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ECONOMIC DIGEST

CONTENTS

Published monthly in London for the

ECONOMIC RESEARCH COUNCIL

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The Economic Digest

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ECONOMIC DIGEST

JANUARY, 1952 VOLUME V NUMBER ONE

QUESTION FROM CANADA

Are Capital Gains Taxes Just?

By W. F. LOUGHEED (Economist, The Canadian Bank of Commerce)

HAVING REGARD FOR THE TREND in current discussions regarding the taxation of capital gains, it would be desirable to reach some working basis of agreement on issues inherent not only in terminology but also in the philosophical background of any capital gains tax before changes are made.

A simple example of capital gain accruing to an individual is in the sale of a security. But there are in reality a variety of capital gains. This complicates the task of their inclusion in the income tax base, or of defining income to eliminate avoidance.

In the light of the trend in the rate of interest, the rearrangement of an investment portfolio presents a case in point. For example, the sale of securities bearing a relatively high interest rate that are selling at a lower yield basis. The sale would yield a nominal gain in principal. In the revised portfolio (with a change in the risk factor) the selection of securities well might yield a a lower return to the investor. Does this transaction represent a gain; does this indicate "ability to pay?" Alternatively, revision of a portfolio could result in the maintenance of overall yield, yet a capital loss could be effected which (depending on the Tax Act) could be deductible.

Is Inflation Taxable?

Changes in price levels create circumstances where a gain might be viewed as ephemeral rather than real. True, indeed, holders of equity securities and properties tend to gain relative to other groups during price rises. But consider the case of houses which had been purchased prior to the recent upward inflationary trend. Sales in recent years in many instances have reflected substantial gains, but in buying another house the gain more often than not was offset. Is there a capital gain in the transaction or, for that matter, increased "ability to pay"?

Of more than passing interest is the "realization procedure" where an individual by diversifying his portfolio could show little "taxable income" over a period of years. In Henry Simons words: "To have and to hold all faithful (appreciated) investments till death (do us part) and to divorce opportunely all unfaithful (depreciated) shares." (Henry Simons: *Federal Tax Reform*, University of Chicago Press

From Address given to the Institute of Public Administration of Canada, Winnipeg, September 6, 1951

1950, p.62; H. M. Groves refers to this question in an article entitled "Yachts without Income").

Wanted—a Definition

These few examples raise the question whether a formal "spelling out" is a desirable approach to the problem. We are faced with the fact that the present Canadian Income Tax Act does not define income.

If income is viewed as gain—a net accretion to one's command over economic resources—between two points of time, then net gain reflects additional tax-paying capacity and logically must be included in income. On the other hand, if receipts must be recurrent (and realized) then certainly a large area of gains are excluded from the definition of income.

If we were to agree with Irving Fisher that only *spent* income should be taxed, then capital gains must be excluded. If we rely on the British interpretation of gains as casual profit, then their exclusion from the income base must be subject to arbitrary interpretation.

Yet "income" for tax purposes can arise in one case and not in another, depending on the number of transactions involved. Here arbitrary legal decisions transcend the *certainty* criterion of Adam Smith.

We therefore face an apparent lack of consistency in taxing or not taxing capital gains depending on administrative interpretation.

Discouraging Effect

As to whether the tax is a useful addition to the tax structure, the business view was summed up effectively in 1942 by the President of the New York Stock Exchange.

"It seems to me there are but two reasons why people invest their capital. Either they invest to obtain income by way of rents, dividends or interest or they invest with the hope that they may sell the investment at a profit. Unless taxpayers are willing to buy and sell capital assets there is no possible way of deriving revenue from a capital gains tax . . . . The effects of the capital gains tax extend far beyond the security market. It hits every land owner and every business man who makes a capital investment of any kind. Its chilling effect is as great on the price of farm lands and other real estate as it is on securities listed on the New York Stock Exchange."

With regard to the effects of a tax on fluctuations in asset prices, little statistical evidence is readily available on which to base a considered view. When the rates of the American tax varied depending on the length of time the assets were held before realization, the view was held that some assets were held for an undue length of time on the ground that relatively high short-term tax rates prevented some sales which otherwise might have occurred.

To some writers, a capital gains tax aggravates price rises and price falls. It is suggested that under conditions of rising prices—particularly when profit-taking predominates—the tax tends to encourage lower prices than would otherwise exist.

However, it is difficult to say categorically whether or not some reduction in the exchange of securities would be socially a "bad thing." It is often commented that floating ownership in United States corporations results from trading in securities purely for appreciation.

Is the supply of venture capital discouraged by a capital gains tax? The view has been expressed that the distribution of new issues may have been hampered in the United States by capital gains taxation particularly under the pre-1948 tax arrangements.

Tails I Lose . . .

In this connection the President of the New York Stock Exchange has stated: "Time and again I have heard people say, 'I know that this is a sound venture and I know that it needs equity money but I won't go into it because if it succeeds I will have to give most of my gain to the Government, while if it fails I will have to bear the loss myself'. . . I think it is demonstrable that a high capital gains tax has been an important factor in discouraging people from making capital investments."

Taxation is now being used for revenue-raising and as an instrument of social and/or fiscal policy. Both of these aspects enter into consideration in dealing with the efficacy of capital gains taxation. Since revenue from capital gains taxation depends upon voluntary operations of the people, it would be extremely difficult to budget for additional revenue with any degree of accuracy. Moreover, windfall revenues and expenditures can lead to political and administrative difficulties particularly under inflationary conditions, and perhaps to financial difficulties in the long run.

Since many gains are irregular, are often casual and well may be "paper gains" due to a "fluctuating dollar," and in the absence of some averaging technique for tax purposes—say a five year period—there could be a severe penalty imposed on such gain if taxed at existing progressive rates.

If gains were to be treated as ordinary income a strong case could be made that capital losses likewise should be deductible in keeping with "equity and ability to pay." If losses are only to be deducted to the extent of gains then there is moreover a case for treating capital gains separately from income.

Questions of Equity, Certainty

Complete exemption of capital gains conflicts with considerations of equity. However, what might have been construed a decade or so ago as a real capital gain derived from reinvestment of income well may be, in the inflationary economy of today, the result of changes in the price level and changes in interest rates. "Gains" in these circumstances have an unreal element and perhaps it might be suggested that the case is less strong under these circumstances than in more stable periods.

Throughout the literature of taxation the "cardinal virtues" of justice and equality receive their due measure of comment. It would seem equally significant to emphasize *certainty*. It is not too much to suggest that in our tax structure a person engaging in a transaction should know where he stands taxwise. While, as already noted, there appears a "gray zone" in the present administration of our income tax, this zone may be narrowed by businessmen as well as by government. At the moment I think it would be unwise, if not extremely difficult, to apply piecemeal additional taxes even though the demand for revenue is becoming insatiable. What is needed far more is a thorough revision of the tax structure, the dictum of *old taxes being good taxes* notwithstanding.

Economic Penalties of Unified Germany

THE QUESTION OF THE re-unification of Germany has received considerable political attention, but the economic consequences have been kept in the background.

The structural alterations in the location of industry appear at first to offer the greatest difficulties. The setting up of new industries in both areas, where the battle-cry of "Self-sufficiency" has so often been heard, is likely to result after unification in a bitter competitive war between the old and the new, which can only lead to the annihilation of one or the other, or worse.

The over-concentration of certain industries, the result of German disunity, may, it is true, be cured by unification. A sounder regional specialisation may result.

At worst, let us say, the probable war between the old and the new location of industry will only demonstrate the weak spots in the capital programme; the eventual amalgamation of the whole German economy will not be seriously hindered thereby.

How Many "Red" Marks?

One of the more important conditions to any unity is the creation of a common currency. Since the reform in Western Germany, the two Marks have taken different ways. To-day the Eastern Mark is reckoned to have about half the purchasing power of the Western. From this fact will stem the first economic and social strains and stresses that unification will have to deal with.

Two bodies of economists state strongly that the Eastern Germans must be protected in this matter, and that a rate of one Eastern to one Western Mark must be planned for. Any rate which more closely reflected the purchasing power ratio would be unbearable.

Similarly, the great burden of Eastern taxation must be reduced down to the level of the West. This applies particularly to the so-called "consumption tax."

East-zone is a Liability

As a result of the disorganised administration in the East-Zone, the cost-structure has become distorted. Firms are still operating in an atmosphere of reparations and dismantling of plant, of insufficient new investment and low productivity. The whole economy, public and private, is short of resources of every kind. It goes without saying, therefore, that the East Germans will have to be supplied with much material in order to equate their standards with the West, particularly in respect of consumer goods.

From Handelsblatt, Dusseldorf, November 23, 1951

GERMANY'S DUAL-PRICE SYSTEM

West Germany's export drive is particularly successful in the motor industry. In order to re-establish permanent footholds in foreign markets, motor companies have agreed on the dual-pricing system, whereby lower prices are accepted from abroad than rule in the domestic market.

Financial Times, London, December 20, 1951

STERLING UNDER REVIEW (i)

Future of the Sterling Area

By PAUL BAREAU

IF THE STERLING system has endured it is not only by reason of the looseness and adjustability of the structure but even more because of the unquestioned confidence which all its members have had in the solidity, solvency and judgment of the banker at the centre, in London.

During the 1930's the sterling area gradually acquired recognisable shape and very considerable substance. But be it noted that throughout this period sterling, though no longer anchored to gold, remained a fully convertible currency, free from exchange control and continuing to serve as the basis for invoicing and financing the bulk of the world's trade.

The London banker, at the centre of the sterling area, owed his position to his strength. Immediately before the war the current liabilities of the United Kingdom to overseas countries amounted to £556 million. At the same time the gold and dollar reserves of the United Kingdom were in the neighbourhood of £800 million. In addition, Britain held overseas assets worth £3,545 million, a part of which was in the form of short-term credits which could be called in virtually over-night. The banker's liabilities, in other words, were amply covered.

Today, that relation between banker and customers has been reversed. The banker is allowing his liabilities at the moment to rise faster than his assets, which is not a recipe for good or enduring banking.

Asian Dominions

Another change in the loose structure of the sterling area to which insufficient attention has as yet been given, has been the admission of the new Asian dominions as members possessing full financial autonomy. Their monetary policy is no longer one of the "reserved subjects" which in the past were ultimately settled by London. These dominions have brought with them ideas based on centuries of gold hoarding and on a traditional monetary use of the precious metals.

Since some of them are on balance net dollar earners, they may find it difficult to resist the temptation of holding on to their hard currency earnings, of building up their own separate gold reserves. This temptation will grow with every evidence that the non-convertibility of sterling is a permanent feature of the situation and that the dominions concerned will find it difficult to spend their mounting sterling balances in buying what they want at competitive prices in Great Britain.

Sterling v. I.M.F.

Many members of the sterling area have also become members of the International Monetary Fund. Up to now membership of the I.M.F. has been tempered by the transitional clauses of the Fund Agreement under which members have been sheltered from the full rigours of the rules during the immediate post-war period.

From Review, Institute of Public Affairs, Victoria, Australia, September to

But a time may come when certain incompatibilities between the two loyalties may emerge and this would undoubtedly add to the strains to which the sterling area is subjected. The International Monetary Fund stands for a monetary system in which there will be full multilateral convertibility of currencies at least for current transactions. There is no inevitable antagonism between that objective and those of the sterling area; but the sterling area as it has necessarily evolved over the past twelve years, may well have become a currency bloc between which and the dollar world the bridge of full convertibility will not be thrown in any foreseeable future. If that be so, this clash of loyalties will sooner or later occur.

In the light of these fundamental changes in certain of the basic ingredients that make up the sterling area system, we can now consider the main problems that face the sterling area.

Dollar Pool Dangers

There is nothing artificial in the policy of pooling gold and hard currency reserves if this occurs within a framework of reasonably equated balances of trade.

Malayan rubber may be sold to the United States, the dollars may be used to buy American cotton and tobacco for Britain and the triangle completed by sales of British textiles, mining equipment and motorcars to Malaya. But if this pattern of multilateral trade is not balanced, if the rest of the sterling area is called upon to pile up balances of uncovertible sterling—unconvertible either in dollars or into the goods that the rest of the sterling area needs—these age-old habits will begin to lose their force.

There is already some evidence that these traditions are becoming eroded. Certain net dollar earners within the Commonwealth, Ceylon and Pakistan for example, are striving to divert their trade from sterling to dollar channels. They may lose some of the advantages and facilities which sterling markets provide them but they are prepared to risk that loss in order to acquire greater direct control of the ultimate hard currency proceeds of their exports.

These two countries have recently signed financial agreements with the United Kingdom under which they have obtained gold from the central pool so as to serve as currency reserves for their newly established central banks. Most members of the sterling area maintain small separate reserves of gold and, in addition, hold working balances in currencies other than sterling; but hitherto these separate reserves have, except in the very special case of South Africa, remained comparatively modest and static while the truly fluctuating and dominant element in the external reserves of the rest of the sterling area has been found in the volume of their London funds. Nevertheless, the existence of these separate reserves introduces an element of potential disruption in the system.

Some members, conscious of the work they are doing in earning the dollars, and seeing the proceeds pile up in London, may make considerable changes in the criterion of essentiality which they apply to goods for which they grant dollar import licences. This trend is already apparent.

Convertibility and Confidence

Beyond the occasional meeting of Finance Ministers and the continu-

ous session of two committees in London, the work of co-ordinating sterling area policy is also furthered by the closest and most friendly co-operation between the Bank of England and central banking and monetary authorities in the Dominions and Colonies.

The most vital problem facing the sterling area is the position of the banker at the centre. The sterling area was built on the basis of a strong and solvent Britain, on a currency whose stability, world-wide acceptability and convertibility, were taken for granted.

That system had to be adjusted to allow for the impoverishing impact of the war and the emergence of exchange control. On looking back it is astonishing how well this loose piece of machinery adjusted itself to the strains to which it was subjected.

But looking to the future, its endurance must surely depend on the banker at the centre retaining the confidence of the other members. He must honour the cheques drawn on him—that is the only way in which he can remain a banker. If he does so, whether by making sterling ultimately convertible, or by his ability to deliver goods at competitive prices, we need have no fear for the future of the sterling mechanism. If not, the process of disintegration may go faster than we imagine.

STERLING UNDER REVIEW (ii)

A Free Pound?

THE LOSS OF GOLD from the central reserves seems likely to continue for some time. Some of the causes are temporary; but even so we are living clearly too close to the brink of crisis. If the present trend against us lasts for twelve months the doubts about the pound-dollar rate will be seriously discussed in the world's markets. Tight exchange controls and import restrictions, supported by joint arrangements of the sterling area, are apparently not sufficient to make the fixed exchange rate secure.

Should the fixed parity be abandoned?

There is a growing support for a flexible rate not only in the Conservative party and in important banking quarters, but even in the Labour party. Bretton Woods has never had any enthusiastic support in this country; the regime of fixed exchange rates was accepted partly because it offered a firm basis of reconstruction at a time of post-war chaos, and partly because the Americans insisted on it as a condition of dollar aid.

On the whole, the flexible exchange rates of the war decade worked quite satisfactorily for several years though one has to remember that the policy did much harm to some other countries which tried to maintain fixed parities.

But a return to pre-war practice cannot be limited to a single piece of machinery. In the thirties the sterling-dollar rate was free to change from day to day, but the Exchange Equalisation Fund supported it in the market with the backing of a huge gold reserve. Moreover, the pound was in practice freely convertible and London was the centre of great international

From Scope, London, November, 1951

commodity markets and a free gold market. These conditions cannot be recreated by decree.

A "free pound" in the sense of a fluctuating exchange rate does not by itself expose our currency to any greater risk. If the dollar gap remains open and the gold reserve continues to drop the pound will depreciate whether the rate is fixed or not. We have seen in 1949 that the attempt to bolster up a rate which the outside world considers too high leads to intolerable strain and a sudden, heavy devaluation which may well be greater than the situation demands.

In 1949 the pound-dollar rate was changed from $4.03 to $2.80 to make quite sure that no-one would suspect any further need for another change. That over-devaluation put a large extra charge on our imports and aggravated our balance of payments problem later. If the rate had been flexible it would have begun to drop early in 1949, when the American post-war inflation came to a halt; but by the spring of 1950 it would most certainly have risen again well above $3.

The fear of "speculation" is not justified. A fixed rate attracts even more than a flexible one when things go badly.

That is, briefly, the case for a fluctuating exchange rate. But it is only part of a case. It would be impracticable to run a foreign exchange market with all the brakes of our present exchange control system.

The real question is whether exchange control can be sufficiently relaxed to allow supply and demand for pounds to become effective. That is a question of degree and timing; and here lies the real problem of financial statesmanship. No doubt the great bulk of capital movements and commercial payments could still be controlled. Co-operation with overseas Treasuries is now close enough to ensure that.

Day-to-day fluctuations would be ironed out by the Exchange Equalisation Account. The trouble is that the gold reserve is too small to absorb really large international movements; but that makes it more difficult to hold a fixed rate than a flexible one. In fact, if any advance is to be made towards making the pound sterling ultimately convertible into dollars, a flexible rate will be a help. In the end the value which the world places on the pound depends on our ability to make both ends meet. If convincing steps were being taken to improve the financial management at home it should be possible, now that the world as a whole is no longer particularly short of dollars, to free the pound by stages.

Other recent interesting articles on Sterling and the Sterling Area are:—

- **"Strains Within the Sterling Area," Economist, London, November 10, 1951.**
- **"The Financial Problem of To-day," by Sir Frederick Leith-Ross, National Provincial Bank Review, London, November 1951.**
- **"The Balance of Payments and the Sterling Area," by Professor R. F. Kahn, District Bank Review, Manchester, December 1951.**

LONDON TALKS TO STRENGTHEN STERLING

The purpose of the conference of Commonwealth Finance Ministers which opens in London on January 15, 1952, is to consider what action could be taken to strengthen sterling as an international currency.

The Times, London, November 27, 1951

P.E.P. REPORTS ON

How to Save Britain's Coal

COAL ACCOUNTS FOR NEARLY 90 per per cent. of the total fuel consumption in Britain, hydro-electric power and indigenous oil for less than one per cent., and imported petroleum products for the rest.

For the next few years no large increase in coal production is feasible and the outlook for the immediate future is bleak.

USE OF COAL IN INDUSTRY
1950
(Million tons)

Iron and Steel	8.3
Textiles, clothing	7.2
Chemical trades	5.8
Food, drink, tobacco ...	4.0
Engineering	3.8
Paper, printing	3.6
Building materials	3.5
Cement	2.8
Other trades	5.6
	44.6

Raise the Price?

There must be some price which would equate supply and demand. The objection is that this price would be so high as to have serious inflationary consequences. Therefore if the Government prefers to retain an artificially low price, there is a very strong case for sponsoring measures to save coal.

The post-war trend towards the use of unrationed electricity to replace rationed house coal must be checked. But the switch has already gone so far—there are now at least 10 million electric fires in use—that the process will be both prolonged and painful.

Revision of Tariffs?

One necessary measure is a complete change in the electricity industry's tariff system. A typical domestic two-part tariff consists of a standing charge of, say, 20s. a quarter, and running charge of 1d. a unit.

The British Electricity Authority say that they are conforming to the best commercial principles, and that it is inevitable that the consumer who uses electricity only for lighting should pay a higher average price for each unit. For the less current used, the higher will be the overheads per unit. But, unfortunately, this outlook is directly opposed to considerations of fuel saving.

Improved Domestic Appliances?

The widespread adoption of improved appliances is being impeded partly by prejudice in favour of the open grate, partly by the high initial cost of installation and partly by the uncertain supply of suitable fuels.

The major obstacle seems to be that three-quarters of the population do not own their homes, and have no incentive to spend money equipping somebody else's house. Equally landlords are reluctant to spend money on such appliances when they do not receive any return themselves in lower running costs, and are limited in their power to increase rents to cover capital improvements.

If customers are to be penalised for using electricity and gas, they should be helped by means of a subsidy to procure the more efficient

From "Fuel Prospects," Planning No. 336, P.E.P., London, December 3, 1951

types of appliance—if supplies of suitable solid fuel are guaranteed to the coal merchants.

More Saving by Industry?

The main contribution will have to come from fuel saving by industry.

Much of this saving can be done without much capital expenditure—lagging of pipes, insulation, repairing of leaks and better stoking bring results up to 20 per cent. saving in consumption.

Back-pressure turbines, through which steam from boilers can be passed before being used for factory purposes, can generate a private electricity supply which can not only reduce the firm's calls on the grid, but allow it to supply the grid with an appreciable amount of current.

To encourage fuel-saving appliances and methods in factories, it is suggested that the 40 per cent. allowance against income tax be restored in respect of such expenditure.

A recent publication on the problem of Coal is "Training and Promotion in Nationalised Industries," Acton Society Trust (Allen & Unwin), London.

IF WE HAD 20 MILLION TONS MORE COAL—

We could earn some £70 million, if we exported it all (and even then our exports would be below the 1938 tonnage). That would be a useful contribution to offset the deficit we are running with the European Payments Union. As it is, judging by the first nine months of this year, coal will earn in 1951 some £24 million less than in 1950.

We could avoid having to import American coal. This has already cost us some 24 million dollars this year—over £7 a ton including freight. This winter each ton may well cost more.

Coal could be exchanged for Swedish ore or for any European raw material we wanted. Next year it will, in all probability, be the lack of rich iron ore which will, more than anything else, hold back steel output.

Bulletin for Industry, H.M. Treasury, London, December 1951

FUEL ECONOMY THROUGH INSULATION

Whatever the savings to be effected in the use of solid fuel by the domestic consumer, they fade almost into insignificance against what can be done by properly insulating industrial premises, as the following two examples will show. Proper insulation of our general stores at Ipswich led to a rise in temperature of 15 deg. F., a saving of 4,500,000 cu. ft. of gas, and a saving in annual cost of heating of £1,348 for an expenditure of £4,021. The results achieved in our welding shop are even more remarkable, where a cost of £1,424 in insulation brought an annual saving of 5,000,000 cu. ft. of gas and a saving in annual cost of £1,520. The cubic capacity of each shop was between 800,000 and 900,000 cu. ft. We are now proceeding farther as fast as we can.

Letter from R. R. Stokes, M.P., to The Times, London, November 29, 1951

YOUR QUESTIONS ANSWERED—

See Inside Front Cover

Atomic Power Prospects

By SIR JOHN COCKCROFT (Director of Atomic Energy, Harwell)

I CANNOT EMPHASISE too strongly the fact that we do not expect to produce a cheaper source of power than that derived from coal—it is likely, in fact, to be somewhat more expensive. What we are aiming at is to increase the total power available.

There is every reason to develop energetically the application of nuclear energy. The country's requirements for electrical power have increased by 50 per cent. since 1940, and are expected to increase by about 45 per cent. by 1960.

This alone will require thirteen million more tons of coal by 1960. Our power consumption per operative worker is only 30 per cent. of that in the United States, and increased production must depend on more power being available to industry.

The only method of utilising nuclear energy in sight is to use the atomic pile, or nuclear reactor, as a source of heat to replace the fuel burners of a conventional power station.

Capital Costs

The cost of a standard British Electricity Authority power station is about £3½ millions. A nuclear power station would be much more expensive because most of the conventional units would still be needed and there would be the additional cost of the reactor. If one assumed that the capital cost were doubled, the cost of nuclear power would not be very different from the cost of power from coal.

The development of nuclear power units for submarine and aircraft propulsion is clearly feasible in principle. The technical problem is to develop reactors which, with their shielding, would be sufficiently light for mobile power units. By using highly enriched fuel a reactor could be designed to operate in a two-gallon drum.

I think we may assume that mobile reactors are feasible for ship propulsion though they will be expensive power units. Aircraft propulsion units are likely to be much more difficult, though contracts have been placed for their construction in the United States.

From Lecture to Manchester Literary and Philosophical Society, November 19, 1951

ECONOMIC RESEARCH COUNCIL MEETINGS

Wednesday, January 9 at 8 o'clock; Lieut. Col. St. Clare Grondona on "Stabilising Commodity Prices."

Wednesday, February 6 at 8 o'clock: Miss May O'Conor, Chairman of the Isle of Wight Education Committee, on "Value for Money in Education."

All meetings take place at 55 Park Lane, London, W.1. Non-members who wish to be present are very welcome—if they kindly notify their intention to the Secretary, Economic Research Council, 18 South Street, London, W.1 (GRO 4581).

Light on British Farmers' "Profits"

By Sir James Turner (President, National Farmers Union)

What is assessed as net profit on a farm and market garden would not be regarded as "net" in office or factory.

On the farm, net profit includes payment covering interest on the farmer's own capital, remuneration for his services as manager of the business and the value of the physical labour of himself and his wife. Since 44 per cent. of all holdings employ no regular labour apart from the occupier and his wife, and as 22½ per cent. employ only one worker, it is obvious that this last item cannot but have an extremely substantial effect on the true meaning of "net profit" over a large part of the industry.

Moreover, the figure of net profit includes not only the results of the year's trading but the difference (whether up or down) between the valuations of crops and live stock at the beginning and the end of the farm year in the light of changing costs.

Thus the effect of the latter may be to mask the real income of the industry to a considerable extent. At a time like the present, when farm incomes are falling, it may even create a situation in which it is possible for a farmer to have actually made a loss on sales over the year and have fewer head of stock on the farm at the end of it and yet show a net profit, due entirely to the upward valuation of his stock and crops.

At the last three Annual Reviews, in 1949, 1950 and 1951, prices did not by any means recoup the industry in full for increased production costs, but the industry so raised its output that between 1946-47 and 1949-50 aggregate farm incomes on the whole showed an upward trend. The Review this spring, however, revealed a new situation.

In the first place, the effect of the continuous rise in costs, coupled with under-recoupment at previous Reviews, showed up plainly, for the first time in recent years, in a drop in farm incomes notwithstanding that output had risen.

In the second place, this year's Review saw a more extended use than hitherto of the weapon of price disincentive. Milk and eggs, having reached or passed the target figures set for them, were made the subject of price disincentives with a view to diverting resources to the production of beef, mutton and pigmeat. Under the terms of the settlement, the dairy and poultry industries were left to absorb half their increased costs as best they might, in the hope—which is most unlikely to be justified—that they could do so and still maintain output of both commodities at their present level.

Wheat Yields

Records show that six hundred years ago our ancestors were getting about 8 bushels (that is 4½ cwt.) per acre of wheat.

The yield has risen fairly steadily at a rate of 4 bushels for every hundred years right up to 1940, and it is encouraging to note that rather

From Financial Times Survey of British Agriculture, November 12, 1951

over 4 bushels has been added since.

The country's average yield per acre is well over twice that of North America and it is certain that 2½m. acres could be found every year to grow wheat crops up to the present high standard.

The position is much the same with other arable crops. Sugar beet yields have risen, roughly from 8 to 10 tons per acre, in the 28 years since the subsidy was first given to establish the crop in this country.

ARE U.K. FARM SUBSIDIES REALLY NECESSARY?

It seems to be widely believed that subsidies of the present order are indispensable to a sound policy for nutrition and that British agriculture cannot flourish without them. These beliefs are erroneous.

Subsidies for specifically nutritional purposes, such as the welfare foods and milk schemes, account for less than a tenth of the total. Neither the advocates of such specific nutritional subsidies nor those of subsidized farming ever contemplated before the war an expenditure on subsidies remotely approaching that which now prevails.

As Professor Nash has shown (in his contribution to "Lessons of the British War Economy," recently issued by the Cambridge University Press), the present subsidies were introduced almost absent-mindedly as a makeshift wartime device for stabilizing, not living costs themselves, but an outmoded index of living costs, in the hope that an inflationary increase in personal incomes might thereby be prevented. He concludes that, on the whole, this aim was not achieved.

From Editorial, The Times, November 7, 1951

Other recent interesting articles on Agriculture are :—

"Are Farmers Well Off ?" Westminster Bank Review, London, November 1951.

"Agriculture's Traffic Policeman," District Bank Review, London, December 1951.

FOOD SUBSIDIES IN BRITAIN

	Average Price per lb. October, 1951	*Average Price per lb. if unsubsidised*
Bacon	2/7	3/10½
Butter	2/6	3/3½
Margarine	1/2	1/5¼
Cooking fat	1/4	1/7½
Lard	1/4	1/7½
Cheese	1/2	2/3½
Sugar	6	7
Tea	3/8	4/4½
Meat	1/8	1/11½

Minister of Food, House of Commons, November 12, 1951

IF BRITAIN TRIED TO FEED HERSELF

Lord Carrington (Parliamentary Secretary to the Ministry of Agriculture) said that calculations had been made purporting to show that it would be physically possible to produce in this country food providing sufficient calories for bare subsistence of the present population. This diet would consist very largely of bread, oatmeal and barley meal, or their products, potatoes and sugar, and such vegetables as carrots and cabbages, together with very small quantities of milk, and meat, largely cow beef. There would be little or no bacon, eggs, or beer.

House of Lords, November 27, 1951

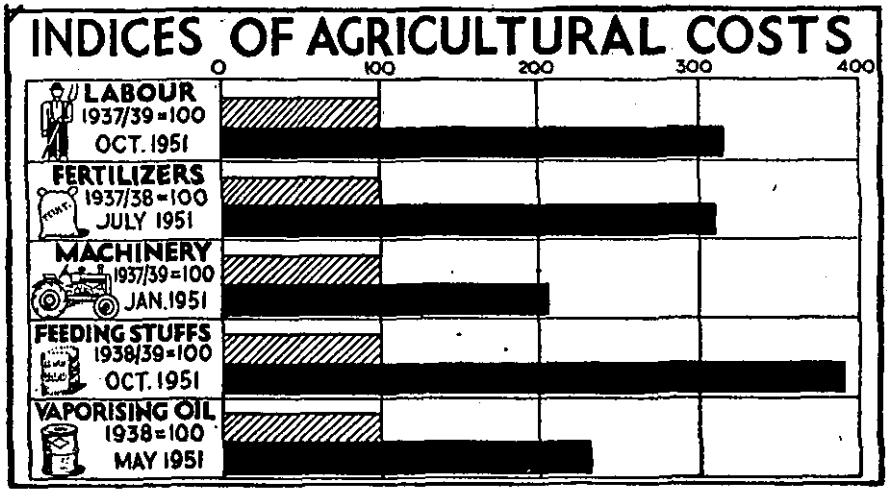
FOR THE RECORD—

U.K. Farm Price Increases

	Before 1951 *review*	*After* 1951 *review*
Wheat (cwt.)	29/–	29/6
Potatoes (ton)	232/–	239/–
Sugar Beet (ton)	108/8	112/2
Fat Cattle (live cwt.)	116/11	120/11
Eggs (dozen)	4/3½	4/4½
Milk (gallon)	2/11¾	3/0½
Wool (lb.)	6/–	6/0½

The new prices for livestock, eggs and milk were effective by December, 1951, but those for field crops and wool become effective around the middle of 1952. Increases of 6d. per cwt. were also given for rye, barley and oats, fat sheep prices were raised ¾d. per lb.; fat pigs 5d. per score. Total cost estimated at £26 million.

From announcement by Minister of Agriculture, House of Commons, November 29, **1951.**



From Financial Times Survey of British Agriculture, November 12, 1951

COMMONWEALTH ECONOMIC

COMMITTEE SUMMARISES

World Dairy Produce Trends

Commonwealth Exports are greater than Pre-War

OUTPUT OF MILK AND dairy produce continued to rise thoughout the world in 1949 and 1950, especially in Europe. Supplies of butter have been slowest to recover, exports in 1950 being about one-fifth less than those of 1938. Much of this shortfall is accounted for by the reduction in supply from Eastern Europe and the Baltic.

Another reason for reduced trade is that domestic consumption of milk has increased, particularly in Australia and Canada, leading to less manufactured milk products reaching world markets.

New Zealand's dairy output has increased considerably, although exports have not risen to the same extent. Production and export over the whole of the Commonwealth is greater than pre-war.

Denmark has regained her previous place in the United Kingdom market. Dutch exports have been diverted from the United Kingdom to Belgium and Western Germany. The latter country is now the world's second largest importer again.

Milk and Milk Products

Consumption of liquid milk in all countries continues to be much greater than before the war, although the bulk of the increase in production has been diverted to manufacture.

The United Kingdom has laid great stress on cheese production as a dollar saver, and the quantity of milk going into this industry has reached 29 per cent. more than the amount so utilised in 1938. In Canada, butter and cheese production declined, but the quantities used in processed milks and ice-cream were well maintained.

MILK CONSUMPTION PER HEAD
(*gallons*)

	1938	1950
United Kingdom ...	21.1	33.8
Australia	23.6	29.7
Canada	29.2	35.1
U.S.A..	32.8	37.9
Holland	30.8	41.0
Denmark	36.2	36.4
Switzerland ...	51.4	49.7

Butter

The United Kingdom is producing just over three-quarters of its 1938 butter output; New Zealand now produces nearly one-fifth more; Canada one-sixth less. The greatest fall of all is seen in the U.S.A., where the drop has been from 20 million cwt., to 15 million cwt., or over a quarter.

Consumption in Britain in 1950 was 29 per cent. below that of 1937. In Canada consumption dropped sharply following the introduction of margarine manufacture in 1949, until then prohibited in most pro-

From "Dairy Produce," Commonwealth Economic Committee, H.M. Stationery Office, London, 1951

vinces. But in 1951 a revival of butter consumption took place, necessitating heavy imports. Consumption is also increasing in Australia, New Zealand and South Africa.

It is estimated that butter consumed per head in the U.K. dropped from 24 lbs. in 1938 to 7.7 lbs. in 1942, rising slowly through 11.2 lbs. in 1947 to 16.8 lbs. in 1950.

Exports of butter play a large part in total exports of New Zealand, where in 1950 they made 19.1 per cent.; in Denmark, butter exports were 19.5 per cent. of total.

Cheese

Holland and New Zealand are the leading exporters of cheese; in both countries exports have risen by about 25 per cent. since 1938.

Consumption per head in the U.K. has risen from 8.9 lbs. in 1938 to 10.1 lbs. in 1950; in 1942 a peak of 14 lbs. was reached, and in 1948 was the corresponding low—8.4 lbs.

Eggs

There was a great increase in hen numbers in Canada and the United States during the war, but since then numbers have decreased rapidly, especially when the contracts with the United Kingdom came to an end in 1950.

In Europe the rebuilding of flocks has made good progress. In the United Kingdom, flocks were larger in 1950 than in 1938, and egg production rose from 55 million "great hundreds" (1 great hundred = 120) to 72 million, in that period. In nearly all countries the number of eggs per hen has increased.

Consumption per head of shell eggs has increased from 201 in 1938 to 221 in 1950, in the U.K., and upward trends in consumption are evident in all Commonwealth, European and North American countries except Australia, Ireland and Italy.

EXPORTS OF BUTTER TO CANADA

New Zealand has sold three million lb. of butter to the Canadian Agriculture Products Board. The price paid by Canada was at least 100/- a cwt. more than the price of 292/- per cwt., f.o.b., being paid by the United Kingdom this season for finest grade. As the quantity to be taken by Canada is nearly 1,340 tons, New Zealand will receive an additional £134,000 over the amount it would have received had the butter been shipped to Britain.

Monthly Summary, National Bank of Australasia, Melbourne, October 11, 1951

HIRE-PURCHASE CONTROL COMING?

The United States and Canada have both introduced hire-purchase control as an anti-inflation measure. Car sales have been particularly hard hit by the American reduction of the hire period to 15 months in October, 1950, with a down-payment minimum of one-third of price. The hire period was raised to 18 months in the summer of 1951—but this was too little and too late, said the car manufacturers. The control in Canada led to a decline in British car sales there.

Suggestions are being made that similar restrictions on buying durable consumer goods and house property on the "never-never" should be introduced in Britain. Present legislation merely seeks to prevent over-charging on price-controlled goods and does not restrict hire-purchase outlays. Control of an indirect kind was instituted in 1946, when the Central Bank asked all commercial banks and finance houses not to extend hire-purchase company advances, particularly in respect of consumer goods.

From Financial Times, London, December 4, 1951

Left Turn Coming in U.S.A.

By ALBERT LAUTERBACH (University of Michigan)

American society undoubtedly shows less class rigidity and more social mobility than other industrial societies. Not nearly as many people are born into their class and occupation as elsewhere, and the change-over from farming to industrial labour, from white collar to manual work, from hired routine jobs to executive management (and sometimes vice versa) is easier, more frequent, and less wrapped up in taboos or stigma than elsewhere. On the other hand, it is a common but crucial fallacy to believe that there are no class distinctions in America; many community studies of the sociologists as well as daily experience show that there is a definite hierarchy of social status, which largely but not entirely depends on economic success and which strongly modifies in practice the great national theory of equality.

In the prevailing folklore of American capitalism, this class mobility is often associated with the concept of free enterprise.

"Free enterprise" may mean a number of very different things. It may mean, first, the freedom of the individual to develop and carry out his own ideas, in economic life and otherwise. In this sense the concept strikes a chord in the emotions of most Americans.

Second, free enterprise is also used to characterise that specific institutional arrangement which should more appropriately be called privately-owned enterprise. This interpretation is much narrower than the first—and far less foolproof. For the spirit of initiative and experimentation characterises the American worker, scientist, engineer, manager regardless of whether he is on the payroll of Aluminium Corporation of America —or on that of Uncle Sam. This enterprising attitude is one of America's greatest assets and it is likely to remain true no matter what changes in property relations may occur.

Third, free enterprise is sometimes identified with full freedom of business competition, or with laissez-faire. But in this sense free enterprise is a mere dream and perhaps not even a pleasant one. If it is implied that the United States is (or ever has been) distinguished from other nations by the absence of any obstacles to competition, then the assertion is simply untrue. Every bright high-school student can tell of the role which tariffs, public subsidies, land grants, and monopolistic attempts with the resulting government intervention and regulation have played in the development of the American economy. Free enterprise in the sense of pure competion has neither been a specifically American invention in theory or in practice, nor has it ever existed.

If we try to substitute a factual picture for this maze of semantics, the state of affairs in America today would seem to be the following. Giant corporations have grown in a number of leading fields of business: steel, automobiles, electricity, chemicals, insurance, and others; they have modified and probably reduced the significance of Wall Street as centre of economic power.

From Labor and Nation, New York, September, 1951

Real monopoly remains quite rare on the national scale, though it occurs frequently on the local level.

Oligopoly, however, that is, the domination of a market by a few enterprises, is widespread on nation-wide markets, too. But this is not *the whole story. Each of the giant* corporations tends to spread out into fields that only yesterday seemed to be none of its business. Automobile companies invade the field of home appliances, chemical firms that of clothing, and insurance companies that of housing. Hardly any enterprise, whether large or small, is thus safe from the competition of relatively few giant corporations—quite frequently a competition on very unequal terms, for the investment resources, research facilities, distributive mechanism, and advertising budget of the giants cannot easily be matched by others.

In summary, the American economy around the middle of the century is neither purely competitive nor purely monopolistic; it represents a complex and shifting mixture of both elements, with a wide incidence of oligopoly. The technological revolution still continues and the industrial possibilities of atomic power have hardly been touched.

Profit: Ruler or Symbol?

In America profit stands for many as the great driving force of economic welfare and progress, and thus as a basically ethical influence. *Millions of mid-century* Americans are convinced that it is profit (or, more generally speaking, a system of money rewards) that makes their economy tick, that makes it efficient and dynamic. Very often this conviction assumes naive and simplistic forms: unionists, no less than managers or investors, often take it for granted that more money, and nothing else, makes for better industrial incentives on the part of management and labour alike, though they tend to emphasise this connection for their own economic group chiefly.

To be sure, the predatory element is there: mark-ups frequently are excessive; advertising claims are *often fantastic; an interpretation of* business activity (if not any human activity) as some sort of racket is fairly widespread and sometimes winds up in connections between respectable business and organised crime. Yet the notion that actual service to customers is the best way to make profit, especially in the long run, and that a company is there *for the benefit of customers, rather* than vice versa, distinguishes American business as a whole from capitalism in a good many other countries.

At the same time, mid-century America is beginning to discover that profit (or money) is by no means as all-powerful as has been assumed traditionally. In corporate enterprise hired managers with a fixed salary (even though it may be bolstered up by bonuses) turn out to be even more efficient in making money for the company than they might be for themselves; but they are very anxious to plough much of it back and to keep the company growing even though they may not hold any property rights in it at all. *Apparently their incentives are far* more complex than, if not altogether different from, those that result from the mere endeavour to grow in individual income and wealth.

Many people realise that profit drives sometimes reflect frustrations nervous compulsions, even obsessions, and that a person's monetary

success does not always remove the worries or discontents that either individual experiences or the general social atmosphere may have caused him or her. Getting rich is no longer generally accepted either as the yardstick of assertion toward others or as the key to personal happiness, nor is it as widely considered a cure for personal insecurity as it used to be.

Uncle Sam and Private Enterprise

It is that double shock, on top of an increased awareness of the social evils of unrestricted competition, that has led to the conspicuous growth of public intervention in the United States since the disastrous 'thirties.

The sum total of such intervention (which is by no means federal only) has reached such proportions that friends and foes of capitalism ask themselves increasingly whether this is still the same economic system that obtained at the turn of the century. To the extent that the public agencies themselves are dominated by business as a social group, this intervention really boils down to self-government of the business community no matter how heartbreaking may be the outcries against bureaucratic regimentation by the individual businessman affected.

The semi-anarchistic mistrust of government in general is still very much alive. But after expressing all sorts of dire suspicions towards the bureaucrats, Congress usually vote for necessary measures of intervention, though it often does so with crucial delays; and this corresponds fairly closely to the mood of the people.

For more than a decade the American economy has been under the impact of extensive armaments. More than that, armaments is becoming the "normal" state of affairs that underlies industrial production and financial developments in this country.

This means that American capitalism is undergoing some drastic changes which, for right or wrong, it might have resisted bitterly in the absence of such international tension. Economically, the situation around the middle of the century amounts to continued full employment, achieved or secured through compensatory public spending the rationale of which is the world tension and the resulting needs of defence and foreign aid.

The question then remains whether and how these new approaches to economic policy can or will be adjusted to more peaceful conditions in world affairs. So far Congress and the general public had to be frightened by some dramatic events in the world, into a financial and production policy which assured full employment at home, and into generous foreign aid. They do not appear to be ready to prepare any replacement of military goals of production and employment by civilian ones of comparable vigour—there the psychological barrier of mistrust toward government intervention persists.

Where do we go from here?

Assuming that all-out war can be avoided for the foreseeable future, it is likely that both the organisation of American society in powerful groups and the scope of public intervention will further increase. Giant corporations, the farm bloc, organised small business, a great union federation, are all likely to undergo consolidation, and the range of public responsibility for adequate employment, standards of

living, and welfare conditions will probably increase substantially. It will come to include—not without bitter struggle inside and outside Congress—large-scale clearance of urban and rural slums through housing and land-planning policies; new approaches to the transportation problem, to public-health methods, to conservation of natural resources and river-valley development, to minority problems, to the control of business concentration, to progressive taxation, to consumer protection and representation, to education, to the reduction of lobbying influences upon economic legislation to their proper democratic proportions, to public responsibility for the maintenance of full employment and high production without inflationary excesses. There will be plenty of resistances and setbacks before the expansion of public economic policy into these fields (and perhaps some others) will be generally recognised as an essential feature of American democracy in the twentieth century, but it is likely to occur sooner or later.

U.S.A. BUSINESS INDEXES 1921 - 1951

Year	*Industrial Production* (phys. vol., 1935-39 = 100)	*Employment* (1939 = 100)	*Factory Payrolls* (1939 = 100)	*Consumer Prices* (1935-39 = 100)
1921	58	79.7	80.2	127.7
1926	96	98.9	110.5	126.4
1931	75	75.8	71.8	108.7
1936	103	96.4	91.1	99.1
1941	162	132.8	164.9	105.2
1946	170	147.8	271.7	139.3
1951 (May)	223	158.1	425.8	185.4

LAST OF THE BOURGEOIS

Belgians are hard workers, heavy eaters, heavy drinkers, and, when it comes to austerity planning, natural lawbreakers. Belgium is a typically bourgeois country. It believes more in self-financing than in government development, whence the uninformed criticism from O.E.E.C. that Belgium has a low rate of capital replacement. She is probably, in fact, the last bourgeois country in Europe.

M. Louis Camu, Belgian Institute, London, November 16, 1951

MORE AMERICAN AID?

It is not too difficult to understand why something has gone wrong with Europe's economic recovery. After the outbreak of the Korean war raw material prices shot up; and while it is entirely true that some of those price rises (as in tin, rubber and wool) brought great profits and temporary prosperity to non-dollar areas at American expense, the ultimate result for Britain and France, for example, has been adverse.

The appearance of Germany as a competitor in world markets, the loss of Iranian oil, the constant drain of the Malayan campaign on British resources, of the Indo-Chinese war on French, and a host of other factors have contributed their bit toward creating a heavy economic strain on nations that are already allocating sizable percentages to the common cause of European rearmament.

We do not mean to declare that no increase in the European effort for self defence can be expected. For it is a matter of Europe's own preservation, as well as ours. But by and large we suspect that additional American help, as originally envisaged, will be unavoidable.

From New York Times, November 10, 1951

DENATIONALISATION

Recasting British Steel

By P. W. S. ANDREWS (Nuffield College, Oxford)

MUCH DISCUSSION OF THE problem of denationalising steel in Britain has assumed a simple return to the separate enterprises existing before last February. There would probably be some serious opposition, and it would be wrong to accept this without argument.

It is a traditional criticism of the industry that its business structure is not ideal and that some regrouping of businesses would enable it to reduce its costs.

A general inquiry into the position and prospects of iron and steel might, indeed, be of great value, but its benefits would be most likely to show themselves in general planning.

The industry is under great pressure for output and is renewing itself continuously. There is no question of its being able to start de novo. Meanwhile older capacity remains of great use—in fact, in some lines it is more economic than new plant purchased at present costs.

As far as management efficiency alone goes, it is useless looking for quick returns from compulsory amalgamation. The benefits achievable are very small compared with those available to efficient managements expanding their businesses in their own way.

These arguments do not apply to mergers proposed by existing managements with their knowledge of possibilities and prospects; these would offer some guarantee of worthwhile gains in a short period. The industry should be asked to put forward any such proposals through the Iron and Steel Federation, after examination by the machinery which that provides. If then acceptable to the Government, these mergers should be incorporated in denationalisation arrangements.

It would, however, be reasonable to require that they should incorporate existing businesses as complete units—to guard against any "picking of the best cuts off the joint" leaving the Government to dispose of the less attractive remnants.

Basis of Unscrambling

Unscrambling should, therefore, be on the basis of previously existing businesses or simple combinations of these. To denationalise would then simply be to sell private owners the shares and securities now vested in the Iron and Steel Corporation. In the case of mergers, these would first be exchanged for securities in the new combines; and the latter would then represent previous securities in the appropriate proportions.

To transfer investments in businesses with known records from one owner to another is the kind of problem with which our capital market is well equipped to deal. In fact, it might well be left in the hands of the market. Equity, however, reminds us that many persons were dispossessed who had previously willingly invested in the steel industry; it seems only fair to offer them the securities first.

Where businesses were subsidiaries to other businesses it seems highly desirable that these should

From Manchester Guardian, November 12 and 15, 1951

have a prior chance of recovering their investments. One most disturbing feature of nationalisation was that it ruptured long-standing relationships from which the industry as a whole benefited as well as those most closely concerned.

Terms for Investors

Such shareholders will have held on to the end; otherwise the proposed offer of securities is subject to some uncertainty. Those who held them on vesting day included many who were birds of passage in investment in steel, having acquired steel shares as an attractive route to public stock. Many who were genuine long-term investors sold out after nationalisation seemed certain. To include these among those having first refusal would increase the chance of the flotation having an early success. For this reason priority might be given to persons "on the books" at September 14, 1950. Any securities not taken up by these might be offered to any other persons holding securities on vesting day, February, 14, 1951.

As to the terms of the offer to previous investors, it seems fair to ask no more than the original compensation and to give the option of paying in steel stock. Of course, not all the securities will be taken up on these terms.

But there seems no reason why the remainder should be sold to the general public at the same price. Such securities should be placed with a suitable agency to be sold on the best possible terms over a long enough period. These issues would have to be well prepared, and suitable underwriting arrangements would in effect take care of the complete disposal of the securities involved. The State would have to bear any final losses, taking into account the amount of steel stock which it will eventually have to redeem.

There is one exception to this—it might not be easy to sell the securities of less profitable businesses. The total sums involved are not likely to be large. The Government might require the denationalised industry to purchase these at fair prices, leaving it to the federation to decide what should be done with them.

Public Control

The Government proposes that the denationalised industry shall be supervised by a public board, with representatives of Government, management, workpeople, and consumers, details being settled only after consultation with various interests, notably the trade unions.

Such a board is to be welcomed for several reasons. The former Iron and Steel Board shows that this can be an effective method of supervision while giving maximum scope for individual enterprise. Its precise powers may be more positive than those enjoyed by its predecessor, and, subject to agreement here, it should be acceptable to the T.U.C., which, in fact, suggested just such machinery for this type of industry.

Further, the board will have a much wider authority than that directly available to the Iron and Steel Corporation. The latter at first sight has greater sanctions. But its direct powers have been considerably tempered by limited representation at the more finished end of the industry. This is important since activity and development in the heavier processes are very much determined by policies adopted at later stages.

So far as prices are concerned, the board will presumably take over the present Ministerial control. Prices should be fixed on the same broad lines as now—by ascertaining the average running costs of businesses producing particular products and then adding an allowance for overheads and profits. This system penalises inefficiency and may be flexibly adjusted according to whether it is feasible to accelerate the driving out or modernisation of higher costs producers, or necessary to keep them in full operation.

Capital Development

Several reasons make it desirable to supervise capital development. The industry bulks large in national investment and could contribute to the general control of the trade cycle, as the T.U.C. has urged. Further, it is desirable that the industry shall have guidance in the location of new plants, since any shifts in its centre of gravity must affect the prosperity of important areas. Lastly, capital development is the key to future efficiency and we need to be assured that it goes at the right pace and on the right general lines.

Global control of capital investment in times of boom could be obtained simply by giving the board power to regulate the total, according to overall planning decisions. The relating of totals to individual businesses would be more tricky and would require much consultation with the industry.

In depressed times, however, to stimulate capital expenditure might require special assistance and inducements. Funds for this might be provided within the industry but, in general, it seems proper that direct subsidy should be given if necessary.

Its other purposes will be met by the board having the right to veto particular projects, whether new enterprises or replacements. Clearly it will not be able to examine every single project; fortunately, smaller expenditures flow from policy, which can be settled in connection with larger schemes. Specific approval might be required, say, for any scheme for capital expenditure over £150,000. The board should concern itself with the purpose and general desirability, and not be fussy about the precise technical means to be employed.

An efficient board would rarely need to use its veto.

We may suggest one possible way, the acceptance of which might powerfully affect public opinion—might not the board have the power of appointing one director to each denationalised business? This would enable it to be represented "on the ground floor" and should help its speedy integration with the industry; at the same time, since one director could not control a business, enterprise and initiative would not be affected.

The chief objection is that management is an intimate affair and the introduction of unsuitable persons, however worthy, could have disastrous results. Accordingly, let this power of appointment be tempered by businesses being able to reject any particular name, so that the board's right could be exercised only by proposing a suitable person able to exercise a useful function. Such a type of association would both further the objects of the Steel Board and suit the British genius for administration by consent.

WORLD Notebook

U.S. Economic Forecast

Seven leading economists in Washington predict the following trends in 1952. Inflation will continue at a lower pressure. Retail prices are expected to rise only 1 to 2 per cent., cost of living no more than 3 per cent. Wholesale prices may rise as much as 5 per cent. Consumers are saving more—up to 10 per cent. of income; inflationary pressure will only come from rises in wage-rates and not from released savings.

Financial Times, London, November 19, 1951

World Tobacco Consumption

The U.S.A. is consuming 10.2 lbs. per person over 15 per year, the U.K. 5.6 lbs., the Netherlands 9.1 lbs., Denmark 7.4 lbs., Canada 7.2 lbs., New Zealand 7 lbs. Smallest consumer of the Western World is the Italian, with 2.5 lbs. In Britain the value of revenue from tobacco was nearly ten times that of the imported commodity; it is only second to income tax as a revenue producer, and at March 31, 1951, was equivalent to a standard rate of about 3s. 10d. in the £.

Financial Times, London, November 29, 1951

Soviet Population at its Peak

The population of the Soviet Union has reached its highest-ever figure of 207 million people. There is a net increase of over 3 million people annually.

Speech by L. P. Beria in Moscow, November 8, 1951

World Wool Output Still Rises

Wool production the world over for 1951 is now estimated at 4,070 million lb., 60 million lb. more than 1950. Highest production figure ever was 4,200 million lb. in 1941. Uruguay and New Zealand showed increases in the ten-year period, but Australia, South Africa, Argentina and the U.S. outputs are declining.

Autumn Summary, U.S. Office of Foreign Agricultural Relations, Washington, November 27, 1951

Argentina Faces Crisis Year

The Argentine Government's attempts to industrialise the country rapidly has caused difficulties in agriculture. Beef, milk, cheese and sugar are becoming scarce and butter has completely disappeared from the market. Grain exports have declined 6.6 million tons in the last ten years, and the trend continues. Cattle slaughterings are dropping fast. Agricultural products make up 93 per cent. of her total exports, most of which go to Europe. She is therefore going to be extremely short of soft currencies. Internally, the cost of living has risen almost 50 per cent. in the last year.

Wall Street Journal, New York September 29, 1951

Rhodesia's Tourist Industry Booming

Fifty-five thousand people visited Southern Rhodesia during 1950, spending over £2 million. The tourist industry comes fourth in importance after exports of tobacco, gold and asbestos. Lack of hotel accommodation holds expansion back. The 1953 Rhodes Centenary celebrations will enhance the popularity of the country.

Monthly Review, Standard Bank of South Africa, Cape Town, October, 1951

British Unions Woo Women Workers

Of seven million women employed in industry in Britain only 1,200,000 are members of a trade union, according to figures supplied by the Trades Union Congress, which has started a campaign to persuade more women to become union members.
Manchester Guardian, November 26, 1951

Persian Oil Gap Made Up

A new agreement with the Sheik of Kuwait (pronounced Koo-vite) gives him fifty per cent. of the oil profits made by the Kuwait Oil Company, which is owned equally by the British and the Americans. The importance of amicable arrangements with this Arab state derives from the fact that it has increased its rate of production sufficiently to make up the gap caused by the closing down of the Persian refineries. From 17 million tons a year before, production in 1952 will be 40 million tons.
The Times, London, December 4, 1951

South American Foreign Trade

In the period mid-1950 to mid-1951, Argentine imports from the U.S.A. nearly trebled, exports to the U.S.A. doubled. Imports from the U.K. dropped slightly, exports to the U.K. were cut by one-third. Brazil's trade accounts tell a similar story: imports from the U.S.A. more than doubled, exports nearly doubled, whilst imports from Britain increased only by a third, and exports to Britain increased by a half. German trade with both countries and to Chile increased most of all—imports from Germany are up 700 per cent., exports to Germany up 400 per cent.
Fortnightly Review, Bank of London and South America, London, November 17, 1951

China's Tax Drive

Large military expenditures have compelled the Chinese People's Government to extend the range of its taxes. Local authorities, under pressure of demands from Peking, have had to tax kitchen chimneys, lime kilns, goods in transit and the birth of a male child, shrines and all livestock sales. Thirteen kinds of tax are imposed on the owner of a pig from its birth to its slaughter.
Eastern Economist, New Delhi, November 16, 1951

U.S. Dollar worth 53 Cents

Since the period 1935-1939, according to cost of living figures, the American dollar has become worth only 53 cents.
Bureau of Labour Statistics, Washington, November 23, 1951

French Budget Plans

The budget for 1952, now in preparation, is likely to have a total of between 3.2 and 3.3 billion francs; of this, about three quarters of a billion francs will be devoted to defence. It is to be made clear to N.A.T.O. that France could not afford a greater burden without the risk of serious inflation.
The Times, October 31, 1951

U.K. Civil Servants

The total of non-industrial civil servants in the U.K. is 679,000, compared with 388,000 in 1939. The war-time peak was 711,000 in 1943.
"Posts in the Civil Service," H.M.S.O., November, 1951

Israel Restricts Immigration

Food and housing crises have led the Jewish Agency to restrict immigration during 1952 to people under 35 years of age. This is a radical change from the Israeli policy of the last three and a half years, whereby 650,000 Jews of all ages have doubled the 1948 population.
Manchester Guardian, December 3, 1951

PROFIT DEFINED:

Remuneration of Selling Power

By Professor R. G. HAWTREY

MARKETING IS AN essential part of of the process of production. And it is a mistake to think of a market as automatically created by the mere volition of the buyers and sellers. A market is a substantial enterprise, carried on through the skilled services of those who compose it.

What are these skilled services? It is only within a limited field that the consumer himself takes the initiative and orders a producer to supply something to his own specification. In general, the producer has to anticipate the consumer's need. The consumer, when he buys, selects from a stock of things already produced.

Role of the Middleman

If the retailer is to give his customers an adequate choice, he must get supplies from many sources. At the same time the producer will want to supply many retailers. The merchant intervenes to buy goods from producers, and distribute them among retailers.

If the specification of products was always perfect, so that consumers could always get exactly what they wanted by mere trade names, this process of suiting needs would be routine. But even so, the business of marketing would not be merely mechanical. For demand for any product would fluctuate, and traders would then still have to hold stocks, and merchant's stocks are the major part of his capital; stock-holding is part of the service rendered by him to producers and consumers.

For consumers, stocks ensure immediate satisfaction of demand. For producers, they are a cushion against fluctuations in demand. The merchant has the task of foreseeing changes in demand and adjusting his orders to producers accordingly. Continuity of production is assured, modified only by long-term adjustments to forecasts of demand.

Skill of the Middleman

But specifications and descriptions are not in fact perfect. The name of an article is a first approximation. The intending purchaser can supplement the name with his own more specific description. But the best description he can give will still leave room for choice, and it is for the seller to offer a suitable selection.

It is in procuring this selection of goods to suit the needs of consumers that the merchant's skill chiefly lies. He must appreciate the refinements of their needs.

He can, to some extent, influence what is produced, for when he orders goods from a producer he furnishes a specification. Thus a part of the merchants' responsibility for suiting needs is passed on to the producers, whereby the producers are led to adjust their output of any product to the demand for it. The use of brand names facilitates consumers' choice by circumventing the difficulties of specification.

Skill of the Producer

The greater part of production has to be planned far ahead, and the governing consideration is the

From "The Nature of Profit," Economic Journal, September 1951

prospect of demand. The industrialist is no less a seller than the merchant, but what he sells is limited to his own product, and whereas the merchant can turn over his operations from one product to another at short notice, the industrialist commits himself to a long-range forecast.

Whereas the merchant's profit is the margin between selling price and buying price, the producers profit is the margin between selling price and costs. Economists have tended to treat profit rather as the remuneration of efficient and economical production than as the remuneration of selling. If, of course, the producer can reduce his costs without deterioration of quality, he reaps his reward in increased profit. So much of his profit can be described as earnings of management and organisation. But this gain can still be *multiplied* in proportion to the magnitude of the business.

The producer may entrust the whole technical side of his business to salaried staff, and show his own competence in selecting this staff. The cost of staff becomes part of overheads, and the profit left to him can no longer be termed remuneration of management.

In fact, for producers no less than for merchants, profit is the remuneration of *selling*. The responsibility for selling attaches inseparably from the *owner* of the product.

Dilemma of the Controller

The margin of profit in any trade must be sufficient to secure a reasonable income to a small-scale trader, and may therefore provide a more than reasonable income to a large-scale trader. Governments seeking to control prices and profits are therefore faced with this dilemma: either they must fix prices so low that small men cannot support themselves, or so high that the big man makes a plutocratic income.

This throws light on profit-determination under competition. Orthodox doctrine says that competition prevents excessive incomes from occurring, since prospects of gain attract newcomers. But this attraction will be limited by the amount of business the newcomers can expect to get, the amount of capital they can bring in, and the business connections they enjoy. Competition tends to set up a normal *rate* of profit only.

Actual rates differed widely. It is because differences are so great that profit is often said to be compensation for risk, not least that buying and selling may incur losses.

But such losses merely illustrate the general principle that profit is the remuneration of selling power. If this power fails, there is no profit or profit becomes negative.

Not Compensation for Risk

It is sometimes argued that, when losses are set against gains, the average profit works out at no more than interest on capital; and that the excess of profit over interest in the successful business is the compensation for risk. More plausibly it is contended that the average return to owners of capital must include not only the actuarial equivalent of the prospects of loss but also compensation for uncertainty itself.

No doubt the newcomer in any trade makes these calculations. But he must in effect compare the profit prospects with the income he might make in a salaried employment, along with interest on capital placed in a secure investment. The prospects will not allure him unless the profit hoped for exceeds his salaried prospects.

Even if there were such general miscalculation among all profit-seekers, that in the end their average margin above the allowance *they reckoned on for risk* turned out to be zero, it would still not be correct to identify their profit with compensation for risk.

PROFESSOR HAWTREY ALSO COMMENTS ON

Credit Policy and £ Revaluation

THAT ANY CONSIDERABLE contraction of the flow of money ought to be avoided hardly needs saying. What is urgently needed is a monetary policy which will prevent any further expansion. "Dear money," *a high bank rate, is the indispensable* instrument.

Restriction in one form or another *has been in operation since the end* of the war, and there is little prospect of its being more effective now. Banks are not in a position to adjudicate on the purposes for which their customers borrow. Borrowing is for spending, and what is deemed to be entirely legitimate spending may have to be discouraged. And, even if restriction were effective, it would be a very imperfect instrument of credit regulation, for it has no elasticity; the pressure cannot be *adjusted to be a little more or a little* less. Dear money imposed through the bank rate can be reconsidered *from week to week*, or if need be from hour to hour.

Prompt Action

An essential of a wise use of the bank rate is prompt action. To deal with the present state of over-employment, when industry is overloaded with orders and British exports are put at a disadvantage by long delays in deliveries, it may be that a prolonged period of dear money would be needed. (If deflation is to be avoided, there must be a prompt relaxation as soon as the check to expansion is seen to be fully effective).

Dear money may correct the adverse balance of payments, but it will not by itself prevent a further *rise of wages and prices so long as* the present rate of exchange of $2.80 remains. The rise since the devaluation of 1949 has been considerable, but wages and prices still have a long way to go before they are fully adjusted to the rate, to say nothing of a further rise in sympathy with rising American wages.

Britain Should Revalue

An up-valuation of the pound would not only put a stop to the rise of prices, but would be a powerful reinforcement of the operation of dear money.

Regarding the "fantastic allegation" that higher money rates "are designed to enrich the banks," the point, so far as it is anything more *than a bit of party polemics, is that* the Exchequer has to bear a heavier charge on the floating debt. Even after the recent conversion of a part of the floating debt into bonds, any big rise, say, to 5 per cent. or more would still mean a substantial Budget charge. But the charge could be balanced by an excess profits tax specifically applied to banks. Alternately, an agreed limitation of bank dividends would in effect cause any excess profits to be lent to the Government.

From Letter to The Times, December 5, 1951

Revitalising Derelict Land

By Professor L. Dudley Stamp

Up and down the country there are innumerable pieces of waste land in aggregate covering a large area but individually small. Each piece, in fact, constitutes a separate problem, and there is no solution of general application.

Many of these pieces of waste land are in private ownership. For others local authorities are, or could be, responsible, and it is up to every individual concerned and to every such local authority to take the appropriate steps. It is far more important for individual responsibility to be realized than to look for government action, for new legislation, or other leads. What is first needed is a careful survey and study of each area.

The Black Country Survey in 1945 revealed that derelict industrial sites occupied no less than 9,000 acres. The West Midland Plan showed that by 1948, 1,900 acres had been or were being reclaimed whilst a further 400 acres had been acquired by local authorities for purposes of redevelopment, mainly for housing. In our crowded country of Britain, the object should always be the redevelopment and re-use of old sites before taking new land.

1. Re-use of the sites for industry. In many cases the factors which led to the original choice for industrial development are still operative. For example, along Tyneside where anyone must be struck by the valuable waterside sites at present left idle. One notices the same possibilities on the eastern approaches to Swansea. Where the land has been thoroughly poisoned by its previous usage, this does not matter where re-use for industry is concerned.

There are, of course, large areas of derelict land where circumstances have changed and the sites are no longer suitable. This applies to worked out parts of coalfields and some of the old smelting areas. In such cases other uses must be sought.

2. Re-use for housing. The first requisites are usually the clearance of rubbish, often the remains of buildings and rusty machinery, the levelling of the site and attention to drainage.

3. Reclamation of land for playing fields. Here sites which are flat or can be levelled and are either drained or drainable are essential and other areas lend themselves to parks. Where old workings have become filled with water, as commonly happens with old gravel workings, some most attractive results can be achieved.

Such uses of former industrial sites involve the establishment of vegetation.

There are many cases where abandoned industrial sites have become strongholds of wild nature. Old quarries are often worth keeping as small nature reserves. They become the haunt of birds who have small hope of refuge in the well-used surrounding land.

4. We pass to another use, that of great spoil banks from colleries, or from the working of ironstone, where large blocks of rock are brought to the surface. With open

From Paper to Royal Society of Arts, London, November 21, 1951

cast workings the problems have increased progressively with the increasing size and power of excavating machinery. This may be seen in parts of the Midland iron ore fields and it seems ironical that the rocky deserts which are being created consist in many places of great boulders of limestone, so much in demand elsewhere.

Almost the only possibility of productive use is for afforestation. Those who have seen giant trees in their natural habitats, their roots penetrating into crevices in otherwise bare rock surfaces must have realized how long-suffering are many of the forest giants.

In view of the criticism so often levelled against "big business" it must be recorded that several of the big iron and steel corporations, for example, are so alive to their responsibilities that they have their own forest nurseries and technical staff for dealing with worked-over ironstone areas.

5. The restoration of the older industrial sites for general farming use is not generally possible. The old Shropshire coalfield in the Ironbridge-Oakengates area affords a good example of what has frequently happened. The small old pit mounds are overgrown with a rough vegetation; scattered amongst them are many smallholdings. Poultry thrive on such land especially if there is good drainage; there are slopes with a good aspect or frost protected hollows where soil suitable for intensive market gardening has been built up by dressings of lime, artificials, ashes, and urban waste. What has been done by individuals, usually with a minimum of capital, is familiar to many enthusiastic allotment holders and could be extended. What is needed is not so much soil as suitable soil-forming material. Attacked scientifically an analysis of the ground would be needed; fertilizers selected accordingly and the crumb structure of the soil built up by a right mixture of sown grass and clovers. Starting from scratch, one need not sow unwanted weeds. Where small patches of derelict land occur in towns many little charming gardens can be established.

Damage Today

We may turn now to consider briefly the rather different problem of derelict areas actually being created at the present day, especially by the working of minerals. The area involved runs into thousands of acres a year.

My experience has been that the country may gain more by the enlistment of voluntary goodwill than by the possession of legal powers, and that industrial operators if they were to appreciate in advance the problems involved could help the country to have its cake and eat it too.

In the first place many sites can be left in such a way that they can afterward be used for a variety of purposes. Often what is involved is a simple tidying up process.

When surface minerals, such as chalk, are being worked, with a little foresight working can surely be taken down to a common level, providing afterwards an almost flat surface at the right height to form an ideal industrial site. Minerals are often worked down, as in the case again of chalk or gravel, to below the permanent water level and flooding is inevitable. Of course, it is true that much gravel can only profitably be worked in this way, but the old water-filled holes in chalk

and limestone districts need not have happened if working had ceased only a few feet higher, without any serious loss of the raw material.

Quarries, coal mines, and many other heavy industries involve the production of large quantities of waste material. The old system was to run out this waste material, shale or slag, or whatever it happened to be, by wagons on rails and in due course such old dumps with an approximately level surface have consolidated and their surface can be used. The more modern method is to build up great conical mounds.

The choice between the two is not only a financial one, there are other considerations. The flat-topped tip may involve covering a very large area of valuable agricultural land, and there is less waste of land where the conical mound is built up. This may be a deciding factor. On the other hand, little use can afterwards be made of the conical mound except possible afforestation, and that is difficult, whereas the flat-topped spoil bank may have a real value.

Restoration must be looked upon as a long-term process, and time must be allowed for settlement. The mistake commonly made is to try and restore land to its former use immediately. What after all is ten years in the life of a nation if it is necessary to wait that length for land to consolidate itself before being used?

LAND-USE IN BRITAIN

	Acres
Total area excluding water	56,200,403
Permanent grass	11,975,906
Temporary grass	5,182,363
Vegetables	417,491
Fruit	321,287
Cereals	7,470,529
Other crops	3,482,430
Total crops and grass	28,850,006
Rough grazings	16,350,380
Total in agricultural use	45,200,386

There are no figures available to show how much of the area unaccounted for is taken up by urban development.

Minister of Agriculture, answering a Question in the House of Commons November 21, 1951

TREND OF INDUSTRIAL PROFITS IN U.K.

An analysis of the accounts of 2,506 British companies gives the following comparison:

	(£ MILLIONS) 1950	1951
Profits	1,000	1,237
Depreciation	139	158
Taxes	416	534
Ordinary dividends	105	116
Reserve allocations	223	282
Issued ordinary capital	1,208	1,263
Reserve totals	2,012	2,422
Net working capital	2,285	2,587

From Financial Times, London, November 10, 1951

Resourceful Japanese Competition in India

By Paul Telco

Japan does not offer machinery—she offers complete factories

Since India became independent and set out on a programme of industrialisation her imports of Japanese machine-tools have increased gradually but steadily, largely at the expense of British exports.

The main reason why British machine-tool manufacturers are losing their foothold lies in their failure to adjust their sales policies to suit the present situation in India. The reputation of British machines is high, and generally, Indian buyers would prefer British plant if everything else were equal or nearly so. But everything else is far from being equal.

Japan is quoting prices no Western countries can meet and they give much quicker deliveries. The Japanese make their offers irresistible by quoting for a complete service and selling, in fact, a guaranteed production and not a lot of miscellaneous machines.

Who are the Buyers?

To appreciate what this means one must first of all look at the army of prospective industrial investors. Who are they?

With the exception of a relatively small number of established industrialists concentrated into a few large cities, they are absolute laymen from many walks of life. There are the ex-shopkeeper refugees from Pakistan with the salvaged remnants of their fortunes, the landowners whose feudal incomes are being wiped out by land-reform legislation, successful merchants with capital to spare for new ventures, members of overcrowded professions ready to risk their family savings, enterprising young men with an eye on Government loans and subsidies. All are looking hopefully to industry, all are eager to share in the prosperity which they are assured by a ceaseless flood of speeches and articles will come to India through industrialisation.

These industrialists of the future, encouraged by the support the Government gives to new industrial ventures, look around themselves and decide that they would like to manufacture, say, umbrella ribs, caustic soda, hurricane lanterns or toy soldiers. Groping in the dark, they commence to broadcast their inquiries for suitable plant in vague terms to all corners of the earth.

Britain's Impatience

Britain gets her share, and one can hear the impatient remark: "They simply don't know what they want." Of course they do not.

But Japan will tell them: "If you want to make sewing needles the minimum economical quantity to produce is so many thousands of gross a month. To achieve this output you require such and such standard machines, power presses,

From Letter from Paul Telco, former Light Industries Adviser to Govt. of the United Provinces, India, in Manchester Guardian, December 3, 1951

wire straighteners, plating, polishing, and heat-treatment equipment, etc., as well as special-purpose machines for pointing, packaging, and so forth. Then you will need a number of specially designed press tools, jigs, fixtures, etc., and all the auxiliary toolroom equipment necessary for maintaining production."

Japan will quote one price for the lot, to be supplied as a complete production unit ready to operate. If need be, they will send a man to supervise the installation and to train Indian labour. The prospective manufacturer will also be told exactly what raw materials he must secure, how much floor space he needs, how many horse-power energy will be needed to drive his plant.

In the case of power stations and textile mills, Britain has for a long time recognised the necessity of providing complete installations. Today, it is equally important to export the "engineering" for small industries, together with the plant.

It is not use telling an Indian to employ a consulting engineer. India's small towns have no consulting engineers. The consultants in industrial towns, hundreds of miles away, are not versatile enough to cope with the great variety of inquiries. Nor could the small investor afford their charges. Further, even if an efficient engineer provided him with layouts and drawings of all necessary special tools and jigs, India's undeveloped tool-making capacity could not produce them. To make a long story short, the order for the wood-screw machines will go to the supplier who quotes for the complete wood-screw factory.

British equipment, plus British engineering experience, if offered for export, could stand up to Japanese competition, even at non-competitive prices, thanks to the tremendous prestige she still enjoys. But if Britain will continue to offer only power presses, centre lathes, milling and drilling machines, then Japan with every advantage in her hands, and with her superior salesmanship, will consolidate her foothold in India (and I dare say in other similar markets), from where it will be difficult to dislodge her again.

India: Cold Climate for Capital

By "ODYSSEUS"

I GRANT YOU THAT THERE is virtually no discrimination against foreign capital in India—it gets exactly the same chilly treatment that is meted out to indigenous capital. But whereas Indian industry has no option but to put up with the stern remarks addressed to it in the National Planning Commission's report, and cannot escape the penal legislation enacted against it in (for example) the Industries Development and Regulation Act, foreign investors, being under no such compulsion, prefer to keep their money outside India.

Not only does the Government of India speak as if Private Enterprise were run by unsuccessful ne'er-do-wells and of state enterprise as though it had never lost and wasted an anna of the taxpayers' money,

From Eastern Economist, New Delhi, November 16 and 23, 1951

but it actually goes out of it way to hustle out of the country some of the foreign capital already invested here. Non-resident shareholders are now assumed to have world incomes in the super-tax bracket and their dividends are taxed on the highest scale unless they go to all the trouble of filling in forms and making declarations of their world income. By far the greater number of non-resident shareholders are small investors, and the expense and delay involved in reclaiming small sums are simply not worth their while, so that brokers are receiving substantial selling orders from overseas.

First, let us note that if you borrow from a foreign government, or an institution like the World Bank, you are not getting risk capital, the sort of capital that is anxious to make a big profit but equally ready to stand a big loss. A loan from a foreign government or bank is usually on fixed terms of interest and repayment which lack adaptability to changing economic circumstances and which are therefore capable of becoming burdensome.

Then there is the question of "strings." The Government of India insists that there should be no strings attached to any borrowings from foreign governments. But there are only two considerations in a lender's mind, either (a) he hopes to make a profit, or (b) he wants to place you under an obligation and thereby influence your actions. It follows that private risk capital is the only kind that has no political strings attached. A government does not lend money for profit but for influence; the conditions of the loan need not be made explicit but they are understood well enough; what they boil down to is roughly: "I'll back you up if you back me up," which seems to me a reasonable mutual attitude.

DO JAPANESE PRICES BENEFIT THE CONSUMER?

Japanese-made goods now being offered in Commonwealth markets have been on view in London. They included a khaki shirt which the maker sells for 6d., and towels at 1s. 5d. But what of the British manufacturer? And, more important still, what of the British consumer?

Even if these goods get an import licence, there will be import duties sufficent to protect home manufacturers. This may comfort the manufacturer and his employees. But what of the buyer? Where lies the duty of Government?

From Editorial, Sunday Dispatch, London, September 16, 1951

STERLING IS A BURDEN ON ITALY

If the rigid attitude of British monetary authorities were relaxed the formidable difficulties that the E.P.U. is now encountering would be appreciably lessened.

Devaluation led to unfavourable consequences for Italy, and caused her sterling balances to accumulate when the rate for export pounds became 1,750 lire instead of 2,320 lire. The balances are bound further to accumulate because the sterling bloc is unable to supply on competitive terms enough goods that Italy wants.

What Italy needs is more readily obtainable in the dollar countries; as sterling is inconvertible, the Italian sterling balances are sold at a disagio. This is forcing Italy further into a creditor position with E.P.U. This would not happen if the Italian exporter were not forced to accept sterling in payment as though sterling really were worth $2.80 to the £.

C. Bresciani-Turroni, Bank of Rome chairman, Milan, November 27, 1951

Looking into Russia's Living Standards

ACCORDING TO SOVIET statistics the average annual wage was 4,100 roubles in 1940, and should have reached 6,000 roubles by 1950. The growing secrecy has meant that wage-rates have not recently been disclosed.

Fragmentary evidence of earnings in various occupations only emphasises the wage-differentiation that has been deliberately introduced by Stalin to increase incentives. Thus wages vary from 385 roubles a month for a nurse to several thousands a month for a shock worker in industry. An unqualified metallurgical engineer earns 600 roubles a month.

SOVIET COMMODITY PRICES
1951

	roubles
White bread	... 2.7 per kg.
Rye bread	... 1.7 „ „
Butter ...	... 34.0 „ „
Sugar ...	... 11.0 „ „
Meat ...	13-28 „ „
Flour ...	... 4.0 „ „
Potatoes	... 0.8 „ „
Milk ...	... 2.4-3.4 per litre
Eggs ...	... 7.0 per dozen
Man's suit	... 600-1,200
Shoes ...	... 220-475
2-room Flat	... 60-90 per month

(11.2 roubles = £1)

Necessary Minimum

From the price list above it would appear that a worker, his wife and two children living on 1,000 roubles a month would have just enough for housing, food and the minimum clothing. This leaves very little for anything else (cigarettes, vodka, entertainment).

Price lists, however, are misleading. Motor cars are cheap in Russia but extremely scarce. Housing looks cheap (£5 7*s.* to £8 1*s.* a month) but overcrowding makes comparisons with the West look ridiculous.

Consumption per Head

Leaving wage data on one side, let us evaluate the Russian standard of life by computing average consumption per head.

In trying to catch up with the West, Soviet planners have all along put the emphasis on heavy industry. Textiles, for instance, have always been the Cinderellas of the Soviet economy.

Consumption per head in the USSR in 1950 was half of that in the U.K. in cottons, one-eighth in wool, one-third in shoes, one-half in butter, and one-half in vegetable fats. In meat the USSR is still paying the price of German slaughterings. Sugar consumption is over 2 lb. a month, however.

Comparisons with other countries such as Italy or Spain, would show more favourably to the USSR. A Russian buys twice as many shoes as a Spaniard for instance.

Progress, but Slow

Looking back over the last five years, the Russian worker may feel proud of his achievement; he has made up the ravages of war, during which consumption levels fell to unprecedented depths.

But looking back over the thirty-four years since the revolution, the pace of advance has been incomparably slower than that of the

From Economist, November 17, 1951

Soviet economy as a whole. The Russian worker has always been told to make one more effort, and that then the emphasis would be shifted to consumers' goods.

He has made the effort—but was deprived of the promised fruits in the thirties, first by growing international tension and then by war. At the dawn of his mid-century, the situation is not unlike that of 1937.

Future of Road Haulage

By GILBERT WALKER (Birmingham University)

THE AREA OF PRIVATE enterprise in road transport can rapidly be enlarged by the simple and direct expedient of removing the 25-mile limit now imposed on public "A" carriers by the Act of 1947.

Competition there will be between small and large—how else is the re-established private hauler to win even that traffic for which he can offer the greater convenience? But the re-entrants, being on the whole in the smaller class, will not be able to achieve that low level of costs and hence of rates which (should) characterize the activities of the large organisation. Instead, they will concentrate on the special services at the higher rates and be under no serious temptation to invade the business of cheap bulk transport by road.

The fact that one competitor will be privately owned, the other by the public, makes no difference. If organization on the grand scale in road transport has the virtues which nationalizers press upon us, then those virtues should show themselves in an economy of capital and effort sufficient to reduce the costs of the large Road Haulage Executive groups below the costs of the small private haulers.

If costs are cheapened, rates can be got down. If their rates are lower, then public road transport need fear nothing from the re-emergence of private competition. And if road transport undertakings organized on the large scale, whether publicly owned or not, do not have this advantage over their smaller competitors, what possible economic justification is there for retaining these mammoth concerns?

The acceptance of competition in road transport means that group and district managers must be free to quote competitive rates against outside haulers while continuing to act as clearing houses for all other groups and thus retaining for the Executive the advantages of large-scale operation. The speed and success with which the Executive has been developed nationwide have uncovered unexpected resources of organizing ability in those whose former employment allowed inadequate scope for the exercise of this talent.

They will now be given a chance to use to the full, in the service of the Executive, that enterprise and initiative which were so marked (and to some so unsettling) a characteristic of the road haulage business before nationalization. The customer, to his own advantage and that of the public as a whole, will get the best of both worlds—both the economy and cheapness of the large and the greater convenience and the detailed service of the small.

From Letter to The Times, London, November 19, 1951

Tax Evasion in France

By HERBERT LUTHY

Gaul is still divided into three parts—two parts of which continue to be successful in paying little income tax

FRENCH SOCIETY IS NOT divisible into two halves, big business and the individual toiler, as left-wing simplicists would have us believe, but is divided, in practically equal parts, into (1) farmers, (2) salaried men of all categories including cabinet ministers and (3) people "engaged in business," of which last the vast majority are of course not producers but middlemen.

The first and third categories thrive on scarcity and inflation, the second is squeezed between the two —from the working men up to the highest professional and governmental employees all in the second group have been carrying the burden since the end of the war. The prevailing policies of low wages and high prices, rapid turnover and exorbitant profits, work in the last analysis at their expense. The entire welfare policy of the Fourth Republic has consisted exclusively of levelling wages and salaries within the second category to provide relief and other social services to those on a marginal subsistence; taxes on the wage earner carry a hugely disproportionate share of this load.

The natural outcome is that the only career that opens up a prospect of greater well-being is buying and selling, "doing business," *faire des affaires*.

Taxable commercial income, when calculated in terms of stable currency, has sunk to 50 per cent. of the 1938 level and the average tax receipts from each agricultural enterprise is 4,000 francs, that is, just over £4!

France is a land without income statistics because it is a land where books are not kept: only employees on fixed salaries and corporations owning modern heavy industries are unable to hide their income from the government. What the income tax does not yield is brought in by a cascade of indirect taxes which are absorbed in higher prices, and hence are passed on to consumers. The result has been: wage index: 12; cost of living index: 23.

These two shocking figures need some explanation. Has the average real wage, which was already abnormally low before World War II, really been halved since 1938? Yes, if you consider the actual money handed over as wages, apart from all extras. No, if all social security benefits—family allowances, old-age pensions, sick and hospital insurance, etc.—are reckoned as "indirect wages" or "social remuneration." "Social remuneration" now makes up 45 per cent. of the total wage budget.

Anyone who has tried to find his way in French wage and salary statistics knows what a state of hopeless confusion has been created by this new concept. The simple question as to what the average French industrial worker really earns has become utterly unanswerable. One grim estimate is that, in relation to 1938, the nation's sum total of direct and "indirect" wages has declined 5-10 per cent. while the labour force is somewhat greater and the number of working hours has gone up sharply.

From "Why 5,000,000 Frenchmen vote Communist," Commentary, New York, quoted in Socialist Commentary, London, December, 1951

Also Worth Reading

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Unemployment, Inflation and Economic Rigidity, by FRANCESCO COPPOLA D'ANNA, and Reply to Coppola D'Anna, by ERIK LUNDBERG, *Bancaria, Rome, August,* 1951 (in Italian). Continuation of the argument, begun in the March number of *Bancaria,* whether Keynes' Theory is a "theory of depression" or not.

German Points of View on the Schuman Plan, by MARTIN WIEBEL, *Bancaria, Rome, August,* 1951 (in Italian).

The Necessity of Reorganisation of the Iron and Steel Industry in Japan, *Fuji Bank Bulletin, Tokyo, August,* 1951 (In English).

A General Survey of the Cement Industry in Japan, *Fuji Bank Bulletin, Tokyo,* August, 1951. (In English).

Finland's Trade with Different Countries, by PROF. A. E. TUDEER, *Bank of Finland Monthly Bulletin, Helsinki, September-October,* 1951. Finland depends almost entirely on forest products to pay for a wide range of imports; as supplier and buyer, Great Britain leads. (In English).

Co-operative Activity in Finland, by I. RAHOLA, *Bank of Finland Monthly Bulletin, Helsinki, September-October* 1951. Finland has over 5,000 Co-ops, with a membership of 1,500,000 and a turnover running to 126,000 million markkaa (£200 million). (In English).

The Treatment of Rent in Agricultural Cost Assessment, by O. T. W. PRICE, *Farm Economist, Oxford, Vol. VI, No.* 10. The problem of how to allow for true rent in crop costing, joint product valuation; land improvements and livestock, written in a very clear and practical style.

Labour Use on Farms in the Eastern Counties, 1938-49, by E. S. CLAYTON, *Farm Economist, Oxford Vol. VI, No.* 10. More tractors, less men, per acre, is the trend, backed by figures from a sample survey.

Trade Opportunities in Liberia for British Exporters, *Board of Trade Journal, London, November* 24, 1951.

Britain's Oil Supply, *Barclays Bank Review, London, November,* 1951. Coloured and colourful background to the Persian crisis.

The Cost of Living Index, *Barclays Bank Review, London, November,* 1951. History-in-short of the British index, and a criticism of what a Cost of Living Index is supposed to "do."

Trade and Industry—Some Current Problems, *National Provincial Bank Review, London, November* 1951. By H. G. HODDER. A masterly summary.

Report on Slow Turn-Round of Shipping, *Review, Institute of Public Affairs, Victoria, Australia, September-October* 1951. This report applies particularly to Australia, but affords lessons to other countries with a similar problem.

Shares for the Workers, *Economist, London, November* 17, 1951. A succinct criticism of co-partnership schemes.

Textile Trends, *Commercial Letter, Canadian Bank of Commerce, Toronto, October,* 1951. Production and consumption of fibres and cloths in Canada 1926-50.

The Canadian Scene, *Business Review, Bank of Montreal, November* 22, 1951. Details of the new Old-Age Pension schemes in Canada.

Clearing Bank Holdings of Public Debt, *London and Cambridge Economic Service Bulletin, London, November* 1951. A statistical review of Discounts and Investments from 1930 to 1950. "Public debt rose from one-quarter to one-third of bank deposits in the thirties, from one-third to two-thirds during the war, and has fallen to about half. . . . . Much the larger part of banking operations over the past decade has consisted in the creation of deposits against government debt."

World Commodity Survey, by C F. CARTER, *London and Cambridge Economic Service Bulletin, London, November,* 1951. In addition to statistics of world production, consumption stocks and prices, this article describes the principal sources of information which have been used in their preparation.

Rope Making: An Ancient Industry, *Westminster Bank Review, London, November* 1951.

Post-War Achievements of the North-West Region, *Board of Trade Journal, London, December* 1, 1951. Lancashire, Cheshire and part of Derbyshire have only 3½ per cent. of Britain's land area, but employ 14 per cent. of its insured workers. This article gives an up-to-date description of the many industries (textiles are the chief, but not the only, industry) in this busy hive.

E.C.A. Programme to Assist Small Business, *Thirty-ninth Report of the Economic Co-operation Adminstration, Washington, October* 26, 1951. In order that small firms as well as the giants should participate in the procurement orders of the foreign assistance programmes, a system of information and technical aid offices have ensured that one-fifth of goods sent overseas by E.C.A. are from the small man.

Agricultural Income in Egypt, *Economic Bulletin, National Bank of Egypt, Cairo, Vol. IV, No.* 3, 1951. A comparison of total farm income in the post-war years to 1949. Increase in field crops (particularly cotton) is the outstanding feature. (In English).

Prospects for Trade in Raw Cotton, *The Times Review of Industry, London, December*, 1951. Obstacles to handing over buying to private traders—will spinners be prepared to take the risks of price fluctuations which must occur during the handing-over period?

India's National Income, *The Times Review of Industry, London, December* 1951. in 1948-9 it was estimated at Rs. 8,710 crores (one crore (10 million) = £750,000), which for the population of 341 million gives Rs. 255 per head, or about £19. Agriculture accounts for 48 per cent.

Exploitation of Natural Gas in Italy, *The Times Review of Industry, London, December*, 1951. Since 1941, plans have been going ahead to pipe methane from fields in the Piacenza area near Milan to the whole of Northern Italy.

The Growth of Industry on Trading Estates, 1920-39, with Special Reference to Slough Trading Estate, by G. R. ALLEN, *Oxford Economic Papers, Oxford, October* 1951. Contains some interesting figures on mortality rates of businesses grouped according to kind of product. The rates are very high—usually over 50 per cent. of the number of new firms setting up on the Estate.

Balances in Reverse, *Monthly Summary, National Bank of Australasia, Melbourne, November* 12, 1951. Large falls in Australia's foreign currency reserves are not causing commercial trouble yet, but in case further falls do, the remedy is not restriction, nor appeals for dollar capital, but domestic development with available resources.

Defence Metal Conservation and Substitution, *Mining Journal, London, November* 23, 1951. By K. P. HARTEN (German Iron and Steel Institute). A less conservative approach by users to the great variety of new alloys, more painstaking design, more careful grading of returned scrap—these are the answers to the metals shortage.

New Books Reviewed

Agricultural Death Duties, by W. Walker Watson, The Country Gentlemen's Association, Ltd., London 10*s*. 6*d*.

This book states a case. It sets out to show that death duties are systematically destroying the British landed estates. It goes further than this, however, in suggesting a series of reforms: 1. Agricultural property should be regarded as a fixed asset in probate-value rather than a current, disposable asset. 2. Agricultural land should be regarded as "an estate by itself," and not aggregated. 3. Assurance against death duties should be exempted so that the policy moneys should not attract full duty. 4. Agricultural state companies should be enabled to take advantage of the 45 per cent. abatement available to agricultural property generally. 5. The tax law regarding trusts and settlements should be altered so that almost confiscatory rates of taxation do not bear heavily on them at once, but are spread over the actuarial life-expectation of the receiver. The book contains a very able summary of the system of levying death duties.

Social Choice and Individual Values, by Kenneth J. Arrow, John Wiley & Sons, New York $2.50, *Chapman and Hall, London,* 20*s.*

An analysis carried out under the auspices of the Cowles Commission in Economic Research at Michigan University. It attempts by means of a simple mathematical methodology to evaluate the roots of the choice both of individuals and of groups—choice of goods, of income, of economic atmosphere and of political background.

The point is made that "there will be a difference between the ordering of social states according to the direct consumption of the individual, and the ordering when the individual adds his general standards of equity. We may refer to the former as his *tastes*, the latter as his *values*. An individual with aesthetic feelings certainly derives pleasure from his neighbour's having a well-tended lawn. Under a free-market system, such feelings play no direct part in social choice; yet psychologically they differ only slightly from the pleasure in one's own lawn."

This is a very exhaustive book, well documented and extremely concise. It is not, however, a book for the general reader at all.

The Law of Freedom as the Remedy for War and Poverty, by Emil Korner, Williams and Norgate, London, Two Vols., £2 2*s.*

This monumental work covers so wide a field that to criticise it in detail would be too easy and too tedious. Furnished with quotations from the widest range of economic and philosophic writers, with eight long digressions, and copious notes, it is a compendium of knowledge applied to the formulation of the Law of Freedom. The maxim ("do as you would be done by") on which the Law is formulated leads the writer into strange paths however—for instance that "Unemployment is no problem at all," since reduction of working hours will solve it.

The author denies the sovereignty of the consumer with great vehemence, and comes down heavily on the side of the producer as the individual entitled to "fair prices." He therefore envisages within his free economy equal rights of employers and workers to form cartels. As for the role of the State—"If by any chance the State and the individual are both incompetent . . . it is obviously better for the community to throw the burden of failure on to the individual than to be responsible itself." And as for currency, the author exposes the Gold Standard as based on vain hopes for stability, and proposes a currency based on unskilled labour-time.

The style of the translation is breezy and the make-up of the book is bright and open, despite its rather forbidding complexity. As an attempt to reconsider laisser-faire economics, it is useful; but not only has the author bitten off more than most people could chew, but many of the conclusions are based on asseveration rather than extended reasoning.

The Metropolitan Organization of British Colonial Trade by Kathleen Stahl, Faber and Faber, Ltd., London 25/-

This book is in the series on Colonial and Comparative Studies, edited by Margery Perham of Nuffield College. The sub-title is 'Four Regional Studies,' and the four regions are West Indies, Malaya, Ceylon (which has meantime slipped out of the colonial category) and East Africa. The virtue of the book is that it records in great detail the facts of the industrial, commercial and to some extent the political structure of each of the regions, and breaks new ground in describing in equal detail the London commercial interests and their organisation. The book is therefore a useful reference work. Its defect—its glaring defect—is that the author is absurdly undiscriminating in what she places on record especially when she is dealing with organisations in London. Do we really need to be told that the executive committee of the West India Committee in London is large and representative, that it meets once a month and provides the Committee's driving force? Or that the position of secretary is important because he has day to day control of the Committee's affairs, etc.? Or that 'the sugar industry in the West Indies consists of growing the sugar cane and by extraction of sucrose from the cane stalks and the removal of impurities, the manufacturing from it of raw sugar'? Similar quotations could be made from each section. This kind of padding in a study subsidised by a grant from the Oxford University Higher Studies Fund is not good enough.

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