went to Asia before the war, of which the larger part was destined for China.

Will the three Foreign Ministers find an effective reply to the danger of Germany becoming the industrial arsenal for the Soviet world?

M. Laforest's essay was written before M. Schuman proposed the nationalization of Europe's coal and steel industries. Despite this, it is highly relevant to the study of that plan.

Marshall Aid to Britain

In the first two years of Marshall Aid, the Economic Co-operation Administration made available 2,391,400,000 dollars to the United Kingdom for the purchase of essential food, fuel, raw materials and machinery in the United States, Canada and other dollar countries.

Of the total amount issued in procurement authorizations from April 3, 1948, when the Economic Co-operation Act was signed by President Truman, through the end of March, 1950, 1,209,400,000 dollars was for food and agricultural commodities 1,098,100,000 dollars for industrial commodities, 77,000,000 dollars for ocean freight and 7,000,000 dollars for technical services.

The commodity for which the largest amount of Marshall Aid funds was made available during the two-year period was wheat. A total of 508,400,000 dollars was provided for the purchase of wheat and wheat flour, mainly from Canada. Other commodities which the United Kingdom imported under Marshall Aid in large volume were (in dollars):

Petroleum Products	262,800,000
Cotton	221,000,000
Tobacco	141,400,000
Sugar	134,400,000
Copper	100,800,000
Aluminium	99,400,000
Lumber	90,400,000
Meat	75,600,000
Pulp and paper	71,400,000
Dairy products	69,000,000
Industrial machinery	67,000,000
Chemicals	64,900,000
Zinc	58,000,000
Iron and Steel products	51,700,000

From E.C.A. Information Division, April 19, 1950.

Case Against Keynes

By PAULO SYLVOS LABINI

The author believes that he is a David fighting Goliath, but he may be a Don Quixote charging against windmills

THE Keynesians have a right wing and a left wing; both alike insist on their orthodoxy and both alike make the Master say things of which he never even dreamt. Keynesianism is, in short, a full fledged philosophic school. Instead of theses and anti-theses there are the "propensities." "Liquidity preference" has replaced the Idea.

The government departments at Washington are full of Keynesians of all tendencies. Their prescriptions vary with prevailing economic conditions (Keynes's system is wonderfully elastic); it is always easy to demonstrate that the conditions are those one wishes them to be.

Are the trade unions taking a threatening attitude, and do wage rises seem inevitable? Wage rises are advantageous: Keynes says so and so do the left wing Keynesians.

Does it seem possible to withstand the demands for wage rises? Other Keynesians (the right wing) pop up, waving other writings of the Master showing that such rises are an evil.

Is the budget deficit alarming and does the Party in power need to fillip its popularity? It is found that the marginal efficiency of capital is too low to attract savings to investments; it is necessary to tax the rich, whose propensity to save is dreadfully high. But may be the rich show their teeth: it is not advisable to attack them. It will then be discovered that the marginal efficiency of capital is high enough; there is no danger that money remain in the drawers; heavier taxation would be a serious mistake.

Then, there are the "findings" generally accepted, the "conquests" of the new economists.

The economic horizon darkens: is a depression in sight? Well and good: the time has come for wildcat finance (technically known as "deficit spending"). What should be financed? Public works, armaments, perhaps even social services.

All this of course is garbed in dignified scientific terms, and claims the respect of all, if it is seasoned with estimates of disposable incomes and global savings with calculations of the various "propensities" and "multipliers."

Saving and Spending

Keynes takes no cognizance of the problem, on which good classical economists laid so much stress, of what is "productive" and what "unproductive," *i.e.*, what is "luxury," or, we may say, of what is socially productive and what is not. For him one investment is as good as another, since it means spending.

All will be well, provided people spend; and should savers keep their money in their drawers, then the government must do the spending. It does not much matter whether the money is spent on building an electric power station or on paying people to carry water from the Atlantic to the Pacific. A Keynesian

From Quarterly Review, Banca Nazionale del Lavoro, Rome, December, 1949.

(an assistant professor of economics at Havard), to whom I made this objection, answered me: "but, as we know, Keynes's theory only holds good for the short run; and in the short run investment expenditure has the effect of raising the wage level and increasing employment whatever the investment may be."

This famous "short run" is always brought forward by the followers of Keynes. "In the long run we are all dead." But before dying we shall be living a rather wretched life if we go on committing a series of "short run" follies.

Money No Object

Keynes ignores not only the problem of social productivity but also, and consistently, that of costs. That costs be high or low, that they be rising or falling, matters little to him. He thinks that, in the short run technological changes can be quietly ignored; and he has not even a suspicion that these changes may account for many of those disequilibria that he tries to explain by "propensities," "multipliers" and other economic gadgets.

The fundamental objection is this: Keynes has failed to understand the part played by the banks in modern life, and this failure undermines the whole construction of his logic.

Each person, says Keynes, may spend his money-income on consumption goods, or he may save it; if he saves it, he may invest or he may hoard it.

Men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income. The ratio between the increase in the consumption of a community and the increase of its income—the marginal propensity to consume, $\frac{dC}{dY}$ — is less than unity. If the aggregate income grows, savings grow in actual figures and perhaps also proportionately. (The richer, moreover, have a lower propensity to consume than the poorer. The more unequal the distribution of income, the wider the margin of savings, which may or may not be invested).

A new expenditure on consumption goods increases aggregate income and employment; new individual savings increase both the one and the other only in so far as they are invested. Those who save are induced to lend only if they obtain an adequately high rate of interest. Interest is the price paid to induce savers to renounce holding liquid money. Now, who pays this interest? It is paid by the firms, whose demand for loans and whose investments vary according to the more or less high marginal efficiency of capital (or, as Lerner corrects, of investments, because, according to another "famous" remark, a *fund* should not be confused with a *flow*).

Declining Investments

And here I come to the core of the argument.

If the marginal efficiency of capital falls, the total investment declines. Effective demand (the sum of outlays for consumption and of those for investments) falls below the level ensuring full employment, and therefore the social income shrinks. Under these conditions, Keynes says, no automatic mechanism assures the return of full employment and raises again the income.

The decline in the rate of interest, which according to the "classics"

might re-establish the balance, does not really do so. The fact is that interest depends on "liquidity preference," which for various reasons, increases, or does not decline; and as money cannot be "produced" by the individuals, the price of money, *i.e.* the rate of interest, increases, or is reluctant to fall: the "inducement to invest" is hampered. Things, left to themselves, may remain like this for a long time. Nor, under these circumstances, will the reduction in money wages be helpful, as such a reduction may lead to a further shrinkage of effective demand.

Building Up Demand

There is but one way to react; to stimulate effective demand, that is to say the mass of money flowing into consumption and investments. How? The monetary authority may immit new money, especially by "open market operations": the additional money lowers the rate of interest and thus encourages investment. Or the monetary authority may directly reduce the rate of interest. Besides, the government itself may raise its expenditures, by financing public works or other "investments."

This reasoning is based on the assumption that the volume of money is constant. This assumption, Keynes says, is legitimate because, in the case of a gold-standard currency, metallic money can be produced by private enterprise in gold-mining countries in a measure which, for the world as a whole, is negligible; in the case of an inconvertible managed currency, paper money can be "produced" only by the monetary authority, that is to say by the central bank under public control, and not by private enterprise. Should the liquidity preference grow, and with it the rate of interest, the production of money cannot increase, as, for instance, the output of motor cars can increase if their price rises.

Here is the fallacy. The "production" of means of payment, in the modern economic process, did not and does not depend, substantially, on the mines or, respectively, on the monetary authority; it did and does not depend on the banks (and among them there is the central bank itself in so far as it does not operate under public control), which all emanate from private enterprise, that is to say from the firms.

It is not true that the firms cannot "produce" money: they can and do produce it: not directly, but through the banks, which in their turn are themselves firms. This means that the banks, continuously, create means of payment on behalf of the non-banking firm. (We do not say that they "create credit," an expression which has given rise to many misunderstandings.). These means of payment have only a very elastic connection with individual savings.

The Way Banks Work

Strictly speaking, the means of payment "created" are not and do not represent the savings of anyone. (Regarded from the social standpoint, they may lead to "forced" saving, in as much as they bring about a rise in prices; or they may hypothetically hinder an expansion of consumption in as much as they prevent a price fall).

The commercial banks—I am referring to these—obtain on loan 100 monetary units from individual savers and have to pay a certain

rate of interest to overcome—let us use this expression—their "liquidity preference"; but they make loans for 200, 300 units or more; and to obtain these loans the entrepreneur has not to overcome any "liquidity preference" of the banks, which indeed (subject to certain ample limits taught by experience and the circumstances of the time) prefer "illiquidity."

Keynes's arguments could hold good, if at all, in an economy with a purely metallic currency, or in one in which the circulation consisted of bank-notes with a full metallic cover, in which the banks merely acted as middlemen for private savings. But, two centuries ago at least, such an economy ceased to exist.

My Keynesian friend reflects; and then says that my objection might be valid in the case of circulating capital, which is financed by bank loans; but not in that of fixed capital, which is financed by shares and debentures. These are purchased by individual investors; and here we are forced to take into account their preferences and propensities.

This line of defence cannot hold. A net distinction between the two sources of financing, corresponding to the two types of capital, is a purely scholastic one. It is well well known that firms often finance long-term investments with short-term bank loans, which they renew several times. Moreover, share and debenture issues are usually financed, at least in a first stage, by the banks, either directly or by loans made to brokers.

My friend rebuts: but in the last resort those securities must be purchased by indiviual investors. Agreed. But we are justified in supposing that these investors purchase those securities with means of payment which in the period under consideration, brief though it may be, have been created by the banks and have come into their hands by various ways. From this point of view also, the assumption that the volume of money is constant would seem to be unfounded, or, rather, deceptive. Such an assumption creates bottle-necks, requires passages, which in reality do not exist.

Monetary Management

In short, what Keynes at the conclusion of his drama wants the banks (or the government) to do, *i.e.*, to augment the volume of money in circulation, is what the banks are normally doing. If at a given moment the banks find difficulty in continuing to do so, if, against their will, they see their liquid reserves increasing this does not depend on ill-will on their part, and still less on the unwillingness of the individual savers, to loan money. It depends on the fact that the prospects of profits decline, and are replaced by prospects of losses; it depends on the fact that the "marginal efficiency of capital" falls. Why does this efficiency fall? This still has to be explained: the wreckage of the Keynesian edifice offers no answer.

Does this mean that in periods of depression all monetary management should be condemned? Or that all forms of government intervention should be banned? Of course not. It only means that as a matter of correst reasoning Keynes's theory must be discarded; let him who will try to build up another. But if we aim at correct reasoning, then we cannot accept Keynes's theory, even if we like his political conclusions.

Socialist Economics

By G. D. H. COLE

As Professor Cole explains in his preface this book* was written at the request of the Fabian Society, "whose members were felt to need something of the sort as a starting point for the full restatement of economic doctrines in accordance with socialist principles of production and distribution. The need was considered to be the greater because of a growing tendency to confuse state economic planning with Socialism, and thus to produce a diluted socialistic doctrine which is little more than Keynesian Liberalism with frills, or again to think of Socialism as concerned almost solely with the distribution of the national income and not with the conditions under which it is produced."

The main criticism he expects is that the conception of economics put forward involves taking into account many factors which cannot be exactly measured at all or cannot be measured in a common scale. In his opinion "it is nonsense to contend that men cannot weigh such disparate things one against another; for men continually do just this, both in the private judgments by which they decide between alternative courses of action and in the public judgments which give preference to one social measure over another or distribute a limited public expenditure among competing uses.

"In very many cases such judgments, public or private, cannot possibly be compared in their results, or in estimates of their likely results, on any quantitive basis. But this does not make it the less necessary to choose between them, or to choose so much of one good thing and so much of another, when there is a limit to the total that can be afforded.

"Socialism rests essentially on moral principles; and socialist economics is the study which concerns itself with the carrying of these principles into such affairs of everyday life as to involve the use or misuse both of the material resources of production and of the human beings through whose efforts these resources are applied to the creation, by painful or pleasant means, of things which people would rather have than do without."

Twelve Postulates

The postulates of socialist economics are given as twelve. Some of them are accepted, at least in part, by other schools of thought: others are rejected. On the whole there is a surprising amount of common ground between Socialists and "non-Socialist progressives." The difference, Professor Cole implies, is that Socialists act on these postulates, the others do not. Some of the main conclusions at which he arrives are summed up in the concluding paragraphs of the book:—

"As long as human productive

*Socialist Economics, by G. D. H. Cole. Victor Gollancz Ltd., London, 8/6d.

power continues to fall short of what is needed to satisfy all human desires for the products of human effort, some pricing of goods and services will be the best way of safeguarding individual freedom to choose between alternative forms of satisfaction. But the price system of a socialist economy will rest, not on the arbitrariness of the market, but on a structure of costs embodying socially determined valuations of the rewards due to the various producers and also of the charges to be made for the use of land and capital employed in production.

"The making of these valuations will be a task of social judgment—the more, not the less valid because it will exclude, on the one hand, the exploitation of the producers by private owners of the means of production and, on the other, the treatment of human labour as a commodity to be priced as if it were a sack of potatoes or a yard of cloth. Socialist economics are human economics, taking as their foundation the human claims of individuals as producers and as consumers and not the alleged 'law' of a market dominated by the private appropriation of the means to human welfare."

Shorter Book Notices

PORTRAIT OF WINSTON CHURCHILL
Guy Eden (Hutchinson, 7/6)
PURPOSE AND POLICY
Clement Attlee (Hutchinson, 5/-)
PRINCIPLES OF PARLIAMENTARY DEMOCRACY
C. E. M. Joad (Falcon Press, 5/-)
THEY ALSO SERVE
P. C. Hoffman (Porcupine Press, 12/6)

These are political books. The Churchill study is not a biography but a sketch by a well-known Parliamentary correspondent. Attlee's speeches are all from his period as Prime Minister and have some reference value. Joad does his job, a thoroughly worth-while job, with characteristic facility and clarity. But his is much more than a facile achievement, for it reflects care and deep thought, and may settle down to be acknowledged in due course as a little classic.

The author of "They Also Serve" was for forty years an official of the Shop Assistants' Union, and his story is of the trade union movement, seen from that angle, from about 1890 onwards. Any economist who is tempted to think and write in a purely academic context would find this book a wholesome corrective, for it shows why the economist's proposals are so often dismissed as politically impossible. It is extremely interesting, by the way, that the first concern of the shop assistants was not wages so much as hours. Their anxiety to achieve the social amenities of freedom to meet other men and women at leisure, as well as increased money earnings, has continued ever since their formation into a trade union.

THE ROOSEVELT LETTERS
Two Volumes : 1887-1904 *and* 1905-1928 (*Harrap*, 21/- *each*)

Completeness is the fashion, if not the passion of the age. It has its virtues, but it also has its vices ; and it can be the refuge of the lazy editor, or of an editor who distrusts his own judgment or is over-sensitive to criticism. Does anybody care that Roosevelt dined at the Racquet Club, then went to see "Girl from Utah," was very sleepy afterwards, but still had energy to send love to all the chicks, on a Tuesday in September, 1914 ? Anybody except "Dearest Babs" to whom the news is communicated ? Both volumes are cluttered up with this sort of thing.

AFRICA, BRITAIN'S THIRD EMPIRE

George Padmore (*Dobson*, 12/6).

The author writes from the viewpoint of the coloured people ; and if that does not result in anything that the complacent reader will find comfortable, it is after all the viewpoint we had better consider. Just look at a single sentence, quoting Mr. Julius Lewin, a Middle Temple Barrister, representing the South African Institute of Race Relations : " Lorry driving is done on one mine in the Copper Belt solely by Europeans whose wages are about £30 a month, and on another by Africans whose wages are £3 a month." Yet this book is not a collection of grouses, but a comprehensive and important study of real problems of urgent importance.

HOW STATES ARE GOVERNED

Ernest F. Row (*Pitman*, 7/6).

This is the third edition of a work first published fifteen years ago, but vastly more topical today, when so many countries and groups of countries are concerned with constitutional changes and problems. It is clearly ordered and easily used for reference.

PROBLEMS IN MARKETING

Malcolm P. McNair and Harry L. Hansen (*McGraw Hill Book Company Inc.*, 51/-).

THE EXPORT TRADE

Clive M. Schmitthoff (*Stevens*, 25/-).

THE ADMINISTRATION OF MARKETING AND SELLING

Harold Whitehead (*Pitman*, 25/-).

All these books, as their titles indicate, are for merchants rather than economists. Schmitthoff's is the second edition of a handbook of law which seems to answer every question that could conceivably arise in the complicated business of exporting. Whitehead, also appearing in a second edition, is concerned with management and administration in merchandising. The McGraw Hill book is, of course, an American publication by the Professor and Assistant Professor of Marketing in the Graduate School of Business Administration in Harvard University. Its method is that which the student doubtless finds the most illuminating, namely, to set forth a theoretical argument and then exemplify it from actual experience. The British student will find that there is little in the book that it is not equally relevant to his job on this side of the Atlantic, and it is of course even more relevant to those who are charged with the task of selling British manufactures for dollars.

A LIFE'S WORK

The Rt. Hon. Margaret Bondfield, C.H. (*Hutchinson, London*, 20/-).

The period and scope of this admirable book are similar to Mr. Hoffman's. Margaret Bondfield, however, has the added distinction of being the first woman Privy Councillor and the first woman member of a British Cabinet, and she has the advantage of moving finally in a larger world. Her story of a long and hard fight is the more impressive because she never lost the grace of Christian charity. Here is history—important history—in the making. One sentence *must* be quoted. It is Lenin's confession to the Labour Party delegation to the new Russia in 1920 : " Our greatest mistake was to undervalue the importance of the technician.

TRUSTEESHIP IN THE PACIFIC

Edited by A. H. McDonald, M.A., Ph.D. (*Angus & Robertson, Sydney & London*, 10/6)

This book has been written by a study group of the Australian Institute of International Affairs under the chairmanship of Professor A. H. McDonald. It deals with the principles of trusteeship, the politics of trusteeship, and trusteeship in practice with special reference to the South Pacific Region. There is also a discussion of trusteeship and political development in both the South Pacific and South-east Asia, and an examination of the possibilities of co-operative action on the lines of the Anglo-American Caribbean Commission.

Australia and New Zealand took the initiative in the promotion of a South Pacific Commission to advise on policies of economic and social welfare. Six Trustee Powers agreed to set up this Commission and an auxiliary Research Council on which the six are represented—The United Kingdom, the United States, France, the Netherlands, Australia and New Zealand. The importance of the Council lies in its ability to help in ensuring that the casual and arbitrary divisions of the Pacific islands do not impede a really efficient attempt to solve the problems of the region in the interests of the inhabitants and of the rest of the world. These problems, it may be added, were considered at a conference held in Fiji in April, 1950.

Would it be possible to bring about similar regional collaboration in South-east Asia? The difficulties are much greater because the political conditions in this region are different. But co-operation for research and consultation in administration, education, health, agriculture, commerce and cultural relations, offer long-term advantages from which all will benefit.

Worth Reading—

International Rubber Statistics. W. G. G. KELLETT, *Journal of Royal Statistical Society, London, Vol. CXII, Part IV*, 1949.

The Production Story. *Review, Institute of Public Affairs, Melbourne, Australia, February*, 1950. (A study of Australia's Production problem, and a severe commentary on the poor show in comparison with Canada).

Conversations in the Train. *J. P. Hourston, published by Becks' Printing Works, London, W.*10. (A successful attempt to present liberal economic views in everyday language.)

Some Theoretical Aspects of Payment by Results. *G. L. S. Shackle, Economia Internazionale, Genoa, February*, 1950.

Some Problems of German Foreign Indebtedness. *Dr. R. Dalberg, The Banker, London, April*, 1950. (An optimistic estimate of Germany's ability and will to pay.)

Trade Unionism, Full Employment and Inflation. *W. A. Morton, American Economic Review, Washington, March*, 1950.

The Varga Controversy. *E. D. Domar, American Economic Review, Washington, March*, 1950. (A fuller statement of this fascinating U.S.S.R. row than has been published hitherto for English readers.)

Post-War Business in the United States. *Per Jacobsson, Skandinavaske Banken Review, Stockholm, April*, 1950.

U.S. Trade with Latin America in 1949. *Guaranty Survey, Guaranty Trust of New York, April* 26, 1950.

Canada's Growth in the Twentieth Century. *Monthly Review of Bank of Nova Scotia, Toronto, March*, 1950.

The Medici Bank. *Armando Sapori, Review, Banca Nazionale del Lavoro, Rome, December*, 1949. (A fascinating chapter of history.)

RISING PRICES ARE QUITE NORMAL

Rising prices are a normal factor in all monetary economies even in periods of peace. Over the last half century the price level rose in the fourteen years of peace by 10 per cent., by a further 65 per cent. in the next 24 years, and by no less than 175 per cent. of the 1900 index in the last decade. Taking 1938 as a base the price index of consumer goods and services had risen to 180 by 1948. On the other hand, the index of wholesale prices for industrial materials and manufactures, including fuel, rose in the same period from 100 to 234. The 1948 level of prices was 3½ times the level of 1900.

From an Address to The Society of Incorporated Accountants by the President, Mr. A. Stuart Allen. London, 24 May, 1950.

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