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ECONOMIC DIGEST

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ECONOMIC DIGEST

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Outlook for British Industry

BY PROFESSOR G. C. ALLEN (University of London)

Is the British industrial structure stout enough to face the storms that may lie ahead? The answer will depend on whether she can recover her former resilience and adaptability

ONLY a very rash prophet would state with confidence that the deflationary forces in the world were now stronger than the inflationary forces which for so many years have dominated economic affairs. Yet recent experience suggests that the world economy as a whole, and the British economy in particular, are much more vulnerable to attack by the forces of recession than seemed probable only a year ago. This would be admitted even by those who believe that the depression in the textile industries is to be regarded as a necessary part of the process by which resources are being diverted to rearmament, or who confidently expect that the fall in the demand for various kinds of consumption goods will shortly be reversed.

The situation can be interpreted at three levels.

Short View: Deflation

Superficially it would seem reasonable to suppose that the depression in textiles came about mainly through heavy buying in anticipation of price increases during the first half of 1951, and the withdrawal of customers from the market as soon as their price-expectations changed. According to this view, the depression is likely to continue until stocks have been cleared. Indeed, it may deepen and spread to other industries if British exports are further "frustrated" by restrictions in customer-countries. On a short-term view, therefore, the outlook for a considerable sector of the economy seems to be deflationary.

Medium View: Inflation

If one looks beyond this short period, the prospects are very different. Expenditure is expected to grow steeply; large claims for wage-increases are looming ahead, and the solution of Britain's balance-of-payments problem may demand further steep cuts in imports. On what may be called a middle-term view, therefore, the prospects are inflationary.

But about the timing of the resumption of inflationary trends

From "The Outlook for British Industry," Westminster Bank Review, London, August, 1952

there must be serious doubt. Expenditure on rearmament is lagging behind what was expected; the effects of the dearer-money policy are pervading the economy as a whole; and at present, over a part of the industrial field, conditions are such as to make employers more strongly resistant than hitherto to demands for wage increases. Economic trends in the United States are also uncertain. Thus, it is possible that the rise in monetary demand will be delayed for some time.

Long View: Deep Depression?

Beyond this middle period the dangers are of another sort. The long-continued inflation from which this and most other countries have suffered since the war has produced distortions in the structure of costs and prices and the creation in some industries of new capacity that cannot be sustained without further, and perhaps continuous, inflation.

The precarious basis on which much economic activity now rests would be clearly revealed if armaments expenditure were reduced, as it presumably will be when the present plans have been carried through—and perhaps even before that period is over. If this interpretation is correct, then, the world may well face a deep depression in the middle fifties, and whether Governments really have the capacity to apply adequate compensatory measures in such circumstances is, to say the least, uncertain.

These are all debatable judgments of the present situation. Whether or not they are acceptable, however, it is evident that we have reached the end of a clearly-marked phase in post-war economic history. This is, therefore, a convenient moment at which to make a broad survey of the condition of British industry as it confronts the doubtful future.

Post-War Rise in Exports

Since 1945, industrial development in Britain has taken a new course. The tendency throughout the pre-war period for exports to decline has been reversed. In 1951 the volume of British exports was about 75 per cent greater than before the war, and the proportion of industrial output exported had also risen steeply.

These larger exports are not a symptom of economic prosperity, for they have been made necessary because of this country's weakened economic position in the world. First, the terms of trade have moved sharply against manufacturing countries, and so a unit of British exports no longer buys as much imported food or raw materials as it did during the thirties. Secondly, as during the war Great Britain lost a large part of her foreign investments (the interest and dividends on which paid for over one-fifth of her imports in the thirties), she can obtain essential imports only by exporting more goods. The repayment of foreign debts, accumulated during the war in the form of "sterling balances," has also been possible only through increased exports.

Certain industries have regained ground lost between the World Wars; shipbuilding, metal and engineering trades have made substantial recoveries. But these are the very industries that were relatively prosperous anyway; the industries which declined most before 1939 are the same which are now shrinking again. Coal and cotton are examples.

Facing the Storm

Is the British industrial structure now stout enough to face the storms that probably lie ahead?

The renewal of competition from the U.S.A., Germany and Japan would not be a reason for disquiet if we could look forward confidently to a continued buoyancy of international trade as a whole. Whether we can assume this or not, the question of the efficiency of British industry must become increasingly important as we move into an era of vigorous international competition.

What can be said about improvements in British industrial efficiency since the war? It is not easy to provide general statements, but it may be useful to refer to some of the statistical evidence. The volume of industrial production in Great Britain in 1951 was probably about 50 per cent above that in 1938 (excluding building). This represents an annual rate of increase much the same as that of the period 1924-1937. It is more difficult to estimate changes in industrial productivity (output per man-year) over the same term of years; but the improvement between 1938 and 1951 was probably of the order of 12 or 15 per cent. The largest increases appear to have occurred in the engineering, metal and chemical industries. They have been small in cotton, while in coal and building productivity is lower than pre-war.

This rise in productivity overall is one of the most hopeful, as it has been one of the most persistent, trends in our industrial system.

Improvements in productivity, however, are not to be regarded as inevitable. They depend on a complex of circumstances. But the outstanding causes are: first, advances in applied science; second, the enterprise of our industrial leaders.

Enterprise Lacking

It is frequently argued that this country's massive achievements in fundamental research have not been matched by its success in the practical application of the results of that research. In so far as this criticism is just, however, it can be resolved into a criticism of industrial leadership, a claim that where we have fallen behind is in enterprise.

The recent past provides evidence which bears this out. The most ominous feature of the inter-war period was not that our older staple industries, in which we had formerly led the world, were in decay, but that other countries had taken the lead in the new industries which were then developing.

Our position in certain of the newer branches of engineering, e.g., motor car production, did not compare with the position which we had once held, and still largely held, in the older branches, e.g., railway equipment, shipbuilding. Among the textile trades, we were still in the first rank in cotton, wool and linen; but other countries had far outstripped us in the production of rayon.

Too Much Rigidity

Now it may well be that since the war British industry has recovered the enterprise which formerly distinguished it; but at the same time it may be doubted whether either the Government or industry has yet acquired the attitude towards innovation which has been such a powerful influence in establishing the industrial leadership of the United States.

The assumption which is sometimes made by the trade unions that every type of worker has a right to maintain his customary place on the wage-ladder has its parallel among manufacturers in the view that every industry, once established, has a *permanent right to its niche in the economy.* As a corollary, the members of an industry often feel indignant if a firm hitherto engaged in some other line of production takes up the manufacture of their types of products and breaks into their preserves.

But if the maintenance of the *status quo* plays a large part either in the Government's industrial policy or in the policy of powerful associations of producers, then this may reduce the resilience and adaptability of the economy. Policy should work with the grain of economic development, not against it.

Misdirected Investment

The dangers of misdirected investment are always especially great during periods of inflation, and it may prove that the inflationary conditions of the post-war years have led in many lines of production to expansions of capacity which cannot be sustained. In this and in other ways inflation has led to waste; while the heavy taxation which has been introduced to curb it has not merely reduced incentives to individuals but has also made it difficult for both individuals and firms to save for further industrial investment, or at times even to maintain their capital intact. This is serious enough for established concerns; but it may be disastrous for new enterprises. Innovations do not always originate in large concerns.

New industries often spring from small beginnings, and we must beware of so rigidly ordering our industrial life as to leave no chance for unconventional and unofficial enterprise.

All this is highly relevant to the question of Great Britain's industrial future. Ever since she became industrialised, this country's progress has depended largely upon her taking the lead in new developments, for her natural resources, apart from coal, have never been very great. Throughout the nineteenth century (and indeed down to 1914), as competitor-nations appeared, she succeeded in adapting herself to the new conditions and in shifting her resources to fresh activities. During the inter-war period she appeared to have lost some of this resilience, and other countries succeeded to her role as the chief industrial pioneer.

Great Britain's economic future will depend to a great extent on whether she can recover her former resilience and adaptability; in other words, on whether she can show capacity for industrial leadership.

This must depend on whether she can produce industrialists of imagination and initiative, and whether she can provide an economic and social environment congenial to the exercise of business talent.

YOUR QUESTIONS ANSWERED

SEE INSIDE FRONT COVER

T.U.C. WARNS UNIONS

Higher Wages Will Cut Britain's Export Lifelines

"Circumstances demand a second industrial revolution"

BRITAIN'S post-war achievements have been great, even when full allowance is made for assistance received from the U.S.A. and Canada. In 1951 her industrial and agricultural production were each more than 40 per cent above the pre-war level, and the volume of exports were over 65 per cent above pre-war. But her competitive and financial position in the world is weakening. The present depression in textiles is the most striking example of long-term developments—failure to modernise these industries adequately, and the establishment of rival industries abroad, are at the root of the problem, although clearly other factors have been at work as well—the fall in net invisible items, for instance.

An important influence on our export prospects in the longer run is the tendency for demand for consumer goods to fall off and for competition in selling these goods to increase. Manufactured consumer goods must of course continue to play an important part in our export trade, but our ability to sell them is going to depend increasingly on keeping down costs to what foreign buyers are willing and able to pay. This calls for further increases in industrial efficiency, in which the Government, employers and trade unionists all have an important part to play. Circumstances will demand a second industrial revolution in this country, with some contraction of consumer goods export industries and a big expansion of those sections of the engineering industry producing capital goods.

A major aim in our export future must be the creation or opening up of new markets, particularly those in the so-called "backward" countries where purchasing power has been low. The development of these vast areas will call for sacrifices from those countries which have in the past benefited from their advanced industrial position.

As regards imports, the cuts applied by the Government in the first half of the year were intended to secure a reduction of 10 per cent by volume. It was not until May, however, that there was in fact a reduction (by about 2 per cent). Probably because of this lag, and also because of the immediate worsening of export prospects, the Government announced a further reduction in imports at the end of July. Such cuts are themselves not likely to improve our export prospects, since they invite retaliation by other countries. Our future as a trading nation is dependent upon an expansion of world trade.

Domestic Conflicts

Just as there are conflicting factors in the world economic situa-

From General Council's Report to the Trades Union Congress, Margate, September 1-5, 1952

tion so are there conflicting forces at work at home, of which some are making for a further rise in prices while others might make possible some fall in prices in the near future.

Import prices as a whole have been falling since March, 1952, but imported food prices, which play an important part in the cost of living, have continued to rise, and in May, 1952, were 7 per cent above the average level for 1951. Wholesale prices of materials (excluding fuel) used in non-food manufacturing industry at home have shown an even sharper fall than import prices in the last year. After rising by 75 per cent between June, 1950, and March, 1951, they have since fallen to a level only 28 per cent above the June, 1950, level and are still falling. These trends in wholesale and import prices have not been reflected in the Index of Retail Prices. This on the contrary rose by nine points between October, 1951, and June, 1952.

The future course of retail prices cannot easily be predicted at present. Ministers have suggested that we can expect the prices of consumer goods, other than food, to level off or even fall; the only evidence of such a trend so far is a small decline in prices of clothing and footwear and certain household textile goods (mainly as a consequence of the fall in demand for these goods). At the same time there are influences making for higher retail prices apart from the rises already foreshadowed. Thus the cost of imported food is still rising and prices for home-produced food may well go up again.

The Index of Weekly Wage Rates increased by seven points between October, 1951, and June, 1952; the greater part (four points) of this increase occurred, however, in November last. Between the autumn of 1950 (when the large rise in retail prices and wages began) and the spring of 1952 prices and wage rates increased at approximately the same rate. Since the Budget there have, of course, been fairly widespread claims for further wage increases, and, apart from these claims, there are some two million workers whose wages are linked to and move with the Index of Retail Prices.

It is especially necessary when reviewing the likely impact of wage increases on the economic situation to distinguish between their effect on demand and their effect on costs. Wage increases are unlikely to alter materially the pattern of demand. Consequently most of the increased purchasing power would be used in buying those goods—the majority—for which demand is still relatively strong. Moreover, in so far as wage increases pushed up the cost of these latter items more than the cost of those for which demand is weak, this in itself would limit the extra money available for spending on such goods as textiles.

As regards the effect on industrial costs, it is clear that in the absence of a rise in productivity, which cannot be expected to occur quickly, substantial wage increases are bound to raise costs. Moreover it is likely that the largest wage increases would be secured in the industries whose products are most in demand at home and abroad; this likelihood is increased by the fact that broadly speaking it is in these industries that profits are highest. In other words, industrial costs are likely to increase most in precisely

those industries on which we are most dependent for exports at the present time.

All these matters—the precarious situation of our balance of payments, the increasing competition that Britain is having to meet from other countries, the possibility of renewed speculation against the £ sterling, and the threat to employment and hence living standards if imports are cut again—are of immediate and vital significance to trade unionists.

It is impossible to avoid the conclusion that an appreciable increase in the cost of our exports at the present time might have the most serious consequences for our standard of living. Rises in the cost of our exports could in themselves price Britain out of world markets: this factor is largely within our control—and to some extent within the control of the Trade Union Movement.

Opposition to Bank Rate

To achieve expansion of production and exports there will have to be a further transfer of manpower and materials between industries. This will not be easy, particularly as there is still a shortage of certain materials, notably steel, although steel supplies may be expected to improve later this year. In any case the Government should maintain or re-introduce such direct controls as are necessary to allocate scarce materials where they are most needed, and to prevent profit being made out of shortages. It may well be necessary also to tighten up controls over the proportion of production for export in some sections of industry.

In our statement on the Budget we expressed our opposition to the use of the Bank Rate for reducing demand for scarce resources. We based this opposition upon the fact that such devices cannot be used finely to distinguish between essential and inessential industries. We see no reason to alter our attitude, and are convinced that the only significant result of extending such measures would be to depress further those industries such as textiles whose position will be difficult enough in any case. Rising unemployment is not conducive to increasing output in industry generally, and we believe the emphasis must be on more selective methods of controlling the economy.

In the longer run the fight for increased industrial efficiency turns very much upon the achievement of a much higher rate of investment in our industries than at present. This is clear when it is realised that this year in the U.S.A. gross investment in equipment per head of the workers employed in manufacturing is expected to be about six times that in Britain.

Wage Machinery Must Stay

It is, however, our immediate problems which loom largest. We face the danger today that higher costs may so force up the prices of our exports as to make them unsaleable.

This does not imply that a solution is to be sought at the expense of the accepted methods of wage determination. Any attempt at interference with existing machinery would threaten the foundations of industrial peace, and therewith the hope of continued national recovery. Nor does it follow when the prices of the necessities of life are rising,

that wage-earners and particularly those whose incomes are not high enough to enable them to make ends meet, are not justified in seeking wage increases.

Action by trade unions alone cannot solve the country's problems. *We insist that the Government, and all sections of the community, shall shoulder their share of responsibility for promoting national recovery.* Of fundamental importance in this respect is the restoration of reasonable stability in the domestic price level, for upon this will depend the ability of working people to make a full contribution to a solution of our difficulties. We are bound to repeat what we said in our statement on the Budget: in cutting the food subsidies and giving, by income tax reliefs, substantial financial benefits to people on higher incomes, the Government went a long way towards frustrating any attempt to escape the upward race between prices and wages which it is so essential to avoid.

In conclusion, however, the General Council must emphasise that trade unionists cannot contract out of the difficulties facing the community. These dangers threaten everyone. The Trade Union Movement has a vital responsibility to ensure that by its own actions it does not worsen an already precarious position.

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Other Points from the T.U.C. Report

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Problem Child: Distribution. Information about the distributive trades is still incomplete, but available facts support the view that the structure of these trades is inefficient. Distribution is too costly, and absorbs too large a proportion of the nation's manpower.

But there can be no uniform approach to securing a more efficient and less costly system; distribution has such a diverse character. Three main lines of action are however put forward. They are not alternatives, since they could to some extent be used in conjunction:—

1. Bringing some sectors under public ownership or control. This is likely to be most appropriate in trades where the product is standardised. In the case of perishable goods, distribution requires considerable co-ordination, and a system of public control would be immediately preferable to private enterprise. It is likely that the whole range of agricultural distribution is suitable for varying degrees of public ownership or control.

2. Leaving most sectors in private ownership, but with public control over wholesale channels and retail outlets. Licensing is suggested, but whatever results this might have in reducing the number of outlets might easily be offset by the lessening of competition among existing retailers. Moreover, it might well prevent the development of new and more efficient forms of trading and hinder the expansion of the Co-operative Movement. Licensing of wholesalers, on the other hand, is suggested as a means of eliminating those middlemen who perform no useful function. More detailed investigation is necessary.

3. Leaving most sectors in private hands with free entry, and pro-

moting competition among distributors by preventing restrictive agreements. (The T.U.C. attitude to resale price maintenance, expressed in a statement in November, 1951, is that resale price maintenance itself could have stabilising effects, but that collective sanctions to enforce resale rules were contrary to public interest; the Lloyd Jacob Committee's report was therefore in effect endorsed in many ways.)

One method of securing cheaper distribution which is being tried out is the self-service store, but it is unlikely that this system will extend beyond the grocery trade. A public enquiry might be made into this and other ways of improving the organisation of shops.

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Problem Tax: Capital Gains. Under the present tax law capital gains or profits from transactions which are not part of the ordinary business of the person making them are not liable to tax, so that some people enjoy what is in effect tax-free income. In their evidence to the Royal Commission the General Council argued that such gains should be taxed for two main reasons: first, because they are frequently derived not from productive effort but from playing the market, and, second, because the rewards gained from speculation are likely to add to the pressure of inflation.

The General Council urged, therefore, that a capital gains tax should be introduced. This should fall more heavily on gains from the sale of assets held for a short time than on gains from the sale of assets held for a long period, so as to discourage the speculative buying of shares, property and other assets with a view to a quick sale. Gains from lotteries, betting and gaming, they suggested, should be treated as short-term capital gains, and taxed at the heavier rate. It should be permissible to carry forward net annual losses for a limited period and set them off against subsequent years' capital gains. The General Council also suggested that from an administrative point of view it would be desirable to fix a minimum level below which net capital gains would not be taxable.

The General Council also reaffirmed in their evidence to the Royal Commission on Taxation their conclusion that the Pay As You Earn system of collection should be broadly maintained, as the least objectionable alternative.

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President Says: Government Makes It Difficult

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Lest there should be any doubt about our position in regard to the present Government I would make it clear that the General Council strongly holds the view that the maintenance of its national and international policy has been made extremely difficult by the actions of this Government.

In the industrial, social and financial spheres we feel they have made incredible blunders, errors of judgment and mistakes. If, as a result of Government financial policy, increases take place in the cost of living, then we must be free to ask for, and obtain, that consideration which is necessary as a consequence of that policy. Congress is not, however, a political forum: what can and must be said against the Gov-

ernment will be dealt with in another place. As trade unionists, we must think about our own affairs; consider our own methods, and take those steps which are necessary to protect and improve our standards of life and conserve the resources of our country.

Mr. Arthur Deakin, Presidential Address, September 1, 1952

Footnote: On September 4, 1952, the Congress debated wages and the cost of living. It approved the General Council's restraint policy by 6,856,000 votes to 504,000; a resolution opposing the Government's economic policy and sanctioning "justifiable" claims had a majority of 7,732,000.

Wage Increases and £ Up-Valuation

BY PROFESSOR R. G. HAWTREY (Chatham House)

THE argument that a general rise in wages causes a general rise in prices, and leaves the wage earner where he was before, pre-supposes that the wage-level, the price-level, the supply of money and the rates of exchange start in due relation to one another. At the present time that condition is not fulfilled.

The supply of money is still in excess. The country has neither extinguished nor assimilated the redundant money created by wartime finance. Redundant money causes excess spending, which overloads industry with orders and attracts excess imports. From the over-employment of industry there result delays in delivery of goods, which put British exporters at a disadvantage, and also the intensified demand for labour, which leads to incessant demands for higher wages.

How is a limit to be found to the rise of wages? By what standard can wages in terms of money be judged either too high or too low?

Limits to Wage Rises

There are two limits: the flow of money permitted by the credit system; and the rates of exchange. If, when wages rise, the banks do not allow a sufficient expansion of credit to support the corresponding price-level, production becomes unprofitable, and unemployment results. If the wage-level is such that costs, reckoned in foreign money units at existing rates of exchange, make world prices unremunerative, the export trade is destroyed.

How then do these limits stand now? We have a tentative tightening of credit, but it has as yet made no impression on the redundant volume of money. And as to rates of exchange, the result of devaluation has been that our exports, far from being too costly, are being sold too cheap.

It is a mistake to suppose that the margin which devaluation allowed for possible increases of wages and costs has been absorbed. The in-

From Letter to The Times, London, August 25, 1952

creases of British wages since 1949 have been no more than proportional to the increases in American wages. In fact, the absorption of the margin has not begun, and the increases of wages now pending are no more than a first instalment of that general increase in costs of the main body of British exports which is destined ultimately to restore the terms of trade.

High Costs not the Problem

So long as the existing rates of exchange remain, such highly desirable measures as reductions of subsidies and of other governmental expenditure, increases of taxation, and restriction of credit and investment, will not prevent the rise of wages and prices. Official and ministerial disapproval of demands for increased wages seems to be due to a persistence of the belief that devaluation was necessitated by excessive costs of British exports. But had excessive costs been the source of trouble, devaluation would have cured it.

The real difficulty, the over-employment of British industry, and resulting delays in delivery of goods, has actually been aggravated by devaluation. A rise in costs would be a corrective. How much better if the rise were summarily effected by an up-valuation of the pound, than by a long-drawn-out rise of wages and cost of living!

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SNAPSHOTS

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Federal, State and local taxes in the UNITED STATES in the fiscal year 1951 were $412 per head of population; estimated total taxes in the fiscal year 1952 are $87,000 million, which would be about $570 per head. It is also estimated that the total food bill for the nation in 1952 will be about $60,000 million, excluding drink and tobacco. Taxes are therefore about 145 per cent of food spending.

The distribution of occupations in ISRAEL is a cause of her economic unbalance. Of all employed persons there, 46.1 per cent are engaged in public and other services, trade and finance and the professions (37.6 per cent in Britain, 39.1 per cent in the U.S.A.). The economy is not highly developed enough in the industrial and agricultural sectors to support this proportion of "overheads". The farms and factories are short of skilled workers, while one four-page daily newspaper has a full-time editorial staff of 45 persons.

In GERMANY, "Buna" rubber, a synthetic based on coal, has had a chequered production history. It was produced up to 1948, when coal stocks became low. Production was begun again in November, 1951, when natural rubber sold for 5 DM a kilogram and "Buna" could be sold for 4.60 DM. Now, however, natural rubber has come down to 3 DM; "Buna" manufacturers are therefore being subsidised from a compulsory levy on rubber importers.

The state trading organisation in ARGENTINA, the I.A.P.I., handles 70 per cent of the country's total exports, the commodities dealt with including most of the grain, vegetable oils, meat and hides. In 1951 it made a profit of 97 million pesos (£7 million).

Exporters in GREECE are subsidised by receiving licences to import non-essential or luxury goods. These licences are negotiable and command premiums of up to 173 per cent. Similar schemes are reported from Japan and Denmark, where exporters to the dollar area are particularly favoured.

Statistics — Handle With Care

There is much humbug, says the National Bank of Egypt, in the two statistical hobbies of modern times—the national income and the balance of payments

SINCE there now exists some kind of exchange control in practically all countries, some materials for the compilation of balance of payments are available, and the figures may not be so misleading as they used to be. But even in this field misjudgments and mis-statements may sometimes take enormous dimensions.

To take one example. In the United Kingdom General Balance of Payments there is an item on the credits (receipts) side called "interest, profits and dividends." Normally, this will be taken to be the gross inflow of funds into the U.K. from British capital invested abroad and from international commercial activities of U.K. residents. This at least is the impression of any reader of newspaper reports on the subject.

In fact this item "excludes overseas earnings of U.K. insurance, shipping, and oil companies," in other words—some major components. These latter earnings are not shown at all, but are included under "other (net)," which "covers all other current transactions, e.g. the overseas transactions of U.K. oil companies, insurance, civil aviation, royalties, commissions, banking and other services. It also includes sales of gold at home for industrial use (!), disbursements in the U.K. of international organisations, net current transactions of the U.K. Dominion Wool Disposals Ltd., and an allowance for profits accruing from abroad to U.K. merchants. Net remittances in respect of films are also included."

Thus the balance of payments gives an intentionally wrong idea of U.K. income from capital investments abroad, and is actually devised to conceal this income.

Figure Fantasia

Those countries whose balance of payments statistics on the "visible" part are based on statistics of external trade, are actually at the mercy of the flight of fantasy of statisticians. To comply with the instructions of the International Monetary Fund, they must adjust the Customs data to the actual moment of the transfer of property rights from exporters to importers, a task which, if performed conscientiously, would require a statistical office of the same dimensions as that of the Customs. They have further to adjust the imports to F.O.B. basis (another enormous statistical task), and to make further adjustments for wrong value declarations, for wrong customs evaluations, and (of course) for contraband.

It goes without saying that all these adjustments (and many others) are made on the basis of approximate coefficients, but the result eventually parades in some official yearbook with at least four or five significant figures of which the first may

From Economic Bulletin, National Bank of Egypt, Cairo, Vol. V, No. 2, 1952

be by chance correct. Then, the balance of payments experts would proceed to compare the compilations for different countries and draw conclusions for a planetary monetary and economic policy.

The fantasies in the balance of payments compiled according to the model international instructions go by themselves quite unpunished—the results of the "current" part are made to balance in the "investment and financing" part, where imagination and invention are forced to reign supreme, and of which the only check is that the net balance must equal the "current" result with opposite sign.

Countries with well developed exchange control statistics can fare slightly better, and may produce quite intelligible and correct results, provided the statisticians stick to their guns and do not allow themselves to be lured into the world of imagination, estimates and guesses, and restrict themselves to the summarising of official transactions which, of course, can be checked by the existing foreign exchange balances at the beginning and the end of the period.

A much more foggy subject is the "national income" which some economists consider the only true guidance in problems of "dynamics."

Since there can hardly be any planning without national income estimates, we witnessed at the heyday of British planning some courageous patterns to which the economy had to conform. Because of bitter disappointments the plans faded into "targets," which the events normally by-passed by great margins. The peculiarity of British estimates appears to be that they are living things and you will be surprised to see all the figures of past and the "fulfilled" estimates changing their stature every year, sometimes very radically. We give only one set of comparisons for 1948, as shown in different White papers:—

PERSONAL SAVINGS IN 1948

		£ million
Cmd	7649	220
„	7933	409
„	8203	317
„	8486	26

We do not wish to discourage anybody from undertaking and perfecting such compilations. They may prove useful and stimulating. But everybody should be warned to consider them with a proper margin of error. For our part, we still consider a few old-fashioned and well established figures on trade, production and banking to be a better guide on economic trends than are the modern quarterly estimates of national income which carry a margin of error well beyond their actual fluctuations.

Footnote: A Committee of the Royal Statistical Society has just reported on the Teaching of Statistics in Schools (Journal of the Royal Statistical Society, Series A, Vol. CXV, Part 1, 1952). Considering the welter of figures, tables and charts that are presented to the ordinary reader today, the Committee thinks that statistics should play a greater part in curricula, if only as a warning—"The statistician is taught, and the citizen also should learn, to appraise figures critically, to appreciate their fallibility and limitations, and in particular to consider the effects of the errors with which such figures measure things." Examples are given of statistical errors. The Report will be of value to mathematics and economics teachers.

American Consumer Market, 1951-52

Production back to 1947-49 level—Consumers "had enough" of high prices—More cash-on-the-nail buying

1. *Output of Consumer Goods*

PRODUCTION of consumer durable goods has been stable since mid-1951, when levels of output were reduced from over 160% of the 1947-49 average to just about 100%. In other words, the picture of durable production is of a steep-sided hump between June, 1949, and June, 1951; production has now settled back to what it was three years ago.

Output of passenger cars reduced more slowly during the first half of 1951 than did that of household durables and gadgets. Since about March, 1952, however, both categories have touched bottom and are levelling off, with a tendency for car-output to rise. The steel strike did not affect the car industry quite as much as feared, and production at an annual rate of 4.8 million units is being kept up (the boom of 1950 resulted in production of 6.7 million units).

The suspension of instalment credit controls on May 7, 1952, has strengthened demand for cars particularly, but stocks of television sets and like articles are still slow-moving. With the rising volume of new housing, movement through the durable-goods pipeline is expected to speed up again this autumn.

Production of non-durables, such as manufactured foods, actually continued to rise during most of 1951, only tailing off slowly from 115 per cent of the 1947-49 average in June, 1951, to about 110 per cent of that average in May, 1952. As is to be expected, demand for these goods is less elastic taken as a whole.

When non-durables are treated as separate groups, however, it is seen that there has been a considerable decline in output in textile, leather, paper and rubber products; here the Spring, 1952, output was well below that of 1947-49. In these industries, exceptionally high stocks had been accumulated during the boom of June, 1949—June, 1951. It is noted, however, that during May, 1952, the high textile stocks were dropping to economic levels, and production was beginning to pick up again.

The chemical industries producing for the consumer market have shown only slight decreases from the high point of Autumn, 1951; chemicals for rayon and paper have been less in demand, but offsetting this has been a continued expansion in chemicals for popular pharmaceuticals and the like. Food, tobacco, printing and publishing industries have also experienced a sustained demand right through from 1949.

2. *Spending of Consumers*

Although consumer spending continued high during 1951, it was somewhat lower in relation to income than in other post-war years;

From Federal Reserve Bulletin, Washington, June and July, 1952

real wages rose faster than real spending. Consumers had record stocks of durable goods by mid-1952, and the feeling among most consumers was that conditions were not favourable for purchases of the larger articles, prices being "too high to provide good value."

A survey of consumers' expectations carried out by the Federal Reserve Board in 1952 revealed that consumers generally expected prices to rise further over this current year; buying resistance was exemplified in a larger proportion of the consuming public, who were investing in risk-securities as a hedge against inflation.

Six out of ten respondents to the survey questionnaire expressed a feeling that 1952 would be a bad year to buy durable goods like cars and washing machines. Yet at the same time most people expected their incomes to increase; the fear was that the rise in income would not compensate for the new price-level, owing to expected shortages in raw materials.

3. *Hire-Purchase Trends*

For the first time since 1945, instalment sales at retail stores declined during 1951. Cash sales increased by about 6 per cent, "charge-account" sales by about 7 per cent, over the previous year.

The physical volume of retail sales through all media declined during 1951, although continued high prices resulted in a higher money volume.

The percentage of *cash* sales to total rose from 65 per cent in 1939 to a peak of 78 per cent in 1945. There has since been a slow decline down to 1950, with a rise again to 69 per cent of total (still higher than pre-war) in 1951.

U.S. RETAIL SALES

(Thousand million dollars)

	Total	Cash	Charge	Instalment
1939	42.0	27.2	9.9	4.9
1945	78.0	61.2	13.8	3.0
1948	130.5	93.2	25.7	11.6
1949	130.7	91.6	24.8	14.3
1950	143.7	98.0	27.4	18.3
1951	150.6	103.7	29.2	17.7

The percentage of *charge-account* sales to total was 23 per cent in 1939; it has declined in importance more or less steadily down to 1949, and remains in 1951 at about 19 per cent of total.

The percentage of *instalment* sales to total was 12 per cent (i.e. 12 cents in the dollar) in 1939; a considerable decline in the importance of this kind of credit occurred during the war years, reaching nadir in 1944-45 at 4 cents in the dollar. Peak year was 1950 with 13 cents in the dollar, there being a slight decline to 12 cents in every dollar of total retail sales in 1951.

Instalment sales dropped heaviest during 1951 in the household-appliance trade. Drops were also heavy in tyres and car accessories bought on instalment-credit. In the furniture trade, where hire-purchase accounts for 63 per cent of all sales, the decline in relative importance of instalment-credit was of the nature of 3 per cent:

Footnotes: The U.S. Department of Labour survey of family expenditure, published on August 19, 1952, showed that average expenditure in 1950 was $4,700 per family: 30 per cent was spent on food and drink, 52 per cent on cars and other durables.

Consumer Spending in the U.K.

WITH a very different and much bigger section of the public now doing so much of the spending many important changes have taken place. Personal expenditure on consumer goods has more than doubled since the outbreak of war, but of greater interest are variations in the composition of this spending. Food has kept fairly well in line with the trend of total expenditure. Charges such as rent, rates, water, fuel and light are only about one and three-quarters up. Just under two and a half times more is spent on clothes and household goods, but against these changes the outlay on drink, tobacco and entertainments is three and a half times greater. If to this amount spent on pleasure is also added a figure for private motoring, holiday travel and miscellaneous semi-luxury domestic expenditure, we find that these outgoings are annually costing the nation more than £3,000 millions.

To spend so much more of our inflated income in such a carefree way establishes the fact that those now responsible for most of the spending are swayed by different impulses than were those who had the biggest say in pre-war spending.

Now there is nothing fundamentally wrong in making more provision for entertainment or for relief from drudgery in the home. But if the proportion of total spendings on durable and semi-durable goods is so greatly increased, much less is available for "soft" consumer goods. That was made clear enough last year when the public so capriciously switched their spending from textiles and clothing to expensive domestic furnishings and appliances. The subsequent credit restrictions and increased purchase tax have sharply curbed these sales, but not before bringing home to us the fact that pockets are not deep enough to sustain spending on "hard" and "soft" consumer goods at one and the same time.

Future Course of Spending

Can we deduce from this that a restraint on selling in one group will lead to a spending spree in the other? The recent signs of an improvement in the sale of textiles might bear this out. On the other hand a lack of ready money is implied by the fact that hire purchase restrictions, involving initial deposits and larger instalments, rather than increased purchase tax are said to have narrowed the home market for domestic equipment. A shortage of cash would also explain why only cheap appliances seem to be selling in any quantity. It may of course be argued that the latest wage concessions will add to purchasing power, but this is largely countered by the increasing cost of food. That the public are, in fact, living up to and even beyond their means might well be judged by the persistent dissaving recorded in the figures of the National Savings Movement.

From "Changing Habits," District Bank Review, Manchester, September, 1952

When it comes to spending on "soft" consumer goods the restrained spending of the public has been revealed in two ways. First by the fact that sales of merchandise such as clothing and household goods lag behind prices. Secondly by the fact that the levelling of incomes has been to the disadvantage of the small trader and departmental stores and to the advantage of the multiple shops which supply goods in the middle price ranges.

This would seem to imply that, although middle class folk may still instinctively hanker after better quality goods, these are beyond their pockets and they are forced to accept lower standards. Wage earners, for their part, now doing more hand to mouth buying yet prone to tire quickly of their purchases and to change and change about, tend towards cheaper merchandise.

It would therefore seem that the weight of the purse has established an order of spending on "soft" consumer goods which is quite out of touch with old standards. It is perhaps also as well to bear in mind that these standards have changed and will continue to change for less obvious but equally telling reasons such as an aging population, a tendency towards smaller families and a preference for smaller houses.

What still remains to be seen is the reaction of the public to any noticeable contraction of its spending power.

British Consumer Prices, January-June, 1952

Food prices in the U.K. rose 8.5 per cent from January 15, 1952, to July 15, 1952. Biggest rises were in bread and cakes, 13 per cent; vegetables and fruit, 14 per cent; tea and sugar, 11 per cent; meat and fish, 9 per cent. Rent and rates rose only 2.6 per cent. Fuel and light rose 1 per cent, and miscellaneous household goods like soap and books, travel and entertainment rose about 3 per cent. Declines were registered in household durables (1.8 per cent lower) and clothing (3 per cent lower). Floor coverings, drapery and soft furnishing prices dropped 8 per cent; underclothing dropped over 5 per cent; footwear dropped 4 per cent. Children's clothing showed most resistance to the fall in prices —its price remained about the same.

Ministry of Labour Gazette, London, August, 1952

U.K. Prices—What Next?

Since January, wage rates have risen 1½ per cent and raw materials costs have been falling steadily. The wholesale price index for basic non-food materials has fallen 12 per cent since January and in June it was about two-thirds of the way back to its pre-Korean level. Apart from copper and steel, the prices of each of the important raw materials are also well below last year's peaks. Although this downward movement may be reversed, decreases which have already taken place should help to keep retail prices steady for some months.

If labour costs remain unchanged, cheaper materials will probably lead

to a further fall in prices of clothing and other manufactured goods, which together take about 20 per cent of the money spent by wage-earners.

Lower prices for manufactured goods may, however, be partly offset by a rise in fares and in electricity charges for these would seem to be exceptions to the general rule that increases in costs in 1951 have been fully reflected in 1952 selling prices.

Prices of other goods and services could, if wages were unchanged, reasonably be expected to remain stable for several months. Coal prices cover existing costs of production; Gas Boards generally have put up prices to take account of the rise in coal and transport prices at the end of 1951. Beer prices were raised by an average of about 1d. a pint in May, 1951, to take account of increases in costs; some costs have risen since then, but barley prices have fallen by about 10 per cent. Tobacco and whisky prices rose by 2 and 5 per cent in the last eighteen months but it does not seem likely that they will need to rise in the near future. Rents are also fairly stable as about three-quarters of them are covered by the Rent Restrictions Act.

Bulletin for Industry, H.M. Treasury, August, 1952

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SNAPSHOTS

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AUSTRALIA'S balance of payments on current account deteriorated by £A670 million in the period 1950—1952, largely accounted for by the decrease in wool exports. The deterioration was shared: Sterling Area, £A240 million; Dollar Area, £A156 million; OEEC Countries, £A190 million; other non-sterling countries, £A84 million. The U.K. share was £A226 million.

Meat killings in NEW ZEALAND between October, 1951, and August, 1952, totalled 327,405 tons, as against 228,557 in the previous season. This is a rise of 43 per cent.

One of the largest industrial projects undertaken in SOUTH AFRICA is a £3½ million paper mill at Mandeni, seventy miles north of Durban, Natal. Some 600 employees will be required, for whom a new township is being built. When in full production, the mill will produce sufficient to make the Union largely self-supporting in paper, except newsprint.

New limited companies registered in GREAT BRITAIN up to July, 1952, were at the rate of 12,870 for the full year, as against 13,356 for the whole of 1951. Nominal capital was at the rate of £55 million up to July, 1952, a considerable fall from £95 million in 1951. New capital issues for quoted companies in the U.K., according to Midland Bank compilation, totalled £277,812,000 for the period January-August, 1952—total new capital for the whole of 1951 was less than this, at £251,990,000.

In first six months of 1952, 65,000 Americans visited BRITAIN, nearly half coming by air. In 1951 Britain's income from American tourists was £26 million —twice as much as from shipments of cars, and one-fifth of all physical exports to the U.S.

Sources include National City Bank of New York; News From South Africa, Pretoria; N.Z. News Bulletin, Wellington; Board of Trade Journal, London; Financial Times, London; Bank of the Manhattan Company, New York; Petroleum Press Service, London; Central Bureau of Statistics, Tel Aviv.

Verdicts of the London and Cambridge Service

U.K. Industrial Change-Over Too Slow

The basic problem which confronts the United Kingdom is still to transfer a considerable part of its productive resources to serve different end-uses from those which they have been serving in the past.

The main objectives are still increased production of armaments, increased production and marketing of goods which can be sold for currencies other than sterling, and increased production of food and other goods which reduce the need for imports.

On the whole, the movements which have taken place during the past few months have been in the right direction, but their pace has generally been inadequate.

Wage-Pressure Bound to be Self-Defeating

Measures to reduce aggregate demand might help to reduce the ever-threatening danger of cost-inflation, of which the main symbol is the list of major wage-claims which are in various stages of negotiation. The solution of this problem must, however, largely be found by "political" methods, since it involves pseudo-monopolistic bargaining and price-fixing.

The economic facts are fairly clear: the total product of the country is approximately stationary in real terms, and more of it must be used than in 1951 for reducing the adverse balance of payments, and for defence. Some relief is to be secured by reducing investment, and more might be obtained, with less serious consequences to industrial progress, if the expansion of house-building were reversed.

But it is most improbable that real consumption can be maintained at the 1951 level—or rather, it can only be maintained if output rises in a most improbable way, or our other objectives are sacrificed. Hence a general attempt to make wage-rates and other forms of remuneration "keep pace with the cost of living"—let alone rise far ahead of it—is bound to be self-defeating.

Govt. Borrowing from Banks Keeps up £ Pressure

There seems to be a serious danger that the Government's policy of tighter money and disinflation through decreased loans to non-official borrowers may be frustrated by the inflationary effects of its own increased borrowing from the banks.

The firmer trend in security markets in recent weeks may be a symptom of this involuntary relaxation of monetary stringency. Even if the Exchequer deficit is wiped out by the end of the financial year, the abnormally large seasonal deficit may well mean a temporary relaxation in monetary pressure just at the time when our international solvency is most in jeopardy. Failing a check to the rise in Government expenditure both above and below the line,

From London and Cambridge Economic Service Bulletin 3. September, 1952, inset in The Times Review of Industry, London, September, 1952

the Government should seriously consider the issue of a substantial funding loan on terms sufficiently attractive for the public and not only for banks and Government departments, regardless of its effects on security markets and on the long-term rate of interest.

ALSO WORTH READING in this latest Bulletin of the London and Cambridge service are: "The Real Product of the United Kingdom, 1946-51," by A. A. Adams and W. B. Reddaway, in which the latest calculations show that in 1951 there was a rise of only 1 per cent over 1950 in real terms, as against rises of about 4 per cent during 1950 and 1949. "Earnings and Wage-Rates since 1938," by G. Penrice, compares pre- and post-war figures in great detail, analysing the causes of the much greater rise in earnings since pre-war than in wage-rates (to the end of 1951, earnings had risen 265 per cent, rates only 196 per cent). This despite the fact that hours worked have declined.

Married Women in U.K. Industry

It is estimated that as at the end of May, 1951, there were about three million married women in employment in Britain, which was about 43 per cent of the total of women employees. An analysis of the age-groups of employed women shows that between the ages of 30 and 50, over 60 per cent of the total force are married:—

Age Group	Per cent of women workers married	Total of women workers (Thousands)
Under 20 ...	2	1,209
20-24	28	1,137
25-29	53	778
30-34	62	632
35-39	65	673
40-44	66	729
45-49	62	679
50-54	56	554
55-59	44	411
60 and over ...	32	283

The picture of female employment to be drawn from this table is as follows: Large numbers of young women between 20 and 25 retire from work on marriage, and many of them no doubt remain in retirement while their children are young. Later on, as the children reach school age, large numbers return into the employment field.

It must be remembered that many women are over 30 when they are married, and the ratio of married women aged 40 to total of women of that age is high—much higher than the corresponding ratio for the age 25. After the age of 50, the proportion of married women among employed women falls steadily, one reason no doubt being the increasing difficulty of doing a day's work as well as running a home.

Compared with 1950, the total number of married women at work increased by 200,000; this increase was spread over all age-groups, with an increase of 80,000 in the group 40 to 50.

These married women are employed chiefly in textiles (290,000), distributive trades (373,000), professional services (338,000, of which 164,000 are in teaching), and miscellaneous services like theatres and cinemas, catering and hotels, domestic service and laundries (568,000 in all, with 129,000 in domestic service and 270,000 in restaurants and hotels).

From Ministry of Labour Gazette, London, August, 1952

WORLD Notebook

Russia's Fifth Five-Year Plan

THE first and second Five-Year Plans (1928-37) were devoted almost exclusively to building up basic industry. Many of the gains made were wiped out in the Second World War, when the third Plan (1938-42) supplemented by a "mobilisation economy" was in effect. During the fourth Plan (1946-50) Russia recouped most of its war losses.

The fifth Plan (1951-55, but actually formulated only in 1952) emphasises once more an increase in output of steel, coal, oil, power, heavy machinery and tools. The planned increase in steel is to 44,700,000 tons (13 million tons more than the 1951 output). Oil output is planned at 75 million tons in 1955, as against 42 million tons in 1951. Electric power production is to be raised to 162,000 million kW. as against 102,600 million kW. in 1951. Coal output in 1951 was 285 million tons, and this is to be raised by 1955 to 375 million tons.

Cement production, always a concomitant of industrial progress, is planned at 120 per cent above 1950 level, with smaller planned increases for synthetic rubber and mineral fertilisers.

The new agricultural programme calls for a 40 to 50 per cent increase in grain production; slightly larger expansions are planned for sugar beet and cotton. Cattle production is expected to reach a level of 20 per cent above 1950 (67 or 68 million head as against 57 million).

The Baltic States are mentioned in particular in the Plan. Special development of agriculture and industry is planned for Latvia, Lithuania and Estonia.

The mighty force of Socialist competition, the unanimous desire of the workers, collective farmers and intelligentzia to defend the cause of peace, must be directed to the fulfilment and surpassing of the new Five-Year Plan. The people of the Soviet Union will successfully fulfil the new Five-Year Plan.

From Broadcast from Moscow, August 21, 1952

(Full text of a translation of the Plan is available on loan. See the "For Reference" section on a later page of this issue.)

Roaring Inflation in Alaska

RIDING the crest of a wave of unusual prosperity, the Territory of Alaska is also suffering from an enlarged case of all the inflation ills currently plaguing the Continental United States.

Some $250 million in defence construction works are scheduled to be awarded in contracts in the coming year. It is hoped that recent labour troubles, shipping strikes and mushrooming prices do not cripple this programme.

Hardest hit by the rising prices are the white-collar civil service and military men who form a larger percentage of the Alaskan population

than is generally believed. To the casual observer, the crazy quilt of prices makes little sense; the usual explanation "It's the freight charges" doesn't seem to apply to such items as haircuts at $2.50 a head. Many staple items like clothing, drugs and hardware, it is true, go at prices little above those in the Western states. By far the largest slice out of the pay cheque goes in housing; Alaskans go on waiting lists to pay from $125 to $175 for a one-bedroom unit.

Despite the increasing payrolls among the construction artisans, business failures are at a higher rate than in the U.S.A. Much of the blame for this is laid to inexperience by business operators, and failure to realise that it is getting harder and harder to start a business on a shoestring. On the other hand, the territorial government's finances are in good shape. Income tax and other tax reforms have shortened the period during which Alaska will be dependent on Federal support. For the first time in years, Alaska has paid all its State bills and has a surplus of $2,000,000 in the treasury.

Robert G. Knox, in New York Times, September 1, 1952

Yugoslavia Frees Agriculture, Trade

THE Yugoslav Government has recently adopted various measures which are regarded as further steps towards the development of a new economic system. One characteristic of the new policy is the progressive relaxation of economic controls, as far as this is possible in the Yugoslav economy which is based essentially on public ownership of the means of production.

The Government has abolished allocation controls for industrial materials and mining products, with the exception of gold and silver. The removal of price controls in the industrial sector, however, is not complete.

In agriculture, the Government had initiated in August, 1951, a more liberal policy with respect to compulsory deliveries of farm products to the Government at low controlled prices. The list of farm products subject to compulsory deliveries was then greatly reduced. Compulsory deliveries of grains (wheat, rye, corn, oats and barley) were abolished on June 30. Agricultural producers are now able to dispose of all grains and other farm products, except wool, at current free market prices; and even for wool the fixed price paid to producers by the Government for compulsory deliveries is said to have approached the wool price quoted on the free market.

The issue of coupons which farmers used to receive as part of their compensation for their deliveries to the Government, which entitled them to a 65 per cent reduction on prices of industrial goods, has been discontinued. As a result of all these measures, food prices on the free market have been about 50 per cent, and retail prices about a third, below prices of a year ago.

The relaxation of administrative controls is being extended to foreign trade. It is reported that, as of July 1, the state foreign trade organisations lost their monopolistic position, and authorised economic enterprises in Yugoslavia may carry out export and import transactions. The licence requirements for practically all exports and for most imports have been abolished. Exporters are

given the right to use part of their export proceeds for their own imports, and are permitted to sell their "retained" exchange to other importers on the "free" foreign exchange market.

Les Nouvelles Yougoslaves, Paris, June 21, 1952, and Neue Zuericher Zeitung, Zuerich, July 2, 1952

Norway Raises Wages—a Little

In various branches of the Norwegian economy, as in many other countries, the signs of a recession in trade are becoming more and more distinct, although activities are still on a high level.

Generally speaking, the situation is still one of full employment. The number of applicants for work has increased from 3,440 in June, 1951, to 4,081 in June, 1952, but unemployment is still insignificant. Between June, 1951, and June, 1952, the index of production increased from 153.2 to 154.1 (1938 = 100). Those industries producing for the home market showed a slight rise from 162.7 to 164.2, while the index of export industries showed a slight decline. Consumer-goods industries dropped rather more heavily, from 156 to 152.8.

Greatest increases over this period were in mining and metal extraction and the chemical industries. A heavy drop occurred in pulp, cellulose and paper. Textile and shoe industries are also declining.

The wholesale price index on July 15, 1952, was 278.3 (1938 = 100); the minimum for this year was in May at 269.3. There has been a slow rise in the cost-of-living index during the whole of the first half of 1952, and on May 15 the so-called "deadline" of 130.8 (1949 = 100) was reached. In accordance with official agreements with the Federation of Trade Unions, negotiations were opened and agreement reached on a temporary cost-of-living allowance of 10 ore per hour (100 ore = 1 shilling stg.) in addition to allowances previously granted.

There is also an agreement between the Government and the agricultural organisations that when wages rise or fall, there should be an adjustment of farm prices. Accordingly, it is now agreed that total earnings of agriculture shall increase by 125-130 million kroner (£6-7 million) before mid-1953; about 80 million kroner of this will come from the budget. Ceiling prices of meat have been abolished, and milk prices have been raised.

Norges Bank Bulletin, Oslo, August, 1952

ECONOMIC RESEARCH COUNCIL

A meeting of the Economic Research Council will be held at 55 Park Lane, London, W.1, on Wednesday, October 1, at 8 o'clock. Mr. Harold Wincott will give "A Straight Talk to Politicians."

On Wednesday, November 5, at 8 o'clock, Mr. Austen Albu, M.P., will talk on "The Organisation and Finance of Industry—Today and Tomorrow."

Non-members who wish to be present are very welcome—would they kindly notify their intention at once to the Secretary, Economic Research Council, 18 South Street, London, W.1, telephone GROsvenor 4581.

MARKETS OF THE WORLD

World trade—by volume—was one-tenth higher in 1951 than in 1950. Prices were also higher, so that world trade by value rose by 37 per cent.

★

All the main areas of the world increased their trade last year, but there were some marked shifts in their shares. The following table sets out these shares by value, including trade between the countries inside the areas:—

	Exports		Imports	
	Value $mn.	As per cent of world trade	Value $mn.	As per cent of world trade
W. Europe (including overseas territories)	21695.3	28	24073.7	32
Sterling Area ...	19365.5	25	20680.8	27
U.K. ...	7571.9	10	9642.3	13
North America	18725.8	25	14104.2	18
U.S.	15016.0	20	10495.8	14
Canada ...	3709.8	5	3608.4	5
Latin America	7877.1	10	7102.0	9
The Rest ...	8678.3	12	8823.2	13

Comparing these figures with 1950, United States exports rose from 18 per cent of world total to 20 per cent; Western Europe's share of exports rose from 27 per cent to 28 per cent; the share of exports of the Sterling Area dropped (27 per cent to 25 per cent) as did that of Latin America (12 per cent to 10 per cent).

★

The United Kingdom took in almost as much in imports as the United States in 1951, but exported only half as much. U.K. imports from the Sterling Area fell relative to total, and those from North America rose; exports moved in the opposite direction—49 per cent to the Sterling Area (46 a year before) and 10.9 per cent to North America (11.4 a year before).

The visible trade balance of the Sterling Area as a whole worsened, imports rising faster than exports.

★

North American trade was at a very high level, although not up to the peak of 1947. Compared with 1950, exports were up 43 per cent (about 24 per cent in volume and 15 per cent in price), and imports only about 25 per cent.

U.S. exports to the Sterling Area rose by 75 per cent in value over 1950, a spectacular increase. About a third of these exports were of machinery and vehicles, and rather less than a third of raw materials.

★

And who supplied the prized North American market? A third of U.S. imports came from Latin America, a fifth from Canada, just under a fifth from the Sterling Area, and a little over a seventh from Western Europe. Western Europe's exports to the U.S. rose by more than 50 per cent in value over 1950. Canadian imports came three-quarters from the U.S., one-tenth from Britain, and one-sixteenth from the O.S.A.

★

The United States and Western Europe both increased their shares of world trade, and it was to these countries that a large part of the Sterling Area gold and dollar reserves flowed. Emergency action has not been taken by Sterling Area and other deficit countries to limit their imports. But the long-term solution must rest on an expansion of exports. Deficit countries can never get into balance if countries with surpluses never let any of them go.

(Latest figures show that U.S. exports are now declining: in July, 1952, they were 20 per cent below 1951 monthly average. U.S. imports are also dropping now: in July, 1952, they were 9 per cent below 1951 monthly average.)

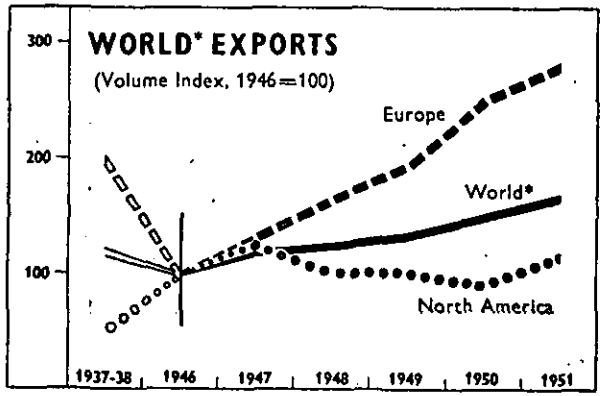
The matter on these pages is from "Bulletin For Industry," published by the Treasury in London, September, 1952, and the block is reproduced by permission from the same source.

Trends in World Trade since the war

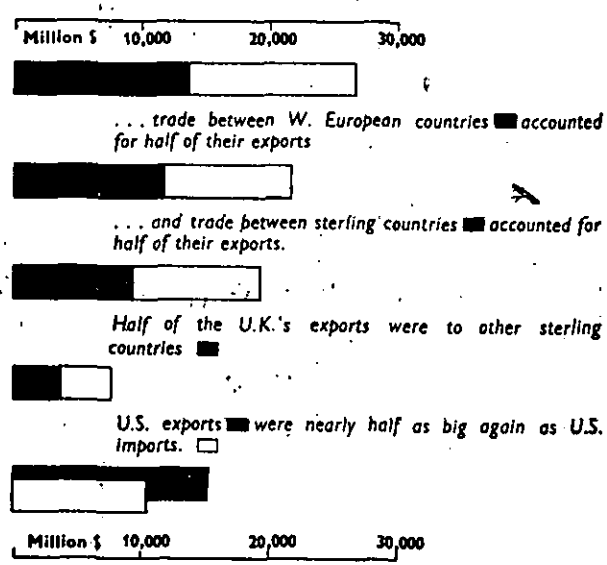
1. The volume of world trade, which fell away sharply during the war, was not back to its 1937-38 level until 1948, since when it has risen steadily to a third higher.

2. North American exports doubled between 1937-38 and 1946 and—despite fluctuations—have tended to stay up.

3. The volume of European exports (including U.K.) fell catastrophically during the war, recovered fully by 1949 and by 1951 was two-fifths above pre-war.



Five Facts About World Trade in 1951



*Excluding Bulgaria, China, Hungary, Roumania, U.S.S.R., and the U.S.S.R. Zone of Germany.

Wages and Taxes in Eastern Germany

Incentives for skill are higher than in Britain; and the income-tax system is "ultra-capitalist"

WORKERS in all Soviet countries are grouped in eight wage categories, number eight comprising the highest skilled workers; number one being reserved for unskilled labour. Early in July workers of the top categories in Eastern Germany woke up one morning to find their personal fortunes surprisingly changed. Workers of the categories seven and eight in the heavy and the armament industries had their wages increased overnight by 50-100 per cent. Those, however, in the wage groups one to four—that is, two-thirds of all workers—received no rise whatsoever.

In the mining industry, for example, as a result of the changeover the average wage of an unskilled labourer was unchanged at 181 marks, while the pay of a highly skilled man rose from 300 marks to 562 marks and that of a foreman was doubled at 900 marks.

In less important industries changes were less drastic, but substantial enough to bring the Eastern German wages scale up to the Russian ratio of 1:3.6 between unskilled and highly skilled labour. With bonuses for Stakhanovites the difference is even greater. In Western Germany the ratio is about 1:1.7 and in Britain about the same.

More Power for Foremen

In the army-like hierarchy of Soviet industry, foremen are also grouped in four categories. Salaries of foremen were increased by as little as 6 per cent for the lowest group in unimportant industries such as leather, fishing and other consumer industries, while top foremen in currency-earning industries, such as potash mining, got their salaries raised by 117.3 per cent. At the same time, foremen were made overseers of the workers with very extensive powers.

These overseers will be responsible in future for:—

(a) the introduction and application of scientific piece rates and progressive piece rates and

(b) the fulfilment of the production plan, with regard to quantity and quality of output, consumption of war material and labour cost. If the foremen have become the junior officers in the Soviet-patterned industry in the Eastern zone of Germany (the so-called brigadiers being the non-coms), scientists, highly skilled technicians and specialists have been raised to a level of material well-being, which in absolute figures bears comparison with capitalist countries and is quite fabulous in relation to the poorer part of the population in Eastern Germany.

Top salaries for outstanding specialists were raised to 15,000 marks per month, which is 110 times more than the monthly wages of the lowest-paid workers. The purchasing

From "East of the Elbe," Financial Times, London, September 3, 1952

power of an East German mark (in case of high income brackets and purchases of high-quality goods) is about one-third of a West German mark, so that East German top salaries equal 5,000 West German marks, or roughly £400 per month.

It is true that the number of people with salaries of 10,000 marks or more has been restricted by law to just 100. At first sight this seems to rob salary figures of their economic significance. The picture changes, however, if taxes are taken into account and the bonuses added to the salaries.

Income-tax Position

Income-tax system in Eastern Germany is ultra-capitalist. In fact, no country outside the Iron Curtain would dare to impose it. Under the tax reform, introduced a year ago, income-tax stops at 20 per cent. The table below shows the difference in income-taxes in Eastern Germany and Western Germany:—

Income per month	East German taxes	West German taxes
Marks	*Marks*	*Marks*
174	6.17	3.00
540	89.10	85.00
900	180.00	226.25
4,000	800.00	1,896.25
15,000	3,000.00	10,295.75

To earn 4,000 marks per month net a West German industrialist would have to earn a gross income of about 14,000 marks, while in East Germany 5,000 marks would do the trick.

Moreover, East German salaries are basic salaries. Bonuses change the picture totally. Total salaries of managers in important factories are arrived at in the following way fulfilment of the annual economic plan both in quantity and quality adds 50 per cent to the salary in the case of very important factories and correspondingly less in minor factories (and, of course, also less in the case of deputy managers, chief accountants, etc.).

Overfulfilment of the plan adds another 12.5 per cent for each per cent of overfulfilment of quotas. Here again the figure decreases according to the importance of the factory and to the rank of the executive. The manager of an important factory who overfulfils the plan and whose taxes amount to only 20 per cent earns more than his opposite number in most capitalist countries.

Lowest Rates

On the other hand, workers in the low-wage groups and in consumer industries earn much less than their colleagues in Britain, or in France. Hourly wages of the lowest categories are: 59 pfennigs in the toy industry, 66 pfennigs in the textile industry, 70 pfennigs for farm hands, 78 pfennigs for unskilled labour in the chemical industries and 80 pfennigs for the lowest-paid railway workers.

In shillings and pence at official rates these wages would amount to 11d. for the toy workers and 1s. 4d. for the railway workers. However, these wage rates are in East German marks. They fetch in the Berlin market only one-quarter of their nominal value and their purchasing power is certainly not more than half of the corresponding amount in £ s. d. even when account is taken of the fact that bare necessities are comparatively lower priced than quality goods.

DEFENCE MOBILIZER EXPRESSES

Fears for U.S. Rearmament Programmes

Plans can just be completed—so long as inflation is held at bay

In voting at the end of June to extend the stabilization provisions of the Defence Production Act for 10 months—until April 30, 1953—the Congress recognized the need for maintaining controls against inflation during the coming months. However, while the Congress gave the stabilization agencies a new mandate to combat inflation, it severely weakened their authority to accomplish that purpose.

In each of the four major fields of stabilization action—prices, wages and salaries, credit, and rent—the Congress amended the Defence Production Act to limit the effectiveness of stabilization.

The new series of amendments, when added to those of last year, amount to a substantial sapping of the strength of the act as it was originally enacted shortly after the invasion of Korea. The act as it now stands still may be strong enough to prevent serious consequences—but only if no heavy inflationary pressures are felt in the next 10 months. In event of a resurgence of heavy pressure, the Government's powers would be woefully inadequate.

In addition, the exemption of certain groups from various controls set up patterns of favouritism as between these groups and those to whom the controls still apply.

Among the main weakening amendments are:—

1. *Price Stabilization.*—The act now exempts all fresh and processed vegetables from price control. Fruits and vegetables account for 20 per cent of the food budget of the average family, and almost 7 per cent of the Consumers Price Index as a whole. In addition, a long series of other amendments exempt particular products and services from price control or provide for higher ceilings.

2. *Credit Control.*—The authority for the Federal Reserve Board to control consumer credit is eliminated, and the authority to control housing credit is virtually eliminated if housing starts fall for three months below a rate of 1,200,000 new houses a year—a rate surpassed only once in the country's history.

3. *Rent Stabilization.*—The act terminated rent control on September 30 except for "critical defence housing areas" and incorporated cities, towns, and villages where local governing bodies declare by resolution that Federal rent control should continue. There are about 6 million rental housing units in the areas where rents will be decontrolled unless action is taken.

4. *Wage and Salary Stabilization.*—The new act removes from

From "The Shield Against Aggression," Report of the Director of Defence Mobilization, Washington, July 1, 1952

the Board the authority it had by executive order to make recommendations for settlement of labour-management disputes affecting the national defence. The amendments also exempt various important categories of employees from wage controls and certain professional groups from salary controls.

The weakness of the Government's authority to protect the interests of the Nation during a national emergency has been put in sharp focus by the steel dispute.

The Government has had two main courses, beyond its regular conciliation and mediation services, in dealing with disputes that affected or threatened to affect defence production during this emergency.

One was to appeal to the parties to continue production while the Wage Stabilization Board handled the case—a procedure which, in the steel case, postponed the stoppage for 99 days after the contract between the companies and the union expired. The other, in cases involving all or a substantial part of an industry, was to obtain a postponement of a stoppage for 80 days by an injunction under the Taft-Hartley Act.

The former of these procedures is now severely restricted by the new amendments to the Defence Production Act against the Board's handling the non-economic issues in disputes. But even prior to this limitation, neither the W.S.B. nor the Taft-Hartley procedure provided the Government with any further recourse to prevent an industrywide shut-down in a key industry after the period of delay obtained under the procedure had expired.

It is true that limited powers have been granted under the Selective Service Act for seizure of plants which fail to meet direct contracts for the military agencies or the Atomic Energy Commission. But these powers are of limited value in an industry-wide dispute and are cumbersome and time consuming in an industry—such as steel—which sells primarily to contractors and sub-contractors rather than to the military services. Nor is this act of any value in preventing loss of materials required for defence-supporting industries such as machine tools, electric power, petroleum, transportation, and so on.

In a national emergency, the lack of authority to keep production going becomes a matter of grave concern. What has happened in steel could happen in other industries equally critical from the standpoint of defence mobilization.

EUROPEAN "BANK" FOR TECHNICAL KNOWLEDGE

A simple system of mutual help that is making the spreading of technical knowledge much less of a "you-give-I-take" affair has been developed by the United Nations in Europe. It is a kind of "bank" for technical assistance, through which a country willing to offer help to another country can in turn draw on its "credit" to give one of its own nationals an opportunity to study or work abroad. The "unit of account" is one week's board and lodging and access to training facilities. Suppose Holland should grant a French social worker a four-week stay in Holland studying the education of handicapped children, then Holland has "deposited" four units of account; Holland could then draw on this to the extent of a fortnight each for two Dutchmen, say, in Italy. The "books" are kept at the Hague.

—*Michael Hoffman, New York Times, August* 24, 1952.

When is a Sovereign Not a Sovereign?

To print one's own bank-notes strikes at the basis of the currency; but what about coining a perfectly good gold piece?

THE Swiss Federal Tribunal has recently had a singular case on its hands. It had to deal with the request for an extradition order from Italy, who wished to try two men for having struck "false" gold coins Mexican coins.

The gold content of these coins corresponds exactly with that of the official coinage; and therefore economically, the money that these men have been "counterfeiting" is a lot less counterfeit than the paper money printed by most banks of issue and covered by State credit, not by gold or by merchandise.

If we still lived under a classical gold-standard, going to the trouble of coining gold pieces of the same consistency as the official pieces would be senseless. But the gold standard is now only a faded memory. Paper is inconvertible, and no one may hold gold except for industrial purposes and decoration. But thanks to the demand from black markets, gold coins are still in use and pass hands at premiums above the ingot value of gold. There is therefore a "seigniorage" to be obtained by coiners.

Legal Tender or Not?

The Swiss Tribunal has rejected the Italian application, for the reason that the "false" gold coins are not counterfeit under the terms of the 1929 international agreement on currency. This agreement defines "money" as paper and metal circulating by virtue of legal prescription—legal tender. The legal status of French and Mexican gold coins has now been formally suppressed.

But as for the British sovereign, the Tribunal judges that although its legal status has not been formally abolished, it has ceased in fact to be "agreement money." It does not circulate in Great Britain itself; the price of the sovereign varies according to supply and demand and not according to official laws. Switzerland regards the sovereign as a commodity, and transactions in sovereigns are subject to trading taxes.

But this is not to say that coiners of apparent sovereigns can continue to work with impunity; to make and issue coins which are intended to give the impression that they are issued by properly constituted monetary authorities is a fraud, similar to the manufacture of articles calculated to deceive buyers into thinking that they are manufactured under patents.

It is suggested that if these "counterfeiters" increase their output of sovereigns, the present difference between coin and ingot prices will narrow. If we are to believe the proponents of a higher price for gold, then we would discover that it isn't the price of gold coins that is

From Bulletin Financier Suisse, Lausanne, August 28, 1952

too high, so much as the price of gold bars that is too low.

Can anyone complain at the Tribunal's decision? It has merely followed the logical consequences of official "counterfeiting" exemplified in inflation, abandonment of the gold standard and devaluation. These same manifestations of monetary chaos have led to the use of a primitive system of barter, under the name of "clearing houses." And that is what is called progress!

World Silver Market Stays Firm

In contrast to the decline in the free market price of gold, the other monetary metal, silver, had a relatively steady price throughout 1951. The price in London varied very slightly round the 78d. per ounce mark, and in New York around 90 cents.

In July, 1946, the U.S. Treasury assumed the obligation to purchase the whole domestic production at 90½ cents per ounce if offered. Therefore the policy of Mexico, the largest producer of the metal, has been a dominating influence. In general, 1951 prices were higher than in previous years, but they appear to have reached a plateau. Defence requirements raised the demand for silver at the beginning of 1951 by 25 per cent, but world production dropped during the year by 6 per cent.

Demonetisation of silver coins has been proceeding in the United Kingdom and Mexico, but yields from this source are declining; only 22 million ounces was obtained in the two countries. The United Kingdom has temporarily suspended demonetisation of these coins, owing to shortages of metals required for the minting of cupro-nickel coins to replace them.

The consumption of silver in industry and the arts has varied over the post-war years: it was at its peak in 1945, when 172 million ounces was used in this way in U.S.A. (140 million), U.K. (15.5 million), Mexico (10.5 million) and Canada (6 million). Consumption then declined down to 1949, rose again in 1950, and in 1951 some 145 million ounces went into non-monetary uses, the U.S.A. using 110 million ounces, the U.K. 16.5 million, and Germany coming in as a heavy user with 11.5 million ounces.

WORLD SILVER PRODUCTION
(Million ounces)

	1939	1950	1951
U.S.A. ...	63.9	42.1	40.0
Mexico ...	75.9	49.1	41.0
Canada ...	24.5	22.4	23.0
Lat. America	36.3	27.0	26.7
Other ...	65.3	24.5	24.5
World Total	265.9	165.1	155.2

Footnote: World gold production in 1951 was 25.7 million ounces.

From Report on Currency and Finance, Reserve Bank of India, Bombay, 1952

Canadian Investment — A Gentle Boom

The current rate of investment in Canadian industries is not excessive; the economy is vigorous and opportunities are plentiful

In a period of "normal" conditions, expanding capital investment presupposes an optimistic appraisal of the economic outlook, on the part of both the businessman and the consumer. The one invests to increase his production, the other to increase his pattern of consumption and particularly his store of durables. The consumer's optimism can be regarded as a reflection of the producer's, or potential demand can be regarded as encouraging industrial expansion; in any case, the consumer may have quite urgent reasons for investing in durable goods, particularly when family formation is increased, as during the past six years.

Public (that is, government) investment should, theoretically, complement private investment: it should vary inversely with the volume of private investment so that the aggregate is relatively stable. This compensation is deemed essential for "normal" times.

Various constructions may, indeed, be placed on the word "normal." To those whose lifetime has concided with two world wars, two post-war periods of adjustment, and a major depression lasting a decade, instability becomes the norm, and even relative stability is only something to be aimed at but not likely to be achieved in one's lifetime. . . .

The Desire—and the Dollars

At the end of the war there existed not only the desire to expand the store of goods, but also the wherewithal. There was an abundance of war-time savings, relatively cheap money, and considerable encouragement.

Public holdings of liquid assets like Government securities, currency and bank deposits, may serve as an indication of the general liquidity at the end of the war. At the close of 1945, such holdings totalled $17,200 million, equal to 145 per cent of the Gross National Product of Canada in that year. Companies had large funds available in the form of undistributed profits, which in the years 1946-50 totalled $3,151 million, or 37 per cent of all new investment by all business enterprises in the same years.

The money market was easy, and rates remained low until 1948, when they hardened, easing again slightly in 1950 and 1951.

Role of the Three-Tier Government

A number of incentives were offered by the Government in order to facilitate reconversion—the granting of a flax tax rate for the year of operation of new companies, the removal of indirect taxes on machinery and building materials, and accelerated depreciation allowances.

From Commercial Letter, Canadian Bank of Commerce, Toronto, May and June, 1952

The role of the three levels of Government in Canada (Federal, Provincial and Municipal) has altered over the period. In general, over the long term the importance of Federal outlay has diminished, as the central government has assumed a residual and balancing function. Federal participation in private investment can be regarded as being substantial, however, in such indirect forms as Industrial Development Bank loans, housing loans, tax concessions and so on.

Federal investment is being replaced by provincial government expenditure. That of municipal governments is stable. In 1946, the distribution was almost exactly equal at 33 per cent each, but by 1949-50 the Federal share had subsided to about 31 per cent, municipal to 27 per cent, and provincial had risen to 42 per cent. With the onset of rearmament, the Federal share has tended to rise again a little.

The long-term increase in the importance of provincial governments in the investment field is owing to three main developments — increase in highway construction, in public utilities such as hydro-electric power and telephones, and in the conservation of natural resources—which are the Provinces' responsibilities.

Dollars per Person

The post-war investment boom must be seen in the light, however, of the increasing population, and the decline in the purchasing power of money. In terms of constant dollars, investment per capita in recent years has been less than in the pre-depression years. In 1928-29 investment was running at about $150 a head of population, whereas in 1951 it was still only $133 (see accompanying table).

The proportion of new investment to gross national product has also not reached the heights of the late twenties; in 1929, 24.6 per cent of G.N.P. was invested, but by 1951 a figure of only 21.6 per cent had been reached. The percentage for 1945 was as low as 10.8.

The current rate of investment does not seem to be excessive. In fact, Dr. Gilbert Jackson has estimated that in order to maintain recent rates of increase in standards of living for a population growing at an increasing speed, an increase in

NEW INVESTMENT IN CANADA

		New Investment		*Per Capita*	
	Popn. (Mn.)	$Current (mn.)	$Constant (mn.)	$Current	$Constant
1937 ...	11.1	828	790	75	71
1946 ...	12.3	1,703	1,101	138	89
1947 ...	12.6	2,489	1,422	198	113
1948 ...	12.9	3,175	1,575	246	122
1949 ...	13.5	3,502	1,662	259	123
1950 ...	13.8	3,815	1,700	276	123
1951 ...	14.1	4,581	1,874	325	133

gross national product of four per cent per annum compounded will be required. This would involve the need for the investment henceforth of 20 per cent of G.N.P. each year. (See *Economic Digest*, September, 1951, p. 392.)

Effect on External Trade

A large increase in new capital investment might be expected to result in a larger and more diversified volume of production. Export of manufactured goods should increase, imports of these goods decline, and imports of raw materials rise.

Increased volume and variety have undoubtedly been achieved in Canada. And despite a decline in farm labour numbers between 1939 and 1951, agricultural production has risen.

But the effect on external trade is obscured by other factors—the high level of purchasing power, the rise in the proportion of Canadian exports going to the United States, and the demands of the rearmament programme.

Imports of manufactured goods have been relatively stable around 70 to 80 per cent of total imports for the last thirty years; the reason being that the high level of both labour and investment income, itself largely a product of the high rate of capital investment, has created a demand for luxury goods, much of which can only be satisfied by imports.

The long-term trend in exports is that manufactured products are taking up a larger share, although the trend varies and towards 1950 has tended to return to a position similar to that of the late thirties. The failure to maintain any large increases in manufactured exports may be attributed to the heavy concentration of exports directed towards the U.S.A., where the high level of industrialisation precludes any heavy demand for manufactured imports. On the contrary, stock-piling and defence have created an unusual demand for just those raw materials of which Canada is the nearest and most abundant source.

BRITAIN'S COAL EXPORTS—A GLOOMY FORECAST

The National Coal Board's "Plan for Coal," published in 1950, was based on a prediction that by 1961-65 inland consumption would be about 210 million tons a year, plus about 30 million tons a year for export and bunkering. But United Kingdom consumption in 1951 was already little below 210 million tons. Between the Scylla of lagging capital investment, and the Charybdis of the manpower problem, it is hardly possible that the output of deep-mined coal can exceed 226 million tons in 1956, and opencast production is expected to have ceased by then. On these estimates, the U.K. coal export trade, sharply declining, will shrink to a mere shadow by 1955, and will be completely extinguished by 1956.

—*Sir Herbert Merrett, in "Prospects for Coal," National Provincial Bank Review, London, August,* 1952.

The Ridley Committee, whose report was published on September 11, 1952, made a new estimate of U.K. demand. By 1959-63 internal uses would need 232 million tons, plus 25-35 million tons for export and bunkers.

ROAD v. RAIL CONTROVERSY

Superiority of Road Transport

By C. B. Nixon (Leyland Motors)

It is true that tractive resistance on the level is lower on railways than on even a good roadway. But the difference is not very great, and will be so lessened when the single-purpose motor trunk roads are built as to be almost negligible.

Against this one adverse factor must be set the basic facts that the thermal efficiency of the diesel engine is five times that of the most modern steam locomotive; that on the roads the tare to pay load ratio is 1 to 2 and even up to 3, whereas on rails it is in the order of 2 to 1; in the case of passenger transport the railway ratio is in the order of 1.3 passengers per ton whereas on the road it is between 6 and 7. The cost and maintenance of a four-track road is much less than that of a four-track railway and the pay ton capacity per hour of the former much higher. True, three men form the crew of a train and two of a lorry and trailer, but the Transport Commission's report shows that 55,429 men are employed on the permanent way, 24,821 as signalmen and 1,855 as signal boys, 8,543 as signal and telegraph linesmen, 32,386 as passenger porters and 20,000 as shunters, a total of 143,000, none of whom, apart from a comparatively small number on road maintenance, are needed by road transport.

A 15-ton diesel truck pays in tax over a life of ten years involving a mileage of 80,000 per annum, £13,264. Tax on diesel oil alone is the equivalent of a tax of £27 per ton on coal as used in a locomotive.

Where Motor Taxes Go

Of the estimated motor tax revenue this year of £338m., £300m. will go direct to the common fund and only £38m., plus £46m. contributed by the ratepayers, is to be spent on road maintenance and minor improvement.

In the Western Hemisphere it has been established that a toll road can pay for itself in about ten years.

In spite of this gross distortion of basic transport economics and excessive taxation, long-distance road transport has been built up during 25 years from nothing until today three-quarters of all the nation's transport, passenger and goods, goes by road. It is easy to deduce that speaking generally road transport, even with its present handicaps, is cheaper and more convenient, and that given the modern roads which many other countries already possess, equitable taxation and modern international standards of construction and use, there need be no further complaint that the cost of transport and so of production is too high.

From Letter, Financial Times, London, August 16, 1952

Expenditure on Road Transport in Britain

By Ernest Rudd

The probable total of expenditure on road transport of all kinds in Great Britain in 1950 was £536 million; £170 million of this was in drivers' wages. Bus, coach, tram and trolleybus receipts in 1950 amount to about £210 million. Expenditure on cars and motor-cycles came to about £338 million.

Information about pedal-cycles is very meagre, but it is estimated that there are about 10-15 million cycles in the whole of Great Britain. Total expenditure by the owners was of the order of £30-33 million in 1950. On the 60,000 taxis and private hire-cars registered, about £60 million was spent. The armed forces and government services spent about £37 million on transport.

In all, gross expenditure on road travel in 1950 was £1,220 million. Upkeep of roads and lighting totalled £90 million. The conclusion is that about three-quarters of the nation's expenditure on internal transport was on road transport, and that roads and road transport absorbed over 10 per cent of the community's available resources.

From Journal of the Royal Statistical Society, London, Vol. CXV, Series A, Part II, 1952

GERMAN PRE-WAR DEBT SETTLEMENT

Final agreement on Germany's prewar external debt, amounting to about $2,700 mn., was reached on August 8 by the London Conference on German Debts, which had opened on February 28. In the main, the agreement provides for no reduction of principal, but loan interest has been reduced and maturity dates have been extended. The Conference settlement of the Dawes Loan 7 per cent bonds provides that interest will begin to accrue on January 1, 1952—the date the agreement goes into effect—at 5½ per cent for dollar bonds and at 5 per cent for sterling bonds. On the Young Loan 5½ per cent bonds, interest will be at 5 per cent for the dollar bonds and at 4½ per cent for other currency bonds of this issue. The maturity of the Dawes Loan bonds is being extended to 1969 and of the Young Loan bonds to 1980. Arrears on the Dawes and Young Loan issues—calculated at 5 per cent for the Dawes bonds and at 4½ per cent for the Young bonds—will be covered by new 20-year bonds carrying 3 per cent interest. Payments on contracts involving gold clauses will be made as if the values of currencies of issue had been defined not in relation to gold but to the U.S. dollar.

For state and municipal bonds the settlement is roughly the same as for debts of companies and other nongovernmental institutions. The main provisions of the settlement are that interest is to be paid at three-quarters of the contractual rate, and that two-thirds of the interest arrears at the three-quarters rate, calculated at the end of this year, is to be funded and added to the principal.

—*Wall Street Journal, New York, August* 9, 1952.

Taking the Brakes Off Foreign Investment

The frictions that hold back the flow of international capital, and some proposals that may help to ease them: the International Finance Corporation and the European Company

SINCE the Second World War, private enterprise has played less and less part in international investment, especially in investment directed towards the under-developed countries. There are agencies devoted to channelling capital into countries which lack it, but these by their nature tend to confine themselves to the granting of fixed-term loans at fixed interest. The World Bank, for instance, is a "debenture bank," and governmental guarantees cover all its operations.

Under-developed countries need risk-capital, however. In most of these countries, a small group of people holds the savings that exist, and being reasonably sure of a high rate of return from land or commerce, this group rarely risks its capital in new fields. Managerial and technical skills to put the savings into effect are rare.

From the supply side, the character of the saving public is changing; savings other than reinvested corporate surpluses tend to be increasingly concentrated in institutions such as savings banks and insurance companies. Even those who would normally invest money at risk are certainly chary of going beyond their own national boundary without considerable guarantees. Political risks apart, the following frictions inhibit international investment:

1. *Transfer Risk.* Many countries control the transfer of both capital and income; examples are Brazil and Britain. The result is that the market for international capital is made the more imperfect.

2. *Control Risk.* The rise of nationalism in many countries has led to restrictions and regulations on the management side of industry, whereby, for instance, a certain percentage of the labour employed must be that of the local nationality, or whereby some higher officials must be local nominees.

3. *Ownership Risk.* There is always the risk of partial or complete expropriation, with or without compensation.

4. *Production and Price Risk.* The operation of overseas companies is oftened hampered by price and quality controls—or rather, what is more prejudicial, changes in those controls. Similar risks attach to changes in tariffs, quotas, wage scales and local taxes.

Existing Institutions

Attempts have been made to overcome these frictions in the flow of risk-capital. In Belgium there is the Societe Nationale de Credit a l'Industrie; in France the Caisse Centrale de la France d'Outre-Mer; in Britain the C.D.C.; in the U.S.A.

From Memorandum submitted to the Economic Research Council, London: September, 1952

the Import-Export Bank (this last acting beyond the national boundaries, chiefly in the direction of Latin America).

These are limited in their scope, and any attempts by them to make world-wide investments at risk would (rightly or wrongly) be regarded with suspicion as not being wholly disinterested. Too many countries today regard foreign capital as being synonymous with exploitation in its pejorative sense.

In March, 1951, the U.S. International Development Advisory Board proposed the establishment of an International Finance Corporation, which should be an affiliate of the International Bank for Reconstruction and Development, and should concentrate on aiding private enterprise in all parts of the world by investing in equities. This proposal was endorsed by the United Nations Report on Measures for the Development of Under-Developed Countries, and the World Bank itself has since reported on the proposal.

World Equity Bank

It is proposed that the new Corporation should not take up controlling interests in any project, but supplement private resources in order to give other private investors confidence; and that only during the early stages of operations.

The Corporation would have a dual nature — that of both a portfolio-holder and an income-earner. The Corporation would take every opportunity to sell its holdings when profitable prices were offered, which is the same as saying when the projects were successfully launched. The object of keeping a "liquid" portfolio is to keep the capital flowing into as many promising projects as possible with the minimum of resources.

There are, of course, many difficulties that can be imagined. Confidence is hard to create, and the Corporation will come up against many questions of control of operations. But even taken in its worst light, the possibilities are great.

European Companies

A proposal being explored by the Council of Europe is that a new kind of legal entity might be created, a supra-national Company, having its own legal statute and considerable privileges. So far this proposal has been investigated only in the light of Companies formed to operate public utilities or carry out public works, such as building and operating hydro-electric dams across rivers which are international boundaries.

At present, a Company can be formed only under some national law; if the Company wishes to extend its operations to a territory where a different law rules, there are difficulties over the conflict of laws, over customs, tariffs, wage rates and the like. Were it possible to get agreement to a statute setting up a Company which could then disregard national laws, the question of obtaining equity capital would be made easier.

The Committee of the Council of Europe which has reported on this proposal has cited examples of international Companies which already exist: the Bank for International Settlements, the Scandinavian Airlines System and the Basle-Mulhouse Airport are instances.

Taking the problem, which is strictly more one of mechanics than

of finance but has a great bearing on finance nevertheless, a stage further, the Institution of Private Law in Rome is investigating the possibility of the setting-up of a system of International Company Law. If this possibility were to bear fruit, at least some of the inhibitions to international financing would disappear. Even what appear to be small differences in the building regulations or safety regulations of two countries can wreck a promising project. And certainly a conflict between, say, the form of documents according to two national laws can cause enough extra costs to make the attempt to reconcile, collate and consolidate them worth while.

It is agreed by all economists and statesmen that international capital must be set flowing again. Whether it be done by means of a World Equity Bank, or in a more piecemeal manner by the formation of *ad hoc* supra-national Companies, it is sure that the desire to find a mechanism which will take the brakes off foreign investment is being expressed in more than pious hopes.

A. B. C.

Thirteen Million Tons of Fish a Year

SOME 21 countries lead the world in the fishing industry. Together they bring ashore over thirteen million tons a year.

The largest fishing nations are Japan, with a catch in 1951 of 3,800,000 tons, some 250,000 tons more than pre-war; the U.S.A., 2,350,000 tons in 1951 ;about the same as pre-war; Norway, 1,800,000 tons in 1951, which was 700,000 tons more than pre-war; and the U.K., just over a million tons in 1951, a slight decline on pre-war figures.

In general, world fish catches are larger than in 1938. Canada now catches 660,000 tons a year instead of 500,000; Denmark has seen her catch increase from a mere 96,000 tons to 292,000, an increase of 204 per cent; Iceland's catch rose from 274,000 tons to 368,000; Sweden's from 143,000 to 200,000. Those countries whose catches have dropped are W. Germany (680,000 tons in 1951, 780,000 tons in 1938) and of course South Korea, where in place of 630,000 tons a year pre-war, the catch is estimated at only 277,000 tons in 1951.

Only a relatively small proportion of the fish caught is subjected to any kind of processing. In 1951, some 375,000 tons were frozen, 780,000 tons salted, 650,000 tons canned. There is a surprising amount of fish meal produced, amounting to some 740,000 tons.

Whale oil produced in 1951 came to 464,000 tons, over half of this being produced in Norway and the United Kingdom. The output of whale meat was at its peak in 1950, at 46,800 tons, of which Japan produced 37,500 tons and the United Kingdom 9,300 tons.

From Monthly Bulletin, Food and Agricultural Organisation, Rome, Vol. 1, No. 2

More Meat from British Farms Means Inflation

BY ANDREW W. ASHBY

FARMERS tend to benefit from inflation since there is an appreciable lag between production expenditure and productive revenue, this lag extending in the case of some products up to three or four years. Part of the increased farm income will doubtless be used to raise the standard of living, but the remainder will go to pay off mortgages or buy farms, or, if they are available, to buy new types of farm machinery.

Sooner or later there will be demands for higher wages, and a general inflationary effect will follow which is likely to spread throughout the economy. If, as in the recent case of wool in Australia, the initial price rise is restricted to one commodity, there may be a tendency for producers to cut down on other commodities and turn over to the one which is enjoying the new level of high prices. In Australia and New Zealand this has resulted in a decrease in the meat supply.

But as the inflation generated passes through the economy other prices may rise nearer to the level of the original commodity.

Rising Costs

Among the rises directly attributable to the inflation is that of the cost of labour. In Britain, average weekly wage-rates rose by 172 per cent. between 1939 and 1950, while those of all workers including farm-workers rose by only 83 per cent. These figures take no account of earnings additional to the weekly wage rate. Standard hours have decreased, and consequently average earnings (through overtime) have risen to an even greater extent.

These increases have been partly due to the need to retain or attract labour into the industry in order to expand production.

Fertiliser prices rose by 38 per cent between 1939 and 1946, and by a further 20 per cent between 1946 and 1950, or by 66 per cent. in all. The actual cost is of course greater, since in 1950 there was a subsidy of £15 million to keep prices down.

The quality of feeding-stuffs changed so much between 1939 and 1946, and price-fixing was so arbitary, that a fair estimate of the increase of prices is difficult to make. Probably, by 1946, the price level was nearly double pre-war. Since then, a spectacular increase of 82 per cent. has occurred between 1946 and 1950.

Thus the prices farmers had to pay for three of the more important items have shown great increases. On the other hand the prices of products have also shown somewhat similar increases—102 per cent. between 1939 and 1946, and another 30 per cent. between 1946 and 1950. These increases were more than the increase in fertiliser prices, but less than those of wage-rates and probably feeding-stuffs. They were less,

From "Inflation and Agriculture in Britain," Farm Economist, Oxford, Vol. VII, No. 1

too, than the corresponding increases in the prices of imported foodstuffs and raw materials.

Thus, while home agriculture was a contributory cause of inflation during the war years, since then it would appear to have been of less importance than some other items.

New Emphasis on Meat

Difficulties in negotiating meat contracts abroad, and the high prices asked, have caused emphasis to be put on home meat production in Britain.

It is hoped that by raising meat prices relative to those for milk a transference of emphasis will take place and that meat production will be expanded while milk production either remains approximately the same or else is contracted. Such a change of emphasis is bound to be inflationary since a given amount of land and labour used in milk production will give much more human food value than it would from meat production. Thus by reducing supplies for sale the transfer is bound to be inflationary and the position will be even more marked if the criterion of supply is taken to be quantity or cash value rather than food value.

Where there is little or no transference of land or labour, as may be the case in a change-over to the production of pigmeat, there will be additional competition for grains and grain products and some inflationary effects in grain markets. In so far as there may be transfer of cereal-crop land from milk to pigmeat production there will be little inflationary effect. But between production of eggs and pigmeat there may be considerable inflationary effect on grain markets.

A transfer of resources from milk to beef or mutton production is bound to lower productivity and the fact that equal or even more favourable earnings may be obtained from meat production only masks the position. Such a transfer will also reduce labour requirements, but this may not cause effective unemployment among agriculturists. Where increased meat production from grazing animals proceeds *pari passu* with maintenance or even increase in milk production the effect on prices will depend upon the conditions of production.

If increased production can be obtained at diminishing or even at constant cost per unit, inflationary pressures will be reduced. But when increased production is obtainable only at greater cost per unit the inflationary pressure will remain and may even be increased. It is likely, therefore, that the expansion of home agriculture, especially meat production, will result in inflationary tendencies.

UNITED NATIONS TO COST $48 MILLION IN 1953.

The Secretary-General's budget for the working of United Nations next year totals $47,765,200. But with economies suggested by an Advisory Committee, and an income of $6,112,500, the net cost will be $40,660,000. The total budget for 1952 was $48,100,000; for 1951, $49,000,000.

U.N. Bulletin, London, September 18, 1952

IMPACT OF POINT FOUR

Opening-Up Tropical Africa

BY A. G. AUKES (AFRICAN INSTITUTE, ROTTERDAM)

How investment in the under-developed countries breaks down the local economy—and the road that the developers perforce must take

IF it is desired to give tropical Africa a place in world economics comparable, say, to that occupied by South Africa, Egypt or Morocco, two grave obstacles would have to be overcome: the inaccessibility of the area and the very low density of population.

It was originally believed that the construction of railways and transport roads, as was the case in North America, would "automatically" attract sufficient investments to the tropical regions of Africa. The illusion was even cherished that this would open the door for the immigration of white people in a so-called "empty" continent. These expectations were not fulfilled; for a long time, the development of Africa was delayed, and probably this was one of the main psychological factors, that of disappointment.

The regulations regarding the application of investment funds in Africa were formerly so stringent that those who had only small capital at their command had to concentrate on production and quick returns for remittance to the home country. No capital could be spared for education and training of the native labourer .

Many concerns were consequently compelled to use contract labour. This was inevitable until such funds were forthcoming as by their terms and size could be devoted to long-term improvements. And one of the most important improvements is the improvement of labour in this sparsely-populated region.

Shortage of Workers

The consequences of the shortage of workers are very serious. The regions to which Western investments were directed impoverished rapidly prior to the second world war.

It was precisely the physically strongest part of the population which was attracted by the low wages offered. This part left the rural communities, and soil erosion (Africa's "State Enemy No. 1") was aggravated. Farming production was greatly reduced, and the food supply became increasingly dependent on imports.

The investment problems and difficulties are in tropical Africa at a totally different level from those normally experienced in Europe. Every economic development implies the disintegration of the earlier

From "A Few Thoughts on Investments in Connection with the Opening-Up of Tropical Africa," Quarterly Review, Amsterdamsche Bank/Incasso Bank, No. 96, Amsterdam, 1952

economic structure. In Western countries this has long been accepted as perfectly natural, and no direct disadvantages have yet been felt. In Africa the situation is different.

The disintegration taking place there is of a far more radical nature, and the transition must be carried out with great tact.

Spiral of Wants

Investments create a greater number of needs of the native population —clothing, housing, a different diet. Once started, this tendency constantly increases. Schools, hospitals and clinics have to be erected. Teachers, doctors, nurses, builders have to be attracted. This attraction of workers will further deplete the force necessary for native food production; and these new workers in their turn will acquire a greater number of needs than they had previously felt.

The only immediately effective solution is the increase of imports. The further the development progresses, the more the native agricultural economy is undermined. Rural districts become more and more depopulated, community life, tribal ties, break up.

Only governments can supply the large amounts of capital on easy terms which is necessary to keep going the welfare superstructure and increased imports which development entails.

Yet I believe, in spite of all difficulties, which sometimes appear unsurmountable, that tropical Africa, thanks to the progress of Western methods and of ideas regarding the administration of tropical regions, offers a rich and profitable field for Western activity.

(For trenchant discussion of "Western" development of the under-developed countries, see also the Oxford Radical Association's "Point Four Priorities" in Economic Digest, May, 1952, p. 185; also Professor Frankel's questioning of the whole basis of Point Four in Economic Digest, June, 1952, p. 233; and also "Africa's Formidable Variety of Problems," a United Nations Survey, Economic Digest, November, 1951, p. 488).

E.P.U. GIVES PRE-REQUISITES FOR CONVERTIBILITY

No rapid progress towards convertibility of currencies can be achieved in present world conditions. Convertibility cannot be obtained merely by adapting or improving the mechanics of international payments; more fundamental adjustments are needed first: (1) First and foremost, internal financial stability in each country. (2) Basic production expansion, and greater productivity in export industries. (3) Rates of exchange which adequately reflect purchasing powers of currencies. (4) More liberal import policy in the U.S. (5) Greater efforts in Europe to expand dollar exports. (6) Revival of long-term investment from persistent creditor countries in the under-developed countries. (7) Prevention of wide fluctuations in major raw materials and foodstuffs. (8) Enablement of European countries to increase their monetary reserves.

Second Report of the Managing Board of the European Payments Union, August 25, 1952

PROBLEM OF PARTITION

Divided India's Slackening Trade

An Indian view: " Good neighbourliness is not merely counsel of perfection. It is commonsense "

WHEN independence and partition came on August 15, 1947, there were few who would have hazarded the opinion that in five brief years India would drop to third place in Pakistan's, international trade, or that Pakistan would drop even lower in India's. Yet these things have come to pass.

Japan has taken India's place in the Pakistan cotton trade, and has indeed become Pakistan's leading trade partner, the U.K. coming next. Pakistan jute, such an overwhelming factor in India imports in 1948-49, has fallen today to a relatively trivial place. If Indian plans are fulfilled, five years from now India will be growing two million more bales of raw jute herself, and shall be independent of Pakistan supplies. With 1.2 million more bales of cotton, she will also not need Pakistan's exports of this textile, either.

Pakistan's purchases of South African and Polish and Czechoslovakian coal are surely of the same order of attempted autarky. It surely cannot be worth while for Pakistan to increase the uncertainty of her coal supplies, and add to the cost of freights, if assured supplies from India can be obtained on fair and reasonable terms. It surely cannot be worth while for India to encourage the export of Pakistan's raw jute to other countries (notably Japan) which in time will obstruct our earning hard currencies.

India's surcharge on coal to Pakistan, and Pakistan's licensing duty on jute are equally to blame. They are both violations of GATT to which both countries subscribe.

Neither India nor Pakistan can be better off under conditions in which each fosters competitors, instead of strengthening the economy of the sub-continent. Good neighbourliness is not merely counsel of perfection. It is commonsense.

In our present uncertain world, Japan may easily be cut off for long periods. So indeed may Poland and Czechoslovakia. We have not yet won the war to end all wars. Again, India cannot benefit from any weakening in East Pakistan; it is India's frontier as well as Pakistan's; a fall in the standard of living there would hurt West Bengal first, and the whole of India later if the area became a prey to Communist advances.

Politics should now decree some wiser thoughts.

Footnote: The two countries still operate a food exchange: wheat is shipped to Karachi from India in exchange for rice. During June and July, 1952, nearly 40,000 tons of each crossed over. As for India's foreign trade, the U.S.A. has become the chief supplier and buyer in place of the U.K. Indian trade with China and Russia remains very small, but a recent agreement allowed for the export of 100,000 tons of rice from China to India.

From Eastern Economist, New Delhi, August 1, 1952

·····For Reference·····

Items in this Section are kept for one year at the offices of Economic Digest. They are available to members of the Economic Research Council and readers by arrangement. Please write, citing reference number of items given in brackets, to 18 South Street, London, W.1, or telephone GROsvenor 4581.

TOWN PLANNING: The Development of New Towns, by W. O. Hart; World Economic Trends in Urban Development, by E. A. A. Rowse; Design in its Relation to Economic Factors, by Professor G. Stephenson. Three speeches from the Town and Country Planning School, Bangor, August 23-30, 1952 (162).

LOCAL GOVERNMENT: The Effects of Local Government Act, 1948, and Other Recent Legislation on the Finances of Local Authorities. Accounting Research, London, July 1952. Apart from a thorough description of the Act itself, contains a table in which the populations, rateable values and net expenditures of "grouped" county districts are set out—a most valuable collection of figures. (163).

COMMODITY PRICE STABILITY: An International Commodity Bank, by A. A. Hooker. Public Ledger, London, July 18, 1952. A scheme to set up a "bank" which shall hold stocks of commodities, paying for them in its own currency notes to be called "comos" (164).

ST. LAWRENCE SEAWAY: The St. Lawrence Seaway. Monthly Review of the Bank of Nova Scotia, July-August 1952. After a troubled history, this almost legendary project has a good chance of becoming a reality. This rereview includes a large, detailed map (165).

AUCKLAND HARBOUR BRIDGE: Auckland Harbour Bridge Project. The Times Review of Industry, London, September, 1952. A bridge two-thirds of a mile long to span Waitemata Harbour in New Zealand. Included in this item is an article on East Africa's new coalfield (166).

BELGIUM: Economic and Financial Situation in Belgium. Quarterly Survey. Banque de Bruxelles, No. 1-2, 1952 (167).

SOVIET FIVE-YEAR PLAN: Text of Draft Directives, Translated from a Moscow Broadcast. New York Times, August 23, 1952 (see "World Notebook" on another page) (168).

INDIA: India's Trade with East Asia. Reserve Bank of India Bulletin, Bombay, July 1952. Full description and statistics of India's trade with Pakistan, Burma, Ceylon, Malaya, Indonesia, Indo-China, Siam, China, Japan, Hong Kong and the Philippines (169).

INDIA: Review of the First Five Years of Independence. Eastern Economist Special Number, New Delhi, August 15, 1952. A bright survey of every sector of the economy and culture of India since August 15, 1947 (170).

EGYPT: Wheat in Egypt. Economic Bulletin, National Bank of Egypt, Cairo, Vol. V., No. 2, 1952. Egypt was once a granary serving the whole of the ancient world; now she is a net importer of wheat (171).

GOVERNMENT DEBT: Ownership Distribution of Government Debt. International Financial Statistics, Washington, September, 1952. A survey of how government debt is held in 23 countries, and an interesting comparison between financial systems. In general, the debt of the under-developed countries is held mostly by the Central Bank; in the advanced countries the bulk is held in private hands (172).

TIN: Tin in Malaya and Nigeria. The Times British Colonies Review, Autumn, 1952 (173).

ITALY: Italian Economic Survey. Published by the Association of Italian Joint Stock Companies, Rome, July-August, 1952. Includes a survey of the capital, reserves, profits and dividends of Italian companies in 1938, 1950 and 1951, and an appraisal of the present economic situation in the country (174).

BRITAIN: United Kingdom Statistics. Barclays Bank Review, London, August 1952. Clear tables of manpower, disputes, production, trade, prices, retail sales, wages, bank returns, foreign exchange rates, and the national accounts. A remarkable compilation in a small space (175).

LONDON'S DUSTMEN: London's Refuse Collection and Disposal Service. Local Government Finance, London.

September, 1952. Over one million tons of refuse from 955,000 London premises was collected by 2,650 men during the year ended March 31, 1951 (176).

AIRCRAFT: The British Aircraft Industry. Supplement to the Financial Times, London, September 1, 1952. Eight authoritative articles on the industry which of late has had its triumphs—and its tragedies (177).

BRITISH STEEL: Britain's Steel Problems. The Mining Journal, London, August 29, 1952. Profits have been made —but a return to more normal trading conditions may see the last of them (178).

BRITAIN'S INCOME TAX: The History of the Income Tax. Barclays Bank Review, London, August, 1952. Pocket history of the tax that remained a "temporary measure" for nearly a century (179).

New Books Reviewed

The Sterling Area, by A. R. Conan, Macmillan & Co., London, 16*s.*

After the appearance of the American analysis of the Sterling Area, excerpts from which appeared in the September number of Economic Digest, another book on the same subject might be thought not to stand much chance in face of the strong competition. But those whose interest has been whetted or revived by the American publication should not pass this book by. It brings into a small compass the two root problems of the sterling area—balances of payments and rates of exchange—together with a profound commentary. The statistics given carry us only up to the start of the Korean War in most cases, but this is enough to show us the trends since pre-war. The author, supported by his statistics, points out that the popular reasons advanced for Britain's present difficulties do not hold water: we did not lose all, nor even half, of our overseas investments during the war, nor did we lose £200 million of investment income, nor did we find our shipping earnings reduced so much as to make any fundamental difference to the balance of payments. Further, Britain is not importing more and exporting less. In fact, the balance of payments after the war was "fundamentally more satisfactory" than before it. In the 1930's the rest of the Sterling Area did not cover the U.K. dollar deficit by its dollar exports—far from it. In terms of volume, the Sterling Area is (or, strictly speaking was, up to Korea) holding its own very well; the sector needing more attention was that of prices; in other words, control of exports and imports volumetrically has not answered the basic problem. This book includes a very useful appendix on the dollar balances of payments of each Area member taken separately.

Commonwealth Co-operation 1952-3, *The Empire and Commonwealth Yearbook, Edited by R. S. Russell, M.A., M.P., Published for Empire Economic Union by Rolls House Publishing, London,* 25*s.*

This yearbook is valuable in that it does bring together the following statistics for every country in the Commonwealth: Area, population as at a recent date, immigration figures, budget expenditure and the proportion devoted to defence, exchange rate, balance of payments, trade figures divided as to buyer and supplier and as to commodities, and figures for production of primary and secondary industry. The statistics are brought up to 1950-51 in most cases.

There is an Appendix on trade agreements, G.A.T.T. and Most Favoured Nation Clauses, and these, together with a Foreword, are written to a thesis, namely, emphasis on the restrictions on Imperial Preference. This, however, is the only trace of bias in a painstaking reference book, and the Empire Economic Union has done a great service to economic students by publishing it.

Readings in Monetary Theory, by various authors, American Economic Association Series, George Allen and Unwin, London, 30*s.*

This is a collection of twenty articles by nineteen authors writing in the period 1917-1949, culled from economic journals on both sides of the Atlantic. The author to get a double mention is Pigou, and

the juxtaposition of an article written in 1917 with one written in 1947 has many points of interest. This being an anthology, no reader can resist choosing "favourites"; the writer of this review plumps for the Pigou article of 1917, written in the Quarterly Journal of Economics, in which there first appear the magic symbols P = kR/M, the equation (later to be dubbed the Cambridge equation) offered as a more fool-proof tool for less experienced craftsmen than the Fisherian MV = PT.

Most of the discussions here recorded, and the theories here advanced, have been incorporated in other writings long since; but it is instructive to be reminded of the contexts in which they first appeared, and interesting, at times even exciting, to read the original expositions in what are now for most people fugitive and unobtainable publications. To read Professor Hicks, writing in 1935, on the income elasticity of demands for money, W. F. Crick in 1927 on open market operations, H. S. Ellis in 1937 writing his entertaining and none the less sound analysis of hoarding and velocity, and R. G. Hawtrey in 1929 on the "most desirable kind of monetary stabilisation," that of consumers' income and outlay. . . . There are essays here by Cassel, by Robertson, by Meade. Here are the original gropings, diffident and careful; here, too, the roundings-off of description and theory that were once thought the last words.

The volume ends with a bibliography, but the footnotes to the articles are a bibliography in themselves. This is a most interesting book, and the sole criticism this reviewer has to offer is: What a pity it was not found possible to include representative pieces by Keynes and Irving Fisher.

Yearbook 1937-1951, *Foreign Trade by Areas (Special Number of OEEC Foreign Trade Statistical Bulletin, Series I), Paris, July*, 1952.

This Yearbook contains, for the first time, all basic trade data for the OEEC countries, Canada and the U.S.A., on a comparable basis for the years 1937, 1938 and 1946-1951, with quarterly figures for the years 1948-1951. There is a special table for the figures for 1928 also. An appendix gives an analysis of the trade of the more important non-member countries by areas, for 1938 and 1948-1851. The volume, which will be supplemented later by another annual analysing foreign trade by groups of products, will prove an indispensable tool for all students of economics and international affairs.

—M.G.

Oxford Economic Papers, Vol. 4, No. 2, Oxford University Press, London, 12*s*.

This latest series of Oxford Papers includes several well-written and informative articles. Professor Brian Tew writes on "The Finance of Investment" most simply and soundly; he analyses the difficulties that face the entrepreneur who wishes to increase his capital assets, and concludes that although the capital market is still very imperfect, we do not know the absolute or relative size of that sector of the economy where the lack of finance is the effective limiting factor to expansion—even in the Depressed Areas. There are many other frictions apart from finance. V. S. Garibian and P. J. D. Wiles discuss "Pensions and Rising Prices," or how to protect pensions from inflation; they describe the interesting system gaining ground in France, whereby pension funds are not capitalised via securities that merely keep a nominal value intact, but are regarded as a continuing contribution from existing workers to a fund which rises with the inflation, and therefore guarantees the real value of the pensions to past workers to a great extent. B. C. Roberts describes the bases and workings of the Wage Stabilisation Board in the U.S.A., including a potted history of the wage bargainings in which the Board has been concerned; his conclusion is similar to that of H. A. Turner in the Fabian Pamphlet on Arbitration (see Economic Digest for September)—Wage Stabilisation Boards work only in so far as both sides of industry accept their policy. They offer no permanent solution, particularly to the problem of inflation. Finally, Peter Nettl describes "Some Economic Aspects of the Wool Trade," a trade "jealously wrapped in the mystery of its technical obscurities"; since there are no less than 5,000 types of raw wool, apart from other animal hairs and mixtures, this is to be expected; wool cannot be simplified like coal or cotton. The result is an atomised trade, and Mr. Nettl traces a way through the tangled skein for us in a remarkably lucid and entertaining manner.

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Welfare Economics and the Theory of the State, by William J. Baumol, Published for the London School of Economics by Longmans Green, London, 21*s.*

Welfare economics is founded on a denial of Adam Smith's "hidden hand" passage in the Wealth of Nations, a denial that satisfaction as an ideal whole is obtained by the summing of its parts —individual satisfactions. In this book a great number of the arguments, mathematical proofs, diagrammatical expositions and downright eristic are assembled together which make up the armoury of the welfare-economist; they are then subjected to a penetrating criticism. In the process the author makes many good points. As examples, he finds that product differentiation through advertising, however suspect (the recent outbreak of "chlorophyllin" for example), may not lead to wasted resources or to loss of satisfaction; that even where productivity is low and incomes unequal, one can argue for the redistribution of incomes but not for the abandonment of the market mechanism; that the chief obstacle to convertibility of currencies is merely a lack of co-operation, and that if all monetary areas announced convertibility together the problem would be solved.

This book indicates how far we have come since economics dealt primarily with micro-economics exemplified in the individual. It is probably mistrust in the so-called "intuitive" analysis that has led us to take refuge in the more easily tabulated macro-economics of "total demand," "ideal output" and the like—for better or for worse, we have yet to be able to judge. Meanwhile, the argument, not for or against State intervention, but how much State intervention and where, continues. The present work ends with a chapter entitled "Epilogue: The Wreck of Welfare Economics," and from this it is clear that the author is doubtful whether the role of the State extends very much farther than the protection of the simpleton against the outright rogue. Patent misuses, he says, of resources should be made reprehensible; but when all resources are in some sense usefully employed, whether they are, or how they can be, *best* employed, or whether anything should be done about it, is much more difficult to answer. The question of social costs, of external economies, is yet unsolved.

This book does not tie up all the loose ends of welfare economic theory; but it does bring them together, rather than let them lash about in unpredictable directions, with the sorry results we see in so many countries.

—A.B.C.

Also Worth Reading

New Towns and the Case For Them, by LORD BEVERIDGE. *University of London Press, London,* 2*s.* Now that the thirteen new towns (eight of which are around London) under the 1946 Act are far enough under way to be able to judge of the success of the idea, this booklet surveys progress and possibilities. The chief economic problems are the attraction of industry to the new towns, and the high price of building. Excerpts from the reports of the Development Corporations are given in an appendix.

The Finance of Egypt's Cotton, *Barclay's Bank Review, London, August,* 1952. A detailed description of the growing, merchanting and financing of Egypt's most important export.

The Canadian Economy, *Financial Times Survey, London, August* 25, 1952. Sixteen articles from authoritative sources on every aspect of the economy that has the brightest future in the world.

The Finance of Agricultural Mechanisation, *Westminster Bank Review, London, August,* 1952. Between 1938 and 1951, farm output in Britain increased about 42 per cent, but investment in mechanisation plus operating costs increased about 300 per cent. Are farmers getting the best out of their machinery? Further shots in the horse v. tractor controversy are fired in this article, written by the Oxford Agricultural Economics Research Institute.

Israel's New Petroleum Law, *Petroleum Press Service, London, September,* 1952. Israel wants to attract oil prospectors; but it wants them on her own terms. Here is an excellent summary of the terms.

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