

# ECONOMIC DIGEST

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## Search for £300m. New Savings

BY PROFESSOR F. W. PAISH, M.C.

THERE are three possible sources of savings — private persons; companies and public corporations; and the public authorities, of which by far the most important is the central Government.

In 1913 persons were probably doing well over half the total of national saving, and even in 1938 their contribution was very important. Since the war both the ability and the incentive for persons to save has been greatly reduced. The rich, who in earlier years were the main source of savings, are now on balance consuming their capital even before paying death duties, while after payment of death duties their net dissaving is very large.

At the other end of the income scale the rise in real earnings since before the war and still more since 1913 has undoubtedly increased the ability to save, but the increase in ability has been largely, if not wholly, offset by a reduction in incentive.

For one thing, many people who reluctantly accumulated savings during the war are now more inclined to spend them than to increase them further; and for another, the need to abstain from consumption in the present in order to provide for a possible rainy day in the future is less urgent if the state can be relied upon to provide an umbrella.

*During the century before 1914, Britain supplied something like £4,000m. capital to the rest of the world. Thereafter she became a short-term debtor. Since 1945 Britain has been on balance an importer of capital, her post-war overseas investments having been more than covered by Marshall Aid and help from Canada. It still remains vital to the Sterling area that Britain should provide at least £300m. a year for investment abroad. The only significant source for such capital is new savings. Professor Paish discusses the prospects —not very hopefully.*

Such personal savings as are still made mostly take the form of contractual savings through institutions, probably mainly by members of the middle income groups. Personal savings in the form of increases in the life funds of insurance offices approach £150 million a year, while contractual repayments of loans to building societies amount perhaps to £50 million more. These two items alone account for more than the whole of gross personal savings, while after payment of death duties net personal saving is in most years strongly negative.

Like personal saving, business saving is severely limited by existing levels of taxation.

There remains only Government savings. It was the change in these from negative to positive which so dramatically increased the total of

national saving in 1948, and since 1948 they have provided over half of the total net savings of the country.

But since 1950 they have been falling, partly as the result of increased defence expenditure and more recently of a fall in revenue below estimate. In 1952 they are likely to have been well below the reduced figure of 1951, and, without some positive measures to increase them, there seems no reason to believe that they will be much higher in 1953 than in 1952.

If, therefore, the level of national saving is to be appreciably increased, it will have to be by an increase in taxation or a reduction in Government expenditure. It must be emphasised that to raise Government saving by means which entail a fall in personal or business saving will do nothing to raise the total. The only increases in taxation which are relevant in this context are those which are paid, not at the expense of current saving or out of capital, but at the expense of consumption; and these are necessarily taxes which are borne by the great bulk of the population and are correspondingly unpopular.

It is sometimes suggested that, since the amount involved is only about 2½ per cent of the national income, an additional saving of £300 million a year can be achieved without any reduction in consumption by means of quite a small increase in output per head.

This contention, however, implies a misleading use of global figures. An increase in production involves a corresponding increase in incomes, and usually a corresponding, or nearly corresponding, increase in consumption, of those directly responsible for the increase. Indeed, if any serious attempt were made to

prevent those responsible for the increase from benefiting personally from it, it is doubtful if the increase would occur.

If, therefore, the whole, or any large part, of the increase is to be diverted to saving, the consumption of other sections of the population must be curtailed in order to offset the increase in consumption of those sections responsible for the increase. Thus, even though total consumption is maintained, the measures needed to prevent it from rising are likely to be almost as difficult and unpopular as those needed to reduce consumption with a stationary national income.

If, however, a rise in the real national income occurs as the result of an improvement of the terms of trade in the form of a fall in import prices without a corresponding fall in export prices, the gain can be diverted to increased saving without nearly so much difficulty.

In such a case, additional indirect taxation could be imposed, or food subsidies reduced or removed, without raising the cost of living. As the cost of living would not have increased, there is no reason why there should be additional pressure for increased wages or why the Government should give additional concessions elsewhere. The increased revenue from indirect taxation, or the saving on subsidies, would be reflected in a larger budget surplus and increased Government saving.

If, on the other hand, the improvement in the terms of trade took the form of a rise in export prices without a corresponding rise in import prices, it would be more difficult in this country to divert the whole of the gain to saving, as this would involve the imposition of export taxes; though some increase

in saving would result from an increase in business profits placed to reserve as well as from a higher yield from taxes on business profits.

### Using a Surplus

While the normal effect of the diversion of an increase in national income to saving, or of an enforced reduction in consumption by means of an increase in taxes paid at the expense of consumption or of a reduction in Government expenditure, would be to increase Government saving, this need not be so.

If advantage were taken of the potential increase in the budget surplus to reduce taxes paid at the expense of current saving or out of capital, the result could well be to transfer the increase in saving to companies or persons. If, for instance, a reduction in food subsidies were combined with a reduction in the yield from death duties, such as might follow a change from estate duties to inheritance taxes, the net result would be an increase in total saving by means of a reduction in personal dissaving; while if it were combined with a reduction in company taxation of a type that did not lead to an increase in dividends—as, for instance, a more generous allowance for the depreciation of old capital—the increase in total saving would appear in the form of an increase in net profits placed to reserve.

Even if the political and other difficulties of increasing taxation or reducing Government expenditure or investment could be overcome, there would remain the problem of transferring the resources so released to uses relevant to the improvement of the balance of payments. If the £400 million or so a year, which we

need to free for the purpose of financing foreign investment, repaying foreign debts and increasing the gold reserve, could not in fact be used for those purposes, the resources released from consumption and home investment would remain unemployed, and the intended savings would not in fact be realised.

This means that the resources released must be diverted either to producing goods that can be exported or to goods or services replacing imports. Some part of the resources released would no doubt consist of imported goods, or of the import content of home-produced goods, and so would automatically improve the balance of payments; while probably some part of the home-produced goods released would be of a sort directly suitable for export.

But many of the resources, and especially the labour, released would need to be transferred to other uses; and while for some this transfer could no doubt take place within their existing occupations, for others it would involve a change of employment and possibly also of residence. The problem for the Government would then be to reduce to a minimum the consequential losses of employment and output, while doing nothing to delay or prevent the necessary transfers of resources.

### Brake on Mobility

Perhaps the greatest brake on labour mobility today is the artificial shortage of houses caused by rent restriction; and even a relatively modest 50 per cent increase in controlled rents would probably do a good deal to make houses available for letting and to reduce the barriers to mobility of labour.

## Competition Out of Fashion

BY WILLIAM L. BATT

*Minister-in-Charge, Mutual Security Mission to U.K., 1950-52.*

FOR nearly two years I had the privilege of observing British economic life at fairly close quarters.

On many matters I found that there was complete agreement between British and American opinion. There was, however, one major exception. On the subject of competition there seemed to be little common ground. Oddly enough, this difference of opinion arose most sharply in connection with another subject on which there appeared to be the greatest possible measure of agreement—the need for increased productivity.

### **Mote in John Bull's Eye**

The most common phrase in all the reports of the teams of British workers, technicians, and managers who visited the United States, under the auspices of the Anglo-American Council on Productivity, is 'productivity-mindedness', which the teams attribute in high degree to both management and workers in the United States. In trying to discover the underlying causes of this attitude, various teams mentioned America's climate, or geography, or pioneering background, or even the commercial influence of American women. Many of the reports devoted considerable space also to the element of competition. But only one or two of them considered it a really essential factor in the whole picture.

This is the point at which the general American analysis would differ strikingly from that of most British visitors.

In Britain and on the Continent, the history of industrial development has taken a turn in which competition has become something to be feared and disdained. The difference in outlook between the industrial communities on either side of the ocean is symbolised by the fact that the word 'competition' in Europe is frequently preceded by the word 'ruthless', whereas in America the most common adjective used with the same word is 'healthy'.

True and fair competition in most fields is the device by which the consumer can direct the economy to his own benefit. The most efficient producer can turn out the best article for the lowest price. He gets the customers and it is necessary for his rivals to do likewise, go one better, or go under. If, however, producers can get together and keep prices up and production down, with no one to say them nay, why should they bother their heads about increasing efficiency, installing new machinery, keeping their workers informed, improving layout and doing the thousand and one other things that are so troublesome and so necessary in a real competitive world? It is much more comfortable and profitable to leave well enough alone. For a while at least, until the whole bottom drops out.

There are obviously a few special industries in which competition may be undesirable or impractical, and there may be times when it is wiser to suspend the rules for brief periods. On the whole, however, American business is now convinced

that the best chance there is for achieving a productive system capable of meeting the needs and aspirations of the great masses of people is to keep the largest possible part of the economic scene in the area of competitive enterprise.

### Beam in Uncle Sam's Eye

There has been one glaring inconsistency in the American approach

to competition. Although it has been the American ideal for the internal market, United States producers have not always held the same view about international trade. At various times American business and labour have demanded and received tariff protection against international lower-wage and lower-price competition.

## Britons' Working Hours

During 1952 very few changes in normal weekly hours of labour were reported. About 2,500 work-people had their normal hours increased by 1½ hours a week, and for about 56,000 work-people there was an average reduction in normal working hours of about 3 hours a week.

Year	Approximate Number of Work-people whose normal Hours of Labour were		Aggregate Net Increase (+) or Decrease (—) in Weekly Hours
	Increased	Reduced	
1939 ...	—	396,000	— 1,412,000
1940 ...	54,000	193,000	— 633,000
1941 ...	16,000	10,000	— 2,500
1942 ...	4,000	10,000	+ 5,000
1943 ...	8,000	141,000	— 256,000
1944 ...	3,000	—	+ 4,400
1945 ...	—	22,000	— 42,000
1946 ...	—	2,128,000	— 5,719,000
1947 ...	—	5,223,000	— 18,429,000
1948 ...	—	616,000	— 1,834,000
1949 ...	3,500	1,017,000	— 1,471,000
1950 ...	108,500	1,500	+ 105,500
1951 ...	1,100	10,000	— 26,000
1952 ...	2,500	56,000	— 164,000

The figures for 1948 and later years are not strictly comparable with those for earlier years, since particulars relating to employees in Government establishments and shop assistants were introduced for the first time in 1948.

The figures for 1952 are preliminary and subject to revision.

## Merchant Shipping Today

### (1) BRITAIN'S DECLINING SHARE

IN the last half-century the share of the United Kingdom of the world's shipping has dwindled to less than a half of what it was at the beginning. In 1905 the United Kingdom owned just over half the world's shipping and by the middle of 1951 this had fallen to just over a fifth, and there is no sign that the fall has stopped.

Since 1905 the volume of tonnage owned in the United Kingdom has increased from 14,497,000 to 17,900,000, counting only vessels of over 100 tons gross. Yet in the United States (excluding ships owned on the shores of the Great Lakes, but including the large reserves of cargo ships comprising many of the vessels built to meet the emergency of the last war) the mercantile marine has increased from a mere 1,339,000 tons in 1905 to about 28 million tons; shipping owned in other countries has risen from 12,907,000 tons to about 44 million tons, and it increased by three million tons in the past year.

The following table shows how after the two great wars which ended in 1918 and 1945 the British share of world shipping was sharply reduced. This was not only because of the heavy losses suffered by the British mercantile marine through war at sea but also because of the impetus which war gave to the ownership of ships in other countries:—

Mid-Year		U.K. as per cent of world
1905	...	50.4
1915	...	44.2

1925	...	32.1
1935	...	28.2
1939	...	27.1
1945	...	18.0
1948	...	21.9
1949	...	21.9
1950	...	21.6
1951	...	21.1

In 1947, the overseas earnings of British shipping in foreign currencies were £60m. Owing partly to higher freight rates these have since risen. It has been estimated that in 1952 they will prove to have exceeded £150m. These are vital figures in the balance of payments; they reflect the indispensable physical role of British shipping in maintaining the country's island life and livelihood.

In face of the busy, and often weighted, competition of other countries, the make-up of the mercantile fleet which plies under the British flag is changing. In 1939 passenger and cargo liners together represented about 8,750,000 tons; by the middle of last year this total was 8,500,000 tons. Within these figures there was a reduction of about 500,000 tons in the volume of liners carrying large numbers of passengers.

Before the war tramps—or ordinary cargo ships built to carry commodities in bulk—accounted for about 3,500,000 tons. In June, 1949, there were 595 foreign-going tramps afloat of 3,138,000 tons gross. By June, 1951, the number had declined to 513 vessels of 2,793,000 tons. The figures for last June must show a fresh reduction, in view of the sale of older ships for breaking-up which followed a decline in freight rates. The number may well have fallen by about 70 ships of 400,000 tons, which

*From 'Fall in British Share of World Shipping', The Times, London, February 18, 1953.*

would reduce the total number of this type of ship to about 440 of less than 2,400,000 tons. The type includes the intermediate-sized ship which, together with the coasting vessel, was of such great value to the country during the last war. Oil tankers, on the other hand, have increased in number and tonnage.

The British cargo shipping industry was built up on the basis of outward cargoes of coal and home-ward cargoes of grain and raw materials for manufacture. Until the last war voyages in ballast were the exception; now they are the rule.

The ships upon which this country would have to rely in war-time for supplies of food and raw materials are the ordinary cargo ships or tramps. This is why the reduction of the tramp fleets is so grave a trend. Without these ships the last war could not have been won.

The British tramp fleet is dwindling for a combination of causes. There is, first, the uncertainty, in today's competitive and nationalist conditions, of employment for this type of ship; it has to meet competition, often discriminatory, from the ships of many nations. There are, secondly, the rise in costs and the exactions of taxation which take from shipping firms the money that should be invested in new tonnage.

The time-honoured way of paying for new ships has been to set aside amounts out of the earnings of existing vessels during their life-time for depreciation. This system operated well while ship-building prices were stable. It has now broken down, since the sums set aside in the past only go a small part of the way towards meeting the cost of new ships. After taxation has taken its large share of the earnings there is not sufficient left to meet the difference.

Chiefs of old-established firms have declared that their dry-cargo fleets must steadily shrink to only a fraction of what they were.

## (2) TWILIGHT OF THE TRAMP

THE development of specialised vessels for the handling of bulk cargoes, such as sugar and ore, may lead to a permanent reduction in demand for the standard type of tramp, and it should be noted that many such vessels built since the war are fitted with heavy-lift derricks with a view to time charter by the liner companies. It must, however, be remembered that over-specialisation usually entails an increase in ballast voyages and a reduction in the number of possible ports of loading and discharge. Combined oil and ore carrying vessels, of which a number are at present under construction, are perhaps a pointer to the future with their greater flexibility of employment.

Building costs are continually rising and, with a long delay between the placing of contracts and commencement of work, shipowners are now placed in an almost impossible position in estimating their future capital requirements.

The final cost of a standard 9,000 tons deadweight motor tramp may well exceed £600,000 when she is delivered in say, four years' time; that of an 18,000 ton tanker now exceeds £1,000,000. If the small tramp owner is to maintain his fleet at maximum efficiency by replacements of older units, he is likely to find his difficulties increasing. There does, therefore, seem to be a good case for some more favourable treatment of British shipowners in respect

*From 'British Merchant Shipping',  
Barclays Bank Review, February, 1953.*

of depreciation, particularly as the age composition of our Mercantile Marine does not compare favourably with the fleets of a number of the other major maritime nations.

Coal-fired vessels are at a disadvantage in respect of turn-round compared with oil-fired (and particularly diesel-engined) vessels running on heavy oil. It has been estimated that the large type of post-war ocean tramp will, at present prices, incur a daily fuel cost of approximately £250 if coal-fired, whereas with heavy-oil diesels this will be reduced to approximately half that figure.

The position of cargo liners is affected in the long run by broadly similar considerations to those governing tramps. The effect of Liner Conferences is, however, generally speaking to even out violent changes in freight rates.

Cargo liners are normally built on specialised lines for particular trades. They are not easily diverted in the event of localised declines in trade. Particularly are these considerations important in respect of refrigerated meat tonnage, and a case in point is the recession in shipments from Argentina which has seriously affected the fortunes of vessels built specially for this trade. Several of these vessels have been laid up for considerable periods when diversion to other meat-producing areas has not been possible. In the Mediterranean trade this country has lagged behind her Scandinavian competitors in specialised fruit-carrying tonnage. In spite of high building costs some effort is now being made to remedy this deficiency.

Generally speaking, rehabilitation of British ports and their equipment has lagged behind that of her North European competitors since the war.

The attitude of organised labour, with its memories of pre-war depression still uppermost, has not helped our competitive position. It is noteworthy that, because of quicker turn-round, vessels discharging bulk grain in Antwerp, Rotterdam or Hamburg accept 3s. less per ton than if ordered to United Kingdom ports.

### (3) PROSPERITY FOR TANKERS

**T**HOUGH the world's shipyards have been turning out tankers on an imposing scale throughout the past four years, the rate of deliveries planned for 1953 beats all records, even the war-time peak of nearly 4½ million deadweight tons in 1944. According to the latest of the half-yearly analyses of the world tanker fleet by John I. Jacobs and Co. Ltd., the London tanker brokers, the total tonnage of new tankers recorded on shipbuilders' order books at the beginning of this year comprised 714 vessels aggregating over 15,250,000 tons d.w. Of these, 241 tankers totalling nearly 4,840,000 tons are due for completion by the end of 1953, another 200 vessels of together 4,300,000 tons in 1954, and most of the balance of over 6 million tons d.w. by 1957-8.

The target set for the current year is by no less than 75 per cent higher than the rate of tanker deliveries in 1952, when 157 new tankers of nearly 2½ million tons d.w. were completed, bringing the world tanker fleet to an all-time high of 2,456 vessels of over 32½ million tons d.w. This is nearly twice its pre-war tonnage of about 16.6 million deadweight tons, though in terms of annual carrying capacity the increase

*From Petroleum Press Service, London,  
March, 1953.*

FLAG COMPOSITION OF THE WORLD TANKER FLEET

(comprising all vessels of 2,000 tons deadweight and over, at December 31st)

	1951		1952		% of 1952 total
	No.	D.W.T.	No.	D.W.T.	
U.S.A. ... ..	585	8,602,562	578	8,553,565	26.26
U.K. and Common- wealth ... ..	555	6,390,328	567	6,843,875	21.02
Norway ... ..	295	4,306,160	319	4,708,929	14.46
Panama ... ..	186	2,796,084	212	3,105,654	9.53
France ... ..	88	1,122,592	100	1,331,743	4.09
Liberia ... ..	37	783,146	68	1,310,137	4.02
Italy ... ..	88	1,047,492	98	1,173,792	3.60
Netherlands ... ..	107	865,752	108	885,882	2.72
Sweden ... ..	47	672,726	58	869,071	2.67
Japan ... ..	39	507,896	45	639,239	1.96
Denmark ... ..	30	443,911	36	545,039	1.67
Argentina ... ..	44	412,423	46	448,940	1.38
Brazil ... ..	8	86,281	17	240,721	0.74
Honduras ... ..	11	220,610	11	220,610	0.68
Spain ... ..	23	200,505	24	204,279	0.62
W. Germany ... ..	14	153,284	17	196,841	0.60
Mexico ... ..	20	189,772	20	189,141	0.58
U.S.S.R. ... ..	21	149,892	26	184,096	0.56
Venezuela ... ..	36	157,231	38	177,193	0.54
Greece ... ..	13	162,033	14	167,472	0.51
Belgium ... ..	8	100,565	8	100,943	0.31
Others ... ..	41	406,243	46	474,969	1.48
Total ... ..	2,296	29,777,488	2,456	32,572,131	100.0

amounts to more than 100 per cent, taking into account the appreciable increase in average tanker speeds since pre-war. The flag composition of the world tanker fleet now in service, compared with that at the end of 1951, is shown in the accompanying table.

Of tonnage now under construction or on order, the largest group, comprising some 4,650,000 tons d.w., is accounted for by U.S. oil companies and by tramp owners of U.S. and other nationalities likely to register under U.S., Panamanian or Liberian flags. Second place is taken by the

3,950,000 tons d.w. contracted for by British oil companies and tramp owners, and by British associates of U.S. oil concerns. Over 3,400,000 tons d.w. are on order for Norwegian tramp owners.

No less than 11 million tons d.w., or 72 per cent of the total tanker tonnage at present on order, is booked by tramp owners, whose share in new buildings thus heavily outweighs oil companies' contracts of about 4.3 million tons d.w.

\* \* \*

With this unprecedentedly big con-

struction programme now under way, it is regarded as virtually impossible to place further orders with any well-known tanker builders in the U.K., Sweden, Norway or the Netherlands with any hope of obtaining delivery before 1957-8. The situation in German yards is on the whole similar, with a few exceptions. In Italy and France, earlier delivery dates might be obtained but only at prices even above the generally high levels now prevailing everywhere, so that government subsidisation schemes were introduced in these countries to stimulate orders for domestic yards; in the case of France, these measures have resulted in securing bookings up to 1956. Japanese shipbuilders are probably able to offer earliest deliveries anywhere, but at present only at very high prices in dollars. In U.S. yards, too, dollar payment and very high costs have to be faced.

Another factor physically accentuating the present crowding of European shipyard space by tanker building is the ever growing size of the ships, for which slipways of adequate dimensions are not always easy to find. Of the more than 700 vessels now on order, only about 50 are of 15,000 tons or less, and very few of those are below 13,000 tons d.w., though the 16,000/18,000 tonner is still the most popular type.

Total new buildings contracted for at December 31, 1952, indicate an average tanker size of 21,365 tons d.w., compared with the average size of the ships delivered during the second half of last year of 17,855 tons

d.w., and that of the total existing fleet at June 30, 1952, of 14,500 tons d.w. The general trend towards raising the carrying capacity of the individual ships gains emphasis by the marked stepping-up of cruising speeds, particularly noticeable in the vessels now on order in U.S. and Japanese yards. Few of the new tankers are slower than 14 knots.

The speed factor has also a marked influence upon the choice of machinery, as reflected in the increasing shift from diesel to steam-turbine propulsion.

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Since the existing tanker fleet still contains an appreciable proportion of older ships, whose speed does not exceed the pre-war average of 10-12 knots, it is obvious that the new tonnage to be delivered within the next few years will raise the transportation potential of the present tanker fleet still beyond the rate of increase indicated in terms of deadweight tonnage.

Further enlargement of the world tanker fleet in excess of immediate needs might contribute to a prolonged weakening of rates. On the other hand the overall increase in the world tanker fleet will clearly be somewhat smaller than forthcoming deliveries suggest on account of the withdrawal of older ships for scrapage or laying-up, much of which is overdue. The future balance of the tanker market is tied up with the problem of obsolescence, and lower freight rates will in fact hasten scrappage.

## American Chief's Appreciation of Limitations of Battle Act

BY W. A. HARRIMAN

*Administrator, Mutual Defence Assistance Control Act.*

**T**HE United Kingdom, France, and Italy, all have historical trade relationships with one or more of the countries now included in the Soviet bloc. A certain degree of dependence upon eastern Europe has been developed, both as a market and a source of supply. The three nations have exchanged their own products for essential coal, grain, foodstuffs, and other commodities. If these countries were forced to shift to other sources of supply, the shift would require the expenditure of more dollars, which these countries do not have.

The United Kingdom can produce only 40 per cent of its own food supply. It is thus dependent on imports to feed its population. Since the end of World War II the United Kingdom has obtained very important quantities of coarse grain and timber products from the Soviet bloc. The coarse grains, through the increase in domestically produced meats and poultry products, have made a vital contribution to the diet of the British people. The timber products have helped to provide adequate housing for a significant number of British families; and such items as pit props have assisted directly in the increase of coal production.

If the British did not obtain these important items from the Soviet bloc, they would either have to procure them largely in dollar areas or go without. If they decided to pro-

cure these items in dollar areas, they would almost inevitably have to reduce their defence expenditures in order to obtain the needed dollars. If they decided to go without, they would have to worsen an already austere standard of living. Either alternative would weaken the British contribution to the common defence.

### France and Italy

A somewhat similar pattern exists in both France and Italy—made more difficult in both these countries, however, by the presence of large and vocal Communist groups. The Communist propaganda line has long been that refusal to trade with eastern Europe has placed severe hardships on western Europeans by cutting them off from important supplies traditionally purchased in eastern Europe.

Italy still depends on the Soviet bloc for supplies of such vital imports as coal, manganese, iron and steel, wheat, and foodstuffs. Italy normally imports about nine-tenths of its coal requirements, and in 1951 the bloc supplied 12½ per cent of Italy's coal imports and 11 per cent of coke imports. Also in 1951 the bloc supplied 6.5 per cent of Italy's manganese imports, 7 per cent of its pig iron imports, over 12 per cent of wheat imports, and almost 20 per cent of other grains including rye, barley, and oats.

France, too, gets important quan-

tities of certain essential imports from the Soviet bloc, such as certain types of coal, although France's total trade with the bloc is not as large as Italy's or Britain's. In 1951 France received from the bloc almost 10 per cent of its coal and coke imports, 8½ per cent of its total glycerine imports, and 10 per cent of its asbestos imports.

Part of the reason why western Europe has been able to reduce its dependence on eastern supplies to these levels, and hence withstand to a marked degree the Soviet-bloc pressures for strategic items, has been the existence of United States aid. If we were suddenly to withdraw this aid, the flow of strategic goods and services to the Iron Curtain areas would be bound to increase. This would defeat the purpose of the Battle Act, not contribute to it.

### **Dodging Embargoes**

Uncontrolled transit trade offers opportunities for steering goods into the waiting hands of Communist governments.

To illustrate: Someone in country A buys copper in country B and orders it shipped to him. En route, the copper must pass in transit through country C. Let us suppose that all three of these countries are in the free world. But while the copper is still in country C—perhaps being loaded from one form of transportation to another—the owner sends an order changing the destination to country D, a nation of the Soviet bloc. This is, in fact, one of the methods by which strategic items have filtered through the Iron Curtain.

Many diversions of that kind take place in 'free ports'.

The only country which is shipping rubber to Communist China is

a country which receives no aid from the United States. This is Ceylon.

### **Ceylon's Special Case**

Ceylon is not a member of the United Nations, having been blackballed by the Soviet Union.

Ceylon has just concluded a broad 5-year agreement with Communist China. Under this agreement, Communist China promised to deliver 270,000 tons of rice per year. Ceylon has promised to make available 50,000 tons of rubber per year.

Ceylon imports about 350,000 to 400,000 tons of rice per year, about half of its annual consumption. In order to pay for this rice, Ceylon must depend on exports of rubber, tea, graphite and a few other commodities. The Chinese offer to supply rice and to take rubber from Ceylon was, therefore, a very tempting one to Ceylon, particularly when the price offered by the Chinese for the rubber is about 40 per cent greater than the world market price for natural rubber.

During the negotiations with representatives of Ceylon in Washington, the United States offered arrangements under which some rice would be made available; but the then existing price was not satisfactory to the Ceylon representatives. The United States also offered to purchase rubber from Ceylon at world market prices and suggested a 'Point Four' agreement along the lines reached with other countries. In the absence of an assurance by the United States of a \$50 million economic aid programme during the next five years, the Ceylon representatives found the United States proposals unacceptable.

[Britain has now agreed that this Ceylon-China trade shall not use British ships.—Ed., E.D.]

# Is West Strengthening Russia's War Potential?

BY DAVID WIGHTMAN

*In 1950, the Soviet Union was Britain's largest single customer for machine tools. Yet these imports amounted to only one per cent of Russia's own production. In view of this and similar evidence, the author now believes that the present rigid embargo on the export of strategic goods actually increases Russia's war potential by hastening her industrial self-sufficiency.*

THE question that is worrying a number of economists is whether we are not unwittingly strengthening the Russian economy in some respects as a result of the way in which we are applying the embargo policy.

Export of arms, ammunition and implements of war is absolutely prohibited, but a wide range of engineering and chemical products also comes under the ban. It is here that many believe the restrictions imposed by the British Government to be too severe.

In view not only of our continuing dollar problem, but the very object of the policy of restriction, it is worth re-examining the trade policy followed by the NATO Powers in relation to the Soviet bloc.

It has always been the United States that has made the pace in framing the scope of these restrictions. It is an important duty of the Mutual Security Administrator, for example, to recommend the suspension of aid to any country that ignores the ban on so-called strategic exports. Trade with China is further covered by a United Nations General Assembly resolution calling on member countries to embargo strategic exports to her.

In this way the ban on exports to

the Soviet bloc became so comprehensive after the outbreak of the Korean war as to lead to a serious decline in the volume of East-West trade. A severe decline in manufacturing exports from the West was matched by an equally drastic decline in the exports of food and raw materials from the East. A fall in British machine tools export to Russia, for example, led to an equally serious fall in Russian grain to Britain. It is not seriously disputed by economists that the countries of the Soviet bloc are an important source of non-dollar food and raw materials. With the disappearance of the post-war seller's markets and the growth of stiffer competition in overseas markets, increasing numbers of business men in Western Europe have also begun to look upon them as new and possibly important outlets for their products.

Here, then, is the dilemma for the countries of Western Europe. At a time when economic pressures on their overseas trade were growing, so also were the political pressures that precluded them seeking any important relief by expanding trade with the East. It is a situation that Soviet propaganda has not been slow to exploit.

Certainly not all countries in the

West maintain the same degree of control over so-called strategic exports. Evidence has grown that the British Government has refused licences for exports which our competitors in western Europe are permitted to ship to members of the Soviet bloc. But the fundamental question is whether a policy that involves these economic sacrifices and political irritations is really achieving its aim of curtailing the industrial expansion and hence the military potential of the Soviet bloc.

### Upside-Down Results

No good evidence has been produced that this has, in fact, been the effect. What figures we have of Russia's industrial expansion still show remarkable increases. Moreover, there are reasons for believing that the effect of denying the Soviet bloc engineering products has been the opposite to that intended.

In 1950, for example, the Soviet Union was the most important single market for Britain machine tools, but these constituted less than one per cent of its own production. This small percentage was not even vital in a qualitative sense for, as the Leipzig Fair last year showed, the Russians are capable of producing all known types. It is relatively easy, therefore, with their methods of economic planning, to increase the amount of investment in machine tool making capacity when the import of these goods from the West falls. In short, as our exports of engineering products have fallen so has the East stepped up its investment in industrial capacity to make these products, at the expense, most probably, of current or planned consumption standards. The West has lost market after market in this way, while securing an ever smaller

supply of non-dollar food and raw materials in return.

In other words, our ban on a wide range of engineering and chemical products may well have compelled a further increase in the industrial capacity and hence in the military potential of the Soviet bloc. It is not at all clear, therefore, that the present restrictions are vital to our security in the long run. For these reasons there appears to be a case for taking a less alarmist view of stimulating trade to the East in many of the goods traditionally exported to them.

But it will be asked: Does the Soviet bloc really want to expand its trade with the West? Those sceptical of Russian professions can point to their failure to reply to the U.N. invitation to have trade talks in Geneva last September to see if the present deadlock could be broken. We have also the spectacle of the Prague trial at which one of the heresies denounced was that of expanding Czechoslovakia's trade with the West.

### Why Not Test Russia?

Yet the fact remains that Russia is still able to pose as the great champion of more East-West trade while the West is on the defensive. Why not put her professions to a stern test by adopting less stringent restrictions on the export of commodities she has traditionally bought from the West? This could have a number of advantages.

If the Soviet bloc did not make a positive response to such a move, their professions would be exposed for what they are worth. If they are not bluff, then we shall reap the economic benefits of increased trade without seriously endangering our security interest.

But any move of the kind advo-

cated here must have the agreement of the United States. A new Administration there offers the opportunity for a fresh approach to this controversial issue of how much and what kind of trade should the West allow with the Soviet bloc. It is much to the interest of Congress that it should

adopt a more realistic approach to this problem. If it does not, it will have only itself to blame if Soviet propaganda is able to weaken the political cohesion of the Western alliance by exploiting the growing frustration in Western Europe with the present severe restrictions.

## U.K. Trade with U.S.S.R.

A CONFERENCE ON East-West trade in Europe is tentatively arranged for mid-April. In this conference (should it take place) the United Kingdom's attitude will be important, since, in the first half of 1952, she absorbed about 30 per cent of all western Europe's imports from eastern Europe.

The United Kingdom's trade with Russia was controlled for 1947 (when the exhaustion of the dollar loan made it imperative to seek certain essential imports outside the dollar area) by formal agreement. Russia was to supply coarse grains in exchange for specified engineering goods and the good offices of the British Government in securing early delivery. It was found impossible in 1948 and 1949 to renew the agreement because Russia was demanding delivery dates which British manufacturers could not comply with, and supplies of certain commodities—*e.g.*, tin—then subject to international allocation. Nevertheless trade has proceeded satisfactorily without an official agreement; and although the Russians prefer dealing with government organisations, there is no reason why the return to private trading in the two major United Kingdom imports, softwood and coarse grains, should offer any diffi-

culty. However, the range of goods which the Russians may buy has been narrowed on grounds of national security and they have therefore tended to use their earnings on raw materials from the outer sterling area.

Trade with the Iron Curtain countries has been seriously affected by United Kingdom export licence control of strategic goods and materials which, from April, 1949, has become increasingly tight as political relations between the eastern and western blocs have deteriorated. The export of certain goods is completely banned; of others it is restricted to estimated non-military consumption. Both lists are revised from time to time. Furthermore, the rearmament programme has meant that fewer goods (particularly machine-tools) have been available for export to eastern Europe even if licences for them could be obtained. Finally the United Kingdom, hard-pressed by balance of payments problems, has felt unable to import many unessentials from the eastern bloc, the countries of which are busy with industrialisation programmes and unwilling to import unessentials in return.

Trade with the countries of the eastern bloc is channelled almost exclusively through their state trad-

*From 'East-West Trade Prospects', Times Review of Industry, London, March, 1953.*

**Quantities of Imports of Principal Commodities from Soviet Union (including Estonia, Latvia and Lithuania).**

	1949	1950	1951	1952 (Jan.- Sept.)
Grain and flour—thous. cwt.	4,068	13,504	16,805	15,946
Fish (inc. shell fish), canned cwt.	145,699	2,544	60,278	110,905
Fur skins, undressed (other than rabbit skins) cwt.	8,186	10,010	12,731	8,354
Paper-making materials— tons	15,453	23,602	18,889	2,567
Wood and timber:				
Sawn soft n.f.p. stdd.	90,784	161,455	103,013	31,060
Pitprops Piled c. fath.	11,387	49,747	48,657	49,260
Plywood thous. cub. ft.	410	1,694	2,525	1,830
Bristles cwt.	1,873	1,741	4,716	881
Hair, raw of all kinds (except mohair) cwt.	14,395	12,491	9,363	4,860
Refined petroleum— thous. gall.	2,181	—	—	—
Fur and other skins, dressed, &c. cwt.	558	1,919	794	673

**Quantities of United Kingdom Exports of Principal Commodities to the Soviet Union (including Estonia, Latvia and Lithuania).**

	1949	1950	1951	1952 (Jan.- Sept.)
Wool and woollen rags: centals	60,494	63,407	4,224	—
Machinery and parts: tons	16,123	22,512	10,493	7,183
Of which				
Electrical machinery "	10,566	15,292	2,276	1,256
Excavating machinery "	1,975	2,178	61	—
Machine tools (metal- working) "	727	3,470	4,876	4,951
Prime movers "	432	742	93	7
Tin "	—	635	100	250
Re-exports—				
Rubber, raw "	482	10,076	41,620	73,801
Sheeps' and lambs' wool: th. lb.	263	185	251	—

ing organisations; and it is Board of Trade policy to encourage trade, within the limits imposed by the requirements of national security and the problem of balancing payments, and provided that it is conducted in sterling.

As the United Kingdom export licence list has grown so, too, has the eastern tendency to use sterling earned by exports to Britain for buying outer sterling area raw materials, many of which need not be bought in London. Thus although the United Kingdom took 30 per cent of eastern Europe's exports to

west Europe, January-June, 1952, she supplied only 7 per cent of west Europe's exports in return over the same period.

On the whole, the initiative in settling the volume of trade seems to lie with the eastern bloc. In part this is a consequence of eastern state planning, in part a result of the United Kingdom's crushing security embargos, and perhaps in part to what one firm has described as the attitude of the Board of Trade in regarding the promotion of trade as a poor second to the scrupulous observance of trade regulations.

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## Unprofitable Mines of the Ruhr

**U**NDER 10 per cent of the West German coal output covers its cost of production after depreciation; 40 per cent just earns its depreciation and 50 per cent does not even do this. These figures are even more impressive when the low depreciation rate allowed to Ruhr mines is taken into consideration; it is only DM.2.5 per mined ton, or half that, for instance, of the Saar mining industry. Unlike other branches of German industry, the coal mines since the war have been able to effect little improvement and expansion through self-financing.

The end of the war found West German coal output back at the same level as at the time of the Franco-Prussian war.

The Ruhr coalfield area is estimated in size at 6,200 square kilometres, and is composed of the entire scale of hard coal ranks: anthracite, steam-coal, bituminous, and high-volatile gas coal. Since the

loss of the Upper Silesian hard coal-fields, the West German Republic, including West Berlin, is mainly dependent on the coal produced from the 159 mines of the Ruhr. The main factors hampering production, other than the financing of investment in the industry, are connected with manpower.

The age distribution is unsatisfactory—the proportion of the most productive age-groups between 26 and 40 is still under 30 per cent; and there is a disastrously high turnover of labour demonstrated by the fact that of the 554,000 recruits since 1946, no less than 386,000 have left the mines. When to these considerations is added the lack of skilled miners it is easy to see why output per manshift underground is still only at 76 per cent of its 1938 level.

The problem of labour in the industry is governed by the need for more miners' houses, over 75 per cent of those used before the war

having been destroyed by 1945. On top of this the labour force employed in the mines has increased by 110,000 over the same period. New labour after the war was composed for the most part of refugees who were accommodated in camps and drifted out of the industry after long years of waiting for homes; migration from the mines swelled to 70,000 in 1950 and rather more in 1951.

### **Uneconomic Export Prices**

Between 1945 and 1950 West German coal was sold at an artificially cheap price abroad—the West Germans had no voice in the fixing of export coal prices; while the internal cost, like the cost of bread, had to be kept low for political reasons. Until recent months, moreover, the obligation of a quota of coal exports fixed by the International Ruhr Authority had to be met, and 23 per cent of total production went abroad in 1951 and 1952. At the moment, as a result, there is a 6m.-ton shortfall which necessitates dollar coal imports from the U.S. costing approximately DM.400m.

The German Coal Management estimates that for a five-year plan of re-equipment and expansion of the Ruhr industry, a minimum sum of DM.4,000m. is required. This figure dwarfs the capital investment so far given, and the Coal Management does not know how far the Schuman plan will be of assistance to its needs. Certainly this is a very worrying period for the industry, since from April 1 the miners' shift-time is—as a concession to repeated demands—being reduced from 8 hours to 7½

hours. A 5 per cent decrease—involving 6m. tons this year—would double the existing shortfall between supply and demand.

Apart from the inadequacy of capital investment and the impossibility of any appreciable self-financing from profits, Ruhr mines labour under adverse geological conditions of extraction. The average depth of deposits is high and the thickness of seams low, while there is a multitude of faults and undulations to an extent unknown in U.K. or U.S.A. For instance, the writer went down a coal face near Essen which was a gradient of 35-40 degrees. The thinness of seams and their heavy sloping makes mechanisation most difficult just where it is most needed.

One hundred thousand more miners are employed today than in 1938, when production in the mines now in Western Germany was 137m. tons, or nearly 10 per cent higher than current output. There can be little doubt that, apart from the subsequent ravages of war, the industry was already starved of investment capital by 1938, for the Ruhr mines were in fact neglected in this respect during the time of the Third Reich.

### **Lucky Poland**

Much more capital was poured into the Silesian mines, where modernisation in those years proceeded rapidly. The Poles, therefore, inherited an industry in very good shape, a particularly sore point with the Federal Republic left with the under-developed, semi-destroyed coal mines of the Ruhr.

## Britain's Economic Problem: Its meaning for America

**D**ESPITE her present economic difficulties, Britain remains our strongest and closest ally. The solution of Britain's economic problem and the strengthening of the British Commonwealth and of the Anglo-American partnership have a special importance for the United States and for the whole free world. They have for this reason a special claim on the economic and political resources that the United States is able to devote to foreign policy. The strengthening of Britain and of the Anglo-American partnership must be the cornerstone of American foreign policy. Otherwise, the North Atlantic Treaty Organisation (NATO) would fall apart, the morale of the continental European countries would crumble, and the United States would be diplomatically and militarily isolated.

### Reasons for Rigidity

To maintain an acceptable rate of industrial growth and growth of real income per capita, particularly after World War I, Britain would have had to alter rapidly the structure of her industry and the composition of her exports. The British would have had to shift the emphasis of their industry towards more complex industrial products and capital goods. Some British industries were able to adapt successfully to the changes in world markets. But British industry as a whole was unable to adapt rapidly enough. The responsiveness of the supply of British exports to changes in the composition of foreign demand for such exports was, and remains, inadequate.

The ability of British industry to adapt to the changes in the world economy was also affected adversely by psychological and institutional changes in British industry and labour. In a number of British industries rapid technical progress has been the rule, particularly in more recent years—for example, in electronics, aircraft engines and some chemicals. The British have long excelled in pure science and in *scientific* research. But most of British industry has been much slower than its German and American competitors to accept the need for *industrial* research—the application of science to industrial technology. In a number of areas, British industrial management has long been less vigorous, imaginative and aggressive in the renewal of plant and equipment, in technical innovation and selling, than its American or German competitors. The rather low level of corporate savings in British industry in the inter-war years contributed to these results.

### Changed Trade Patterns

The weakness of Britain's balance of payments has been greatly aggravated by political and economic developments in Latin America, the overseas Commonwealth countries, Asia and Eastern Europe. Most important among these developments are the very rapid population growth in some of these areas, the advance of communism into Eastern Europe and China and the resulting political impediments to East-West trade, government efforts in many less-developed countries to stimulate

*From 'A Statement on National Policy', by The Research and Policy Committee of the Committee for Economic Development, Washington, March, 1953.*

industrialisation, and civil disorder in parts of the Far and Near East.

The combined effect of these developments has been to slow the rate of growth of agricultural production relative to population in many countries of the 'non-dollar world'. This has greatly slowed the rate of growth of agricultural exports from these countries. In the case of several important commodities, in fact, it has reduced below pre-war levels the physical volume of exports from non-dollar areas to the United Kingdom, Western Europe, Japan and the United States. This has been true, for example, of wheat, rice, feed grains, meat and certain fats.

The serious lag of agricultural exports from non-dollar countries has tended to break down the pattern of international specialisation on which the British economy depends. Industrial recovery in Europe and Japan and the rapid expansion of American industry have created a rising world demand for agricultural commodities. In the face of this demand, the retarded growth of world agricultural exports has put serious strain on Britain's balance of payments. It has caused a great increase in the prices of British imports relative to the prices of British exports. Even before the Korean war, British import prices had risen 25 per cent more than export prices relative to 1938 levels. In the first three quarters of 1952, this ratio was 33 per cent.

### **Reduced Competitive Power**

Britain has been forced to buy from the United States and Canada agricultural staples which she previously imported from non-dollar areas. As a consequence, a serious balance-of-payments problem has developed between the United Kingdom and North America. This

is a central reason why the United Kingdom has experienced a severe 'dollar shortage'.

Deterioration has been apparent since the outbreak of World War II in the competitive ability of Britain. During the war, American products replaced British products in many Latin American, Commonwealth and Asian markets, because British exports suffered more than American from wartime industrial mobilisation. The deterioration in the competitive position of British exports also reflects the continuing effects of the underlying causes of Britain's pre-war export difficulties. Too few British firms and industries have been successful in adapting to post-war conditions and in expanding exports to competitive markets. Chronic inflation in the United Kingdom since the war has contributed to the trend.

### **U.S. Tariffs: Exaggeration**

Our complex and burdensome customs regulations and procedures create uncertainty and risk for the foreign exporter. Accordingly, relatively few British manufacturers are willing or able to undertake the large commitment of funds and executive energy necessary to expand production and build up large sales and servicing organisations for the American market.

The American tariff remains a considerable obstacle. Without the tariff a much wider range of British manufactures would be competitive in the American market from the standpoint of price. But the effect of a reduction or removal of the tariff on the *volume* of imports would be considerably less than has often been assumed, unless further action were taken that would assure foreign manufacturers that the tariff, or its

equivalent, would not be suddenly raised again.

There are several reasons why demand in Great Britain has been both excessive and distributed badly from the standpoint of increasing productivity and exports. One cause is the strong political and economic position of British labour since the war. A second cause is to be found in a basic shift of thinking in Britain, as in other countries, about government responsibility for maintaining full employment and for changing the distribution of income through tax policy.

A third reason has been capital export to the sterling area, primarily in the form of releases from the wartime sterling balances.

Since the Korean War began, rearmament has been a fourth cause of inflationary pressure in Britain.

Finally, the expansion of the physical resources available to the British economy to meet all these demands has been retarded by the adverse movement of Britain's terms of foreign trade and by the sharply reduced growth of production in Britain since 1950.

\* \* \*

In sum, Britain's economic problem is both deep-seated and complex. Its roots lie in the insufficient adjustment of Britain's economic structure, institutions and attitudes to the changed international economic and political environment — aggravated since the war by inflation in Britain and the sterling area.

### **U.S.A. Must Be Concerned**

Every thoughtful American must be aware of the urgency of this complex problem and of its importance to the United States. Because our security is so much affected by Britain's strength and friendship,

Britain's economic problems are in part our problems. Measures to meet and overcome them therefore deserve the most serious consideration in this country as well as in Britain and in the rest of the Commonwealth. The recent London meeting of the Commonwealth Economic Conference gives hope that the British and Commonwealth governments will face realistically their common economic problem. But there is still far too little public understanding of the problem in America, in Britain and in the rest of the Commonwealth.

We believe that a way must be found, beyond what can be done by changes in the present composition of total investment in the United Kingdom, to increase the supply of equipment for investment in British industry. To the extent that this cannot be done by reducing consumption, further modification of the British military production programme will have to be contemplated. If, for military reasons, the over-all NATO military programme cannot be further slowed down, an alternative is for the United States to assume a larger share of the NATO production programme. This would permit British industry to use some industrial capacity now devoted to military production for producing investment goods.

The issue is not *whether* demands on British resources will be trimmed to the size of those resources, but *how* this will be brought about.

Will demands on British resources be reduced by the disorderly process of inflation, culminating in further balance-of-payments crises, in a withdrawal by the United Kingdom from international commitments and in a crisis in Anglo-American relations? Or will demands be reduced

in an orderly and rational way? This can be accomplished if the British people will accept a rate of growth of consumption consistent with Britain's present means and future solvency, and with her responsibilities in the Commonwealth, the Anglo-American partnership and the NATO. If the British government and people will adhere to a programme of this kind, the United States should be prepared, if necessary, to assume for a period an increased share of the burden of defending the free world.

### **Dollar-Sterling Stability**

We are inclined to feel that the establishment of a dollar-sterling reserve or stabilisation fund should be postponed until measures have been taken to ease substantially the present strain on the sterling area's balance of payments with the United States. As this shorter-run objective is approached, the way will be clear to consider how the problems of increasing confidence in sterling and supplementing the inadequate sterling area dollar reserve can best be met. The answer may lie in some kind of dollar-sterling reserve or stabilisation agreement. Or it may lie in a reorganised and strengthened International Monetary Fund.

### **Sterling Area Economics**

It has become increasingly clear

over the last two or three years that the sterling area financial arrangements in their present form contribute to inflation in the British economy and to the sterling area's balance-of-payments troubles. Two policy problems, we believe, require urgent consideration.

(1) The sterling area dollar pool operates without sufficient co-ordination of financial and commercial policies among its members. As a result, drawings by some members on the central dollar reserve have sometimes been excessive.

(2) The United Kingdom contributes capital on a large scale to the development of other Commonwealth countries by permitting liberal drawings on sterling balances and through private capital exports. Yet, as the Commonwealth Economic Conference recognised, the size and direction of the development programmes of some sterling Commonwealth countries have been determined without sufficient concern for the balance of payments of the sterling area with the rest of the world or for the economic future of the Commonwealth as a whole.

We believe, therefore, that present arrangements for consultation about and co-ordination policies among Commonwealth members need to be strengthened.

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### **EISENHOWER'S AGRICULTURE SECRETARY SHOCKS FARMERS**

Price supports should provide insurance against disaster to the farm-producing plant and help to stabilise national food supplies. But price supports which encourage uneconomic production and result in continuing heavy surpluses and subsidies should be avoided. Farmers should not be placed in a position of working for government bounty rather than producing for a free market.

It is doubtful if any man can be politically free who depends upon the State for sustenance. The future of agriculture and the preservation of a sound economic system depend upon the vigorous re-emphasis of the principles, benefits, and values of private competitive enterprise.

*Washington, February, 1953*

## U.S. Aid for British Productivity

### £3 million for Industrial Research

THE Governments of the United Kingdom and the United States of America have agreed on the allocation of about £3 million counterpart funds arising from the operation of the M.S.A. Economic Aid scheme.

Under the general direction of the President of the Board of Trade, this money will be devoted over a period of two to three years to schemes associated with efforts to increase productivity and designed 'to assist in the provision of services by which industry can help itself, to promote research necessary for this purpose, to make what provision it can to give industry encouragement to raise its efficiency, and to provide for co-operative action between government, management, and labour, so as to enable industry to raise the national production to new heights'.

Details of the proposed allocation between the various forms of assistance are given below.

(a) **Advisory service.** To advise concerns, especially the smaller concerns, on re-organisation and production techniques with a view to increasing productivity and lowering prices. The advisers might be members of the staff of research or business organisations if they specialised in the problems of particular industries, or might work under contract for, say, the British Productivity Council or with the Department of Scientific and Industrial Research if they specialised in techniques applicable to the whole of industry.

*Estimated expenditure during a period of two to three years of counterpart funds*

*From 'Arrangements for Expenditure of Counterpart Funds Derived from U.S. Economic Aid', H.M.S.O., London, CMD 8776, February 26, 1953 (Board of Trade Journal Summary).*

*from 1.28 million dollars (£0.457 million).*

(b) **Expansion of research** into factors affecting the efficiency of the national economy. This research would deal with, among other things, such matters as incentives in industry or agriculture, the effects of restrictive practices, and the relative efficiency of competitive and monopolistic enterprise. The programme would range from medical work or research into the sociology and social psychology to pure economic descriptive, statistical and theoretical work. Special emphasis would be given to applied research in these subjects. Such a programme would be carried out largely under contract by various bodies, including the universities and economic or sociological institutes, the British Institute of Management and other professional and learned bodies.

(c) **Promotion of studies.** This proposal includes the promotion of studies in technological subjects at various universities and technical colleges, the training of staff for courses for supervisors, the provision of scholarships, including scholarships for trade unionists, in management subjects. Part of this proposal might take the form of a contribution by endowment to the building up, recently announced by the Government of the United Kingdom, of at least one institution of university rank devoted predominantly to the teaching and study of the various forms of technology and their application to production processes. These projects would not only help to fill the gap between industrial and agri-

cultural research and its practical application in factory and farm, but also would enable management and labour to gain an appreciation of methods designed to increase productivity.

*Estimated expenditure in respect of (b) above during a period of three years and in respect of (c) above during a period of two to three years, of counterpart funds from 2.8 million dollars (£1.0 million).*

(d) **Publicity.** It is proposed to give this programme wide publicity, emphasising the contribution it can make to the achievement of the objectives stated above.

*Estimated expenditure during a period of two to three years of counterpart funds from 0.5 million dollars (£0.178 million).*

(e) **Loans to Industry**

(1) It is proposed to set up a revolving fund of 2.8 million dollars (£1 million) to be used for short-term loans to industry for equipment and re-organisation of plant. In appropriate cases these loans would be used to carry out the recommendations of the Anglo-American Council reports or of the advisers referred to in sub-paragraph (a) above.

(2) In the administration of the fund advice on the matters referred to in sub-paragraph (3) below would be given by a committee or committees to be created for that purpose including members selected from such national organisations representing both sides of industry as the Federation of British Industries, the National Union of Manufacturers and the Trades Union Congress, possibly through the British Productivity Council.

(3) The fund would be administered in accordance with terms which would provide, *inter alia*, that loans should be used to increase production and productivity, with conse-

quent lower prices to consumers, so as to promote an expanding economy capable of providing a progressive increase in standards of living. The importance would be stressed of making these loans available to small and medium-sized enterprises in order to increase the ability of industry to produce under fully competitive conditions; importance would be attached to choosing sound firms likely to be able to market their increased production, and to the necessity, if the loans were to have their maximum utility, of providing means whereby the knowledge and experience gained in suitable cases (such as those in which the money was spent on implementing the recommendations of a productivity report or of the advisers) would be made available to others in a position to benefit from it and whereby the results achieved through higher productivity could be equitably shared.

*Estimated expenditure of counterpart funds from 2.8 million dollars (£1.0 million). No period has been set for this operation.*

(f) The Government of the United Kingdom will be prepared to play its part in a productivity agency to be established by the Organisation for European Economic Co-operation.

*Estimated expenditure during a period of three years of counterpart funds from 0.72 million dollars (£0.254 million).*

(g) The balance of the counterpart funds to be provided, 0.9 million dollars (£0.321 million) will be distributed among those projects within the above programme on which it could most effectively be used for expenditure within the periods indicated in the appropriate sub-paragraphs.

# Mechanisation versus Wages

BY SEYMOUR MELMAN

*Assistant Professor of Industrial Engineering, Columbia University, New York.*

*This item carries the discussion on wages and productivity to the point where managements find the substitution of machinery for labour an economic proposition. Professor Melman argues that U.S. productivity is higher because American managements found that high wages made this substitution worth while about ten years before British industry.*

WHAT equipment and methods each management decides to use turns not on the highest possible productivity but on considerations of business costs. At once the question arises: What is the relation between productivity and the costs of using a range of equipment to do a given task? In Table 1 is shown the cost of purchasing and of operating certain materials handling equipments (exclusive of operator wages) in terms of their cost in the United States in 1951. In the last column there appears the time required per unit of work when one operator mans each piece of equipment.

The use of all these methods requires the labour time of workers whose wages do not appear in the estimates of machine costs in Table 1. At a given time the preference for certain methods would depend on the combined costs of machinery and of the needed labour, for the amount of labour required can be varied according to the productivity of the method that is selected. The clue to the trend in preferred production methods will be found in the data of Table 2, which illustrates the changes in both machine and man-hour cost in the United States and in the United Kingdom, spanning the

Second World War experience in both countries.

The man-hour and machine-hour costs shown here are principal components of very many estimates of unit costs for materials handling operations. *In both countries the average hourly earnings of industrial workers rose more rapidly than did the costs of operating the same class of fork-lift truck.* As a result the relative costliness of labour increased in both countries, as revealed by the number of machine-hours purchasable at the cost of a man-hour of industrial labour (line (c) of the table). The shift in the relative costs of labour and machine-hours shown here has twofold interest: it is typical of the long-term trends of these costs; and it has the effect of changing the costs of working by manual as against machine methods in many industrial operations.

This change, repeated many times over throughout manufacturing industry, describes the problem for which management has sought and found a counter-move in the form of higher productivity methods, requiring fewer high-cost man-hours per unit of work done.

Certainly other conditions are also necessary for such changes. These include facilities and know-

TABLE 1

*Problem: Transport a 500lb. steel barrel 100 yards; United States conditions, 1951.*

Equipment	Purchase Price 1951 (Dollars)	Estimate Equipment Cost per Day of Use (Dollars)	Estimated Direct Labour Time per Transport (Minutes per Barrel)
None (roll drum) ...	—	—	4.50
2-Wheel hand truck ...	53.50	.21	3.50
2-Wheel hand truck with barrel loader ...	69.00	.27	3.20
Hand-drawn truck, hydraulic lift, pallet type	418.50	1.60	1.13
Battery-powered hand truck, pallet type ...	2,200.00	2.00	0.73
Fork-lift truck, battery-powered Rider type...	7,700.00	7.00	0.50

ledge for designing, constructing, and using new equipment, and the availability of capital to purchase it. In the major English firms whose plants we visited all of these condi-

tions existed in both 1938 and 1950. Yet it was only toward the latter time that there was a concerted move towards equipment yielding higher productivity. The rise of

TABLE 2

*Man-hour and Machine-hour costs in materials handling before and after the Second World War.*

Cost Category	United States		United Kingdom	
	1940 —(Dollars)—	1950	1938 —(Shillings)—	1950
(a) Average hourly earnings in manufacturing ...	.661	1.46	1.14	2.76
(b) Operating cost/hour of 4,000lb. fork-lift truck ...	.71	.84	2.0	2.8
(c) Number of machine-hours equal in cost to a man-hour, a/b ...	.93	1.74	.57	.99

labour cost as compared to machine-hour costs was clearly the determining factor in management's developing preference for manpower-conserving equipment.

The determining role of alternative labour and machine costs on changes in production methods is sometimes obscured by the fact that few managements actually make detailed studies of the man-hours and the costs involved in alternative methods. In many firms such changes are only made when the possible savings are so substantial and so 'obvious' as to make the work of studying the alternative costs of operations seemingly unnecessary. Again, in several cases it was said that mechanisation of operations was being undertaken to overcome limitations of floor space and labour supply.

In such cases there were, invariably, many possible ways of dealing with these matters. Consistently, however, the way chosen was the path appropriate to the changed relative costs of man and machine hours.

The materials handling equipment and methods which were being widely introduced in England in 1950 were the United States innovations of 1940. *The main difference between the two countries in mechanisation, and thereby in productivity, is not one of time or technical competence, but of difference in alternative costs, by which the interest of managements in labour-saving methods is determined.*

Alternative costs limit the equipment which is economical under given conditions. Thus, under average British 1938 cost conditions the higher productivity equipment for materials handling which was widely introduced twelve years later would not have been the economical

method. For each firm the preference for 1938 methods at that time may have been sound business judgment, but it also had the aggregate effect of holding British man-hour productivity at a relatively lower level than that of the United States.

The change of alternative man and machine-hour costs impels increases in the mechanisation of production. The level of mechanisation, in turn, determines the level of productivity.

In the United States from 1899 to 1949 output per worker man-hour in manufacturing has increased at an average annual rate (compounded) of 3.1 per cent. Installed horse-power per worker rose 2.8 per cent per year (compounded) over the same period. A similar close relation between mechanisation and productivity is found in comparing installed horse-power per wage-earner with productivity in the manufacturing industries of different countries.

Thus a brief statement of the implications of these findings is as follows:

1. Industrial management, operating according to conventional business rules, has countered the successful pressure of labour for higher wages by mechanising industrial work.
2. Past and current levels of industrial productivity in England have not been inconsistent with the prevailing levels of alternative labour and machine-hour costs.
3. Further major increases in England's industrial productivity await management's need to counter rising labour costs.

## Argentina in Wonderland

### Curious Chapter of History Summarised

**T**HERE is a monopolistic State organisation in Argentina with the short name of IAPI which is the sole purchaser and seller of agricultural produce, such as wheat, maize, linseed, meat, etc. This concern bought goods at fixed very cheap prices from producers giving a preference to smaller ones (in the years 1946/48 the first 300 tons of wheat sold got the fixed price; above this quantity, there was a reduction of about 10 per cent). The goods were sold outside or inside the country for what they could fetch and the enormous profits made were utilised to finance a quick and very fargoing industrialisation programme.

We quote a few relevant facts. In view of agricultural production having become uneconomic, the sown areas which in 1938/39 covered 19.5 million ha, fell in 1951/52 to 12.6 million ha or by one-third, while the wheat and maize area have fallen more than 50 per cent, and the area under flax by nearly three times. The population having emigrated to towns and having a higher income, the food consumption rose to such a level that the reduced agricultural production does not suffice even to supply the internal market. A meatless day was recently introduced in Argentina which used to be the queen of meat exporting countries a few years earlier.

This year (1952) the wheat crop was so short that imports from Brazil have taken place. Prices to producers were increased somewhat recently,

but in spite of the fact that Argentina sells her wheat abroad, not at the fixed prices of the International Wheat Agreement, but at prices which her wheat can fetch, the Argentinian prices of wheat to producers are still 20 per cent lower than the producer gets in the U.S.A., and 40 per cent lower than the Canadian producers' price. With meat the position is the same.

#### What It Costs

To illustrate the economic effects caused by this policy we quote a few facts.

Argentina has introduced a very complicated system of foreign exchange rates. At the end of 1946 these rates were fixed for different purposes between 3.78 and 4.94 pesos per U.S. \$. In 1952 the selling rates were between 5 and 20.45 pesos per U.S. \$, of which presumably the main bulk was sold at 20.45. The buying rates were 3.86 to 3.98 in 1949 and are now between 5.00-7.50. The high selling rates amount to a tax on imported goods and the much lower rates for purchases of foreign exchange have the purpose of expropriating some of the proceeds of Argentinian exports.

Argentina had a gold reserve at the end of 1946 amounting to \$ 1,072m. The latest available figure is \$ 268m.

The cost of living rose in Argentina from 100 in 1948 to 314 in 1952, or by 214 per cent.

## How Britons Keep Warm

### Facts from a Sample Investigation

**S**OLID fuel is used by 98 per cent of families to heat their main living room. In this main room, 67 per cent have an open fire, 24 per cent a range or cooker and 9 per cent another type of solid fuel appliance.

Open fires are found in the main living rooms of 89 per cent A class households (where income is over £1,000 a year) reducing down to 56 per cent in the lowest group. Conversely, the percentage of ranges or cookers found in the main room varies from 4 per cent in A class to 39 per cent in E class (income less than £260 per annum). In A class, the main room is usually the sitting or dining room, whilst in E class it is mostly the kitchen (with an open fire as well in the parlour).

These figures confirm what have always been regarded as the basic assumptions of any national fuel policy, that the main domestic space heating load is carried by solid fuel and that the traditional love of the open fire is firmly woven into the pattern of family life.

What emerges strongly at the same time, however, is that at the lower end of the income scale the main room is heated by an appliance which does another job as well, usually cooking. This, combined with the ingrained preference for a fire around which the family can gather, points the way to the type of appliance which will be in demand for reconditioning older terrace houses.

The survey shows that, in winter, 47 per cent of families get their hot water from solid fuel heating, 44 per cent from gas and 9 per cent from electricity. 31 per cent of main room

appliances have back or side boilers for hot water supply.

One in four households has no water heater and 17 per cent have even no piped cold water; in many of these homes a gas cooker or gas ring is often the only available method of water heating. This accounts for the high figure of 44 per cent for gas water heating among the lower income groups.

The widespread lack of hot water equipment emphasises the need for reconditioning old houses and indicates the scope for the installation of piped hot water supply systems.

The housing conditions revealed by the survey will not be remedied without the type of financial incentives to landlords and owners which have for some time been advocated by the Coal Utilisation Council and are now recommended by the Ridley Committee, such as amendment to the Rent Restrictions Act, assistance under the 1949 Housing Act and encouragement to local authorities to use their borrowing powers and credit facilities for the general public. 72 per cent of families rely mainly on gas for cooking, 15 per cent on solid fuel and 14 per cent on electricity.

With an unrestricted supply of fuel of all types at today's prices, 92 per cent of housewives prefer solid fuel for space heating, 45 per cent for water heating and 14 per cent for cooking.

The Ridley Committee's conclusion that 'for continuous room heating, solid fuel burnt in modern types of appliances uses coal more efficiently than does gas or electricity'

*From 'A Survey of the Domestic Use of Solid Fuel and Solid Fuel Appliances in Great Britain', published by the Coal Utilisation Council, London, February 24, 1953.*

would seem to go hand in hand with public preference.

### More Coal Wanted

44 per cent of households said they needed more coal than they got, and said they would like, on the average, about an additional 14 cwt each. This is the equivalent of about 6 cwt for every household throughout the country, or a total of approximately 4½ million tons—a figure which is remarkably close to the Ridley Committee's estimate that the

current unsatisfied demand for coal is about five million tons a year.

Of the 49 per cent housewives who said they would not buy more coal at today's prices if restrictions were removed, nearly half said that it was because they could not afford more. Only about one household in four, therefore, did not really need more coal than it gets today.

Restrictions on domestic solid fuel deliveries in recent years have caused an artificial increase in the use of gas and electricity for space and water heating.

## Output and Productivity in British Coalmines

	<i>Number employed</i>	<i>Output</i>	<i>Annual Output per Man Employed</i>
	<i>Thousands</i>	<i>Million Tons</i>	<i>Tons</i>
1903-1912 Annual Average:	936	254	271
1913	1,107	287	259
1922	1,094	250	228
1927	998	251	251
1930	917	244	266
1933	772	207	268
1938	782	227	290
1948	724	198	273
1952	715	214	300

*Table from Cadman Memorial Lecture, delivered by E. H. Browne, C.B.E., at the Royal Society of Arts, London, February 25, 1953.*

### TRAVELLING EXPENSES

The estimated annual loss to Treasury if wage and salary earners were allowed to offset travelling expenses to and from work against income would be about £20 million.

*Chancellor of Exchequer, House of Commons, February 17, 1953*

# House Subsidies: Open and Concealed

BY H. G. HODDER

**T**HE housing subsidy in respect of houses built for local authorities in Britain is paid by way of annual contribution (in the proportion of three-quarters from the Exchequer and one-quarter from local rates) and its purpose is to enable rents to be fixed much lower than their true economic level.

In terms of capital, if the annual contribution continues at its present rate, each council house of an average cost of £1,700 involves a subsidy of nearly £800. Nor is this all. Many local authorities, unable or unwilling to charge rents in accordance with the general subsidy scale, are, in effect, granting a further concealed subsidy by drawing on accumulated funds or the general rate fund to bridge the difference.

The London County Council is a case in point. The gap between rents and costs after allowing for subsidy contributions in the present year is £1,800,000. If the whole of this amount is not to fall on the general ratepayer as an additional rate subsidy rents must rise; but to cover the gap completely would involve an increase of more than 4s. 6d. a week—a burden which the Council is unwilling to impose on its tenants. Accordingly it is proposed to increase rents by an average of 2s. 6d. a week and thus reduce the supplementary rate contribution by about half to approximately £900,000.

Even this comparatively straightforward decision to increase rents uniformly is not free from inequity

owing to the curious anomaly of the Rent Restrictions Acts from which are excluded council houses built since 1919 but not those built earlier. So yet another inconsistency of these Acts emerges from a rather unexpected direction—which explains why there is a preference in some districts for a pre-1914 council house, the rent of which is controlled, rather than a more modern one that is not protected.

## Wastage of Property

Much has been written about the problem of the decay of old houses and it has even been suggested that the number of houses going out of use from this cause is not far short of the number being built. It should be said at once that evidence to support this claim has not been provided in the survey which is the basis of these notes. What does emerge, however, is a distressing picture of falling standards of housing only tolerated because, in present conditions of unsatisfied demand, a dilapidated house is better than none at all. The wastage of property is an urgent problem; indeed, there is so marked a decline in the standard of maintenance that, if nothing is done to arrest it, the result may well be a deterioration of large areas of town property to slum level within a few years.

The cost of repairs is nearly three times that ruling before the war and many conscientious landlords are spending more on keeping their

*From 'A Property Survey', National Provincial Bank Review, London, February, 1953.*

property habitable than they are receiving in rents. Some landlords are in debt to rent-collecting agencies and are unlikely to receive any rent for several years. Those who simply cannot afford repairs are adopting desperate expedients and seeking in various ways to dispose of houses for little or nothing. Some local authorities, while unwilling to take over the property, are paying for the essential repairs and arranging for repayment by the owner over a period. This is no solution in many cases, where real hardship would be caused by the additional financial burden (which under present legislation cannot be passed on to the tenant). Some tenants are carrying out repairs themselves.

### Demolition Deferred

In present conditions local authorities are naturally reluctant to use their powers of condemnation. Demolition orders could justifiably be made in many more cases, and some indication of the scale of the problem is given by the following figures. They represent the results of a special house-to-house inspection carried out by a London borough in one small area within its

boundaries:—

<i>Number of houses inspected</i> ... ..	501
Found reasonably fit for habitation in all respects ... ..	46
Slight defects—no immediate action required ... ..	9
Defective under Section 9 of Housing Act, 1936 (Unfit for habitation in some respect but not requiring demolition) ... ..	401
Defective under Public Health Act, 1936 (Standard of sanitation, etc.) ... ..	41
Recommended for demolition ... ..	4

Over 4,000 separate structural defects were found in these 446 houses, yet only four were ordered to be demolished.

Few councils have conducted such a detailed survey, but there is reason to believe that these figures are not unrepresentative of conditions in many urban areas. It is so, the problem is a formidable one which calls for the earliest possible investigation on a national scale.

In the course of time a new housing slogan may be adopted—one which recognises that to repair 300,000 existing houses a year has, for the time being at least, more economic and social merit than to attempt to build 300,000 new houses *per annum ad infinitum*.

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### *Bibliography on Income and Wealth, Volume II, 1948-49,*

Edited by Phyllis Deane, Bowes & Bowes, Cambridge, 37/6.

This book is produced for the International Association for Research in Income and Wealth. The first volume was published a year ago and covered the period 1937-47. Scope is indicated by the title, and it has to be said that the job is thoroughly done. It is truly international in that national-income scholars in thirty-five countries have assisted in its compilation. It covers not only books but pamphlets and articles, and gives a clear statement of the argument of each. There is an index of authors, another of subjects, yet

another of Estimates and Analyses by Countries.

Perhaps national income may be said to be the subject of modern economic research. Even so it is a bit startling that such a bibliography as this, covering two years, should contain no fewer than 814 items. If the sheer size of the output is intimidating, it is so much the greater service to catalogue it so that at least the student can survey the field and save precious time in getting at sources.

# Keynesian Budget-Building

BY DOUGLAS C. HAGUE  
(University College, London)

**P**ARTLY as a result of Keynes's writings, the maintenance of a high and stable level of employment and activity has become one of the main aims of economic policy in the modern community.

Although the basic idea of Keynesian theory is so simple, it unfortunately does not follow that the detailed application of the theory to budgetary policy is simple. Nevertheless, the general principles of Keynesian fiscal policy are fairly straightforward, and most of the post-war British budgets have represented honest attempts to base fiscal policy on Keynesian ideas.

The two basic assumptions of this 'new' fiscal policy are:

(1) That a high and stable level of economic activity is obtainable and desirable;

(2) That the public finance system represents an important part of the mechanism by which this stability can be achieved.

## First Stages

Keynesian fiscal policy focuses attention on the deliberate and careful control of the volume of 'public saving' as the key factor in maintaining a high and stable level of economic activity. We must therefore discover why 'public saving' is so important to economic stability. In this discussion we shall, for simplicity, concern ourselves only with the surplus of the Central Government. It must be remembered, however, that in the real world it is the savings of *all* Public Authorities which the

Chancellor must consider and control.

The Chancellor's first step in framing his budget proposals in accordance with Keynesian principles must be to discover what resources will be available to the community in the ensuing financial year. Let us consider the situation shown in the table.

The left-hand side of the table shows the resources available to the community in the financial year. If the community is to be fully employed at current levels of wages and salaries, £9,000 million worth of goods will be produced during the financial year. Not all these goods, however, will represent new wealth. Some of it will have to be used to keep capital assets in good repair.

We have, in fact, assumed in the table that £500 million will be needed in the financial year to make good depreciation. It is usual to exclude depreciation from the figure for the National Income so that this latter concept may represent only the *new* wealth created during the year in question.

So, in financial year X our imaginary community will create new wealth worth £8,500 million. Its National Income will be £8,500 million. The cost of keeping all the productive resources available to the fully employed community at work (including those resources needed to maintain its capital intact) is thus £9,000 million. This sum represents the total payments required by all the community's available factors of

production if they are to be induced to work. It also represents the money value of the goods and services which the fully employed community can produce, or the quantity of money that can be spent on home-produced goods and services without causing inflation.

To find the value of *all* the resources available to the community one must add in any deficit on its balance of payments. In the table the fact that the country has a deficit on its balance of payments makes an extra £1,000 million worth of resources available for home use. The *total resources* available to the country in year X are thus worth £10,000 million at current prices.

### **Inflationary Pressure**

The right-hand side of the table shows the calls on resources which are expected in the absence of action by the Chancellor of the Exchequer. In our hypothetical economy, these expected demands from consumers, businessmen, and the Government, together total £11,000 million—£1,000 million more than the value of the resources available to meet them. In other words, during the year in question, in the absence of Government action, 'inflationary pressure' to the tune of £1,000 million will be released in the economy.

Before showing how this inflationary problem can be dealt with by fiscal methods, let us consider what would happen if no action at all were taken by the Government. Any one of four things (or any combination of them) could happen.

(1) Prices might rise so that although £11,000 million was spent by the community it would only buy the same volume of goods as could previously have been bought for £10,000 million.

(2) The balance of payments deficit might increase by £1,000 million. The community would satisfy its demands by borrowing even more resources from abroad than was originally foreseen. But this is merely a palliative; a balance of payments deficit can be maintained only by depleting the country's reserves of gold or foreign exchange, and such reserves are never boundless.

(3) The price of consumer goods may not be allowed to rise (perhaps because there is rigid price control or rationing) so that consumption will fall below expectations by £1,000 million. If this happens, there will be 'suppressed inflation'.

(4) Given constant prices, investment and/or Government expenditure may have to be cut. A cut in Government expenditure will, however, mean that fewer wants are satisfied communally and more privately (or not at all) though this will not necessarily be undesirable. But a cut in investment expenditure will normally be undesirable, for increased investment is the only source of greater productivity, and a higher standard of living, at a later date.

If left to itself, the inflationary pressure will work its way out of the system—but only at the expense of rising prices, queues, cuts in rations and investment, and a weakening foreign exchange position. It would be far better if the inflationary pressure could be removed before it had any chance to cause the troubles and tribulations enumerated above. This is precisely what Keynesian budgetary policy tries to do.

To see how Keynesian fiscal policy works, let us turn from the items set out in the table and concentrate our attention on the rela-

tionship between the community's savings on the one hand and its investment on the other. We can do this for the following reasons. Government income and expenditure can be ignored because any surplus (or deficit) of Government revenue over Government expenditure is automatically taken account of in the Chancellor's calculations. It is the 'unknown' whose magnitude will emerge as the result of our analysis.

### Savings and Investment

Let us therefore assume to begin with that there is no surplus or deficit on the Government's transactions. This will show us how large an inflationary (or deflationary) 'gap' remains for the surplus (or deficit) to fill. If we then deduct the expected Government expenditure of £1,000 million from both sides of the table, this leaves £9,000 million worth of resources to meet expenditure of £10,000 million. If we now further deduct private consumption (£7,000 million) from both sides of the account, we find that £2,000 million of resources are available to meet investment expenditure of £3,000 million.

But this gives the same difference between the remaining items on the two sides of the account (£1,000 million) as would have remained if expected investment expenditure had been deducted from both sides. For this would have left £6,000 million of resources to meet consumers' expenditure of £7,000 million. It is therefore perfectly possible to discuss inflationary pressure in an economy either in terms of the difference between resources available for consumption and expected consumption expenditure, or in terms of expected investment expenditure and the resources available to undertake that

investment—savings. The ultimate results would be exactly the same. But it is more usual to consider the difference between savings and investment.

Let us therefore consider the savings-investment position in the situation already analysed, in terms of national income and expenditure in the table; for it is on this savings-investment relationship that a 'Keynesian' Chancellor of the Exchequer will base his budgetary policy. We continue to assume that the budget is balanced.

How will the planned gross investment programme of £3,000 million be financed? £500 million will come from money set aside by firms for depreciation. £1,000 million will be provided by the balance-of-payments deficit—by borrowing from foreigners. £500 million will come from domestic savings. The size of these domestic savings can be calculated from the table by deducting the total expected consumption expenditure of private individuals and the Government together (£8,000 million) from the National Income (£8,500 million). The difference of £500 million shows how much of the National Income, in the absence of budgetary action, it is expected that businesses and individuals will refrain from spending on consumption—how much they will save. The £1,000 million by which total expected savings fall short of expected investment expenditure represents the extent of the inflationary pressure in the economy.

The Chancellor's problem at the beginning of the financial year is this: He wishes to use all the resources available to the community but does not want prices to rise. He therefore wants to ensure that expenditure does not exceed the £10,000

million needed to keep all these resources fully employed at the current level of prices and incomes. If he can do this, full employment will be maintained but inflation will be avoided.

This result will be achieved if the 'inflationary pressure' of £1,000 million can be removed.

This removal could be effected by cutting the investment programme, by increasing the balance of payments deficit, or by achieving a budget surplus — in each case amounting to the £1,000 million which constitute the inflationary pressure.

The essence of Keynesian public finance policy is thus that the Government should always aim at providing a budget surplus just large enough to

make up the difference between what the community is expected to save and what it is expected to invest. In other words, since the country will not save enough money of its own accord, the Government does some of its saving for it. Expected consumption will therefore be reduced by the amount of the budget surplus.

One thing is certain: so long as Governments continue to regard the maintenance of a high and stable level of activity without inflation as an important objective, budgetary policy, to be effective, will have to be based on the broad principles outlined above. In the sphere of public finance, at least, the 'Keynesian Revolution' has come to stay.

**Expected National Income and Expenditure Financial Year X**  
(as forecast at the beginning of the year)

(£ million)			
National Income	8,500	Private consumption	7,000
Depreciation	500	Govt. consumption	1,000
Total Home resources	—	Gross Investment	
expected to be available	9,000	(Govt. and private)	3,000
Balance of Payments			
deficit	1,000		
	—		
Total resources expected		Total expected home	
to be available for		calls on resources	11,000
home use	10,000		

**WORLD'S LONGEST SUBMARINE POWER CABLE**

A new phase in power transmission technique will be initiated this summer when the world's longest submarine power line of its type, a 50-mile cable supplying 100,000-volt direct current from the Swedish mainland to the island of Gotland in the Baltic, is to be completed. Estimated to cost about Kr. 21,500,000 (\$4,300,000), this scheme is expected to save the islanders Kr. 3,000,000 annually, as hydro-electric power from the large Norrland plants can now be distributed at a lower price per kilowatt-hour than the local steam-generated power.

The project includes the construction at Vastervik, on the mainland, of a station for transforming the Swedish grid alternating current into 100,000-volt D.C. From this station the cable will be laid to another transformer plant south of Visby, where the current is converted into 30,000-volt A.C. for local distribution.

*Swedish Press Bureau, Stockholm, March 5, 1953.*

## Verdicts of London and Cambridge Economic Service

**The Coming Budget:** The policy-maker is faced, as usual, with a complex set of problems. Perhaps the greatest need is for the United Kingdom to co-operate wholeheartedly in the delicate and difficult international negotiations about trade and payments which are clearly needed. The goal should be a combined attack on the problems by the whole free world, and the Governments of Western Europe and North America have in fact done preliminary work for this in preparing the fourth report of the O.E.E.C.; the United Kingdom must not let its contribution to the plans be hampered by any nostalgia for independent action, e.g., to secure some degree of convertibility for sterling.

The United Kingdom will clearly have to persevere with a policy of limiting internal demand, so as to free resources for export, and this must not consist simply in 'easy' action to cut down industrial investment. The industries producing the types of machinery which are in demand must be expanded, and if productivity cannot be increased then consumption or non-industrial investment will have to be made to fall. Even if productivity does rise—and naturally everything should be done to help this, notably by abolishing steel allocation—restraining action will be needed to limit the consequent rise in consumer demand.

With rising defence expenditure to cover, as well as the need for a higher total of savings, a 'soft' or 'popular'

Budget would be disastrous. The Government could reduce the size of the surplus which is required by tackling the thorny problem of rent control and cutting the output of houses. But even this would probably not avert the need for some net addition to the Chancellor's call on the consumer's purse. It is no use repeating last year's formula of reducing food subsidies and using all the money either for 'off-setting' concessions to pensioners and children or for general cuts in income-tax; even in 1952-3 rises in wage-rates have largely off-set the rise in prices, leaving the remissions as an addition to demand, and 'moderation in wage claims' will be still more difficult to secure if there is another Budget which will have so direct an effect on retail prices and which can so plausibly be represented as attacking 'the poor wage-earner' for the benefit of the 'rich(er) taxpayer'.

A more promising approach would be to raise Government savings by increasing the price of coal, as advocated by half the signatories of the Ridley Report, without any 'corresponding' remissions. This would also have the great merit of encouraging economy of a scarce item and promoting more realistic pricing throughout the industries which directly or indirectly use coal in large quantities. In particular, the rise in the unit charge for electricity which should follow would restrain the growth of demand and reduce the need for massive new investment in the electricity industry.

**Productivity:** The course of production during 1952 has certainly disappointed the hopes which many people entertained early in the year. Industrial production as a whole, instead of resuming the rise which had been checked in the second half of 1951, fell sharply in the second quarter of the year. Although it recovered in the autumn, this movement appeared to be flattening off at the end of the year, at a level which was still rather below that of 12 months before.

For the year 1952 as a whole the level of industrial production was, in fact, some 3 per cent below that of the previous year.

\* \* \*

**Import and Export Targets:** Official plans (outlined in the O.E.E.C.'s Fourth Annual Report) intended an increase in U.K. imports (measured c.i.f.) to an average monthly rate of around £270 million in the year ending June, 1953; this rate was not attained in the second half of 1952, and if the average is to be attained a monthly rate of nearly £280 million will be imported in the first half of 1953, which is an increase by 6 per cent compared with the second half of 1952. At the same time the official forecasts expected a much greater increase in total exports to £230 million in the year ending June. In order to attain this figure exports in the first half of 1953 would have to be 17 per cent higher than in the second half of 1952.

The expected level of imports is likely to be attained. The possibilities of a 17 per cent increase in the value of exports seem much more doubtful,

especially since export prices are continuing to fall. The biggest openings for dramatic increases are the sterling Dominions and the non-sterling, non-dollar, non-O.E.E.C. countries.

\* \* \*

**Trend of Wages:** The marked upward movement in wage rates which began in mid-1950 was continued at a lower rate during 1952. Nevertheless, the estimated increase in weekly wages as the result of wage rate changes was higher than in any year since the war other than 1951. In particular the increase in wage rates has continued in the period since June, 1952, when retail prices were stable.

\* \* \*

**Terms of Trade:** Since last autumn there has been a most unusual stability in the levels of prices at all stages of the price structure. This may represent no more than an uneasy balance between conflicting forces, and it is difficult even to hazard a guess at what will happen during the next few months.

Prices of a few basic commodities showed renewed signs of weakness late in January and early in February. Of significance, however, is the fact that prices of sterling area commodities (e.g. wool, tin) have been firmer than dollar prices, such as that of cotton. There has been a consequent easing of the balance of payments position and it is not likely that there will be any early reversal of this favourable movement.

YOUR QUESTIONS ANSWERED

See Inside Front Cover

## Black Market Year Book

THE title of this publication will cause many an eyebrow to be raised in questioning incredulity. This will yield to a mixture of amusement and dismay at the vivid and detailed testimony, furnished by this book, of the truly amazing conflicts and contradictions into which our prohibition-infested world has landed us.

The author dedicates his book 'to the legislators of sixty countries who, in order to maintain the fictional values of paper money, government bonds and gold, are the real promoters of Black Markets'.

Who, it may be asked, will have sufficient 'professional' interest to invest in this not inexpensive publication? 'More than 1,000,000 people live from black market transactions of currencies and precious metals. Dozens of Governments' and tens of thousands of their officials participate in black market dealings.' In his Foreword, Dr Pick says this of the present position:

The global volume of illegal transactions rose from approximately \$10,000 million in 1951 to at least \$12,000 million in 1952. Since 1938, 92 per cent of the world's population has seen most of its savings annihilated by devaluation. Men and women in more than fifty-five countries of the world consider foreign exchange regulations as currency concentration-camp rules. They cannot and will not understand why they should be the victims of constant expropriation of their assets by their governments.

The cost of World War II and the Cold War has run into ten to twelve hundred billions of paper Dollars. The resultant monetary destruction overshadowed anything that had thus far been seen in the history of sixty centuries of money.

### Definitions

The next chapter consists of definitions, of which the two following may serve as examples:

*Black Markets* today function in every country of the world. They come into existence wherever and whenever a law opposes or limits the individual's freedom of self-protection against currency-depreciation. In many instances where governments and/or Central Banks co-operate actively with illegal dealers, these markets are called 'grey' markets.

*Marché Parallèle*: The as-elegant-as-cynical and French definition of black markets. Under this name, illegal currency dealings have become a socially accepted activity in Latin countries. French, Belgian and other newspapers list black foreign exchange rates in the already traditional 'Parallèle' columns.

Part I of the book is concerned with currencies while further chapters deal with Gold, Industrial Metals, Silver, Platinum and Diamonds.

### Fun with Gold

Discussing the illegal traffic in gold, the author describes a situation worthy of forming the hilarious plot of a West End comedy:

Based on the legal fact of 'demonetisation' of most of Europe's gold coins in 1914, as well as on currency legislation that for obvious reasons withdrew long ago the quality of 'legal tender' to such coins, dealers started a venture of excellent profits. Supplied by Governments with 'industrial' gold, they made profits as high as 40 per cent at the beginning and 30 per cent at the end of the year, in minting 920-fine gold into Napoleons; Sovereigns bearing the effigy of Queen Victoria, Edward VII and George V; German, Austrian and Hungarian coins.

In December 1952, two of such private mints in Northern Italy and a 'branch' mint in Damascus, Lebanon, produced a monthly

\**Black Market Year Book*, 1953, by Franz Pick, published by Pick's World Currency Report, New York.—\$25.

total of about \$6,000,000, and had a considerable backlog of orders. *Their principal buyers were not only smugglers and dealers, but also highly reputable Central Banks and Governments, who for all official purposes preached the gospel of non-convertible paper money.*

A lawsuit against two partners of these manufacturers of Sovereigns was submitted by the Italian Government to the judgment of the Federal Swiss Court of Geneva in August 1952. The Court ruled against the implication of counterfeiting, and stated to the amusement of a laughing world, that the manufacturers of such coins merely fabricating medals, without any protectable value. *Since then, a number of Government Mints in Europe have offered their services to gold dealers and accepted 'commercial' minting orders for historic coins at low minting fees and completely free wrapping in the officially sealed jute bags with the Central Bank's name printed on it.*

### Premium Markets

Lest anyone believe that illegal transactions are centred only on precious metals, here is an extract dealing with 'U.S. Premium Markets'.

On September 11, 1950, after the outbreak of the Korean War, the National Production Authority was established with most of the former legislation of World War II's Production Board.

Black Market activities started immediately with the publication of new price regulations. The volume of transactions rose to unprecedented heights during the first six months of 1951. Dealings in chemicals, textiles, non-ferrous metals, and iron and steel castings are estimated to have exceeded \$1,000 million monthly, and as much as \$2,000 million during April and May of 1951. Accounting techniques to finance such transactions were nearly the same as during World War II.

The only difference was the psychological approach. Traders felt much better dealing

in 'premium markets', a term created in September, 1950, than they did with 'black markets'.

The section dealing with Diamonds contains the interesting information that diamond smugglers are so highly organised that they even boast of their own *International Co-operative Insurance*, 'known only to the trade', which protects carriers and their families 'against all risks of legal confiscation'. That risk seems to have diminished somewhat, since 'premiums were slightly lower than in 1951'.

This extraordinary document is the work of a scholarly and well-informed mind, as is demonstrated by the numerous statistical tables and graphs which form the bulk of the book. It shows with the utmost frankness a situation which is the result, and not the cause, of the world's economic malady. And behind that façade of occasional frivolity it prompts serious reflection on possible remedies. Are they to be found in yet more controls, in even stricter enforcement of even more regulations? Are they to be achieved on the Communist model, by simply abolishing property, and substituting the even more corrupting influences of political as well as economic dictatorship?

This book epitomises the problem of our time as it is seen through economic spectacles.

P.J.C.P.

## Is the Capital-Levy Idea Dead?

BY PROFESSOR M. GOTTLIEB

*University of Kansas City, Mo.*

THE capital levy as a fiscal device and political storm centre never recovered from the defeat it suffered during the 1920's by equivocal or temporising embodiment on the Continent and rejection in France and Britain. Preoccupation with the problems and analysis of depression, with its need for deficit spendings, generated an approach to public debt which, however healthy in reaction against traditional thought, developed an almost compulsive preference for debt. The extreme Left in the labour movement gravitated to the communist approach which was concerned with overthrow, not with reformation, of existing society. The modern social democratic left grew away from the egalitarian outlook of an earlier period and became thoroughly permeated with the new Keynesian outlook which accepted progressive taxation and the pattern of the indebted state.

The second World War brought little to alter this drift. In leading Western countries the typically capitalist system of war finance had to varying degrees been modified in method and in principle. Under this newer system, which had its point of departure in previous developments, profiteering was rigorously curbed both by overlapping controls and by severe taxation, while the task of economic guidance and leadership passed over from private entrepreneurship increasingly into the hands of the military agencies of the war economy. The heritage of dead-

weight debt was much increased by the war.

### Enter Bracket Tax

But the sting of the debt in its income-displacing effects was almost completely removed by the bracket tax rates on upper class income which were substantially higher than the levels of the '20's and '30's. Particularly in America the debt became a form of widespread investment of savings by lower income groups directly through bond holdings and indirectly through savings banks, insurance companies and social insurance reserves. To a much greater degree than before the war the debt was worked into the monetary system of the country and was both monetised in its main forms and used as a basis for the national monetary supply.

Finally, the sharp edge of the controls over the mortgaged state was to a considerable extent blunted by a development which was compounded of many causes and has been carried to different stages in various countries.

Among the causes that have weakened the restraints emanating from the mortgaged state may be cited the development of new and more powerful forms of taxation, the development of new techniques of debt marketing and financing which have weakened the reliance of the Treasury on bankers and dealers by enabling the Treasury directly to market and to control the subsequent handling of a considerable volume

of its securities. More important was the development which to varying degrees has brought about the fusion of the central bank with the Treasury or the absorption of the two bodies in more inclusive forms of policy making. Finally, linked with this relative fusion is the crucial development virtually unknown on any scale during the nineteenth century of utilisation of central banking credit facilities on a large scale to support at pegged prices the market for government securities.

The tendency toward effacement of the debt problem as an issue of urgent public policy was accentuated by a process of transformation of attitudes which has undermined the point of view from which the interest in a capital levy was so largely inspired. This point of view laid primacy on the long run aspects of public policy which fully reckoned with the cumulative drawbacks of a large debt over an extended forward period. These accumulated drawbacks would obviously overshadow the transitory costs of debt expungement. Similarly, fiscal policy had worked up into a veritable dogma the well-founded policy of repaying debt in order to prepare the state for future emergencies. This dogma had crystallised during the eighteenth century with its incessant, intermittent, but limited wars which became the natural mode for the conduct of international relations during this phase of development of the then rapidly expanding Western state system. It was precisely when the faith in the capitalist order had crystallised to its fullest extent during the early years of the nineteenth century that acceptance of an international order of limited wars and constant readjustment of the balance of power became so prevalent.

### Changing Values

It is notorious that even during the nineteenth century and increasingly during the twentieth this kind of faith in social order weakened. Though traditional modes of thought lingered on in sometimes surprising contexts, it had become apparent that the international order of the eighteenth and nineteenth century, as well as the nature and results of war, had become visibly and significantly transformed. So likewise the sense of stability with regard to internal social order almost completely has been lost. The older convention of the relative fixity of things and hence the importance of the long term view has increasingly become undermined and with it the devotion to long run goals of public policy. Primacy now is given the sense of urgency attending the solution of short run problems. In the realm of economic theory this shift in point of view was spear-headed by Keynes who virtually in every direction thrust out at what he called the 'decaying conventions of the past' with their emphasis on the long run in which 'we are all dead'. And this shift in point of view in the range of things fiscal and financial was grounded on the very important development which had substituted various forms of paper and book money for the standard metallic money and had finally virtually driven the latter out of use in the domestic monetary system and confined it to that of a foreign trading reserve.

This development—as Keynes put it in a memorable passage—that 'the touch of the metal has been taken away from men's greedy palms', that 'the little household gods who dwell in purses and stockings and tin boxes

have been swallowed by a single golden image in each country which lives underground and is not seen'—was destined to have the most profound consequences for the economic and social order. For it was found through experience after the war and the travail of the Great Depression that the monetary unit and a specified weight of gold are not a natural fact or sacred fact but a conventional relationship which can be adjusted according to need. The initial sense of horror with which this was regarded has subsided and with it much of the basis for the fear of a large and growing debt which oppressed an earlier generation who could think only in terms of a fixed monetary unit. Now it is simply taken for granted—and not only among persons of advanced views—that under pressure of national need the burden of past or future debt can and will be lightened by inflation and the necessary degree of devaluation as expressed in the fixing of 'exchange rates' or the adjusting of the position of the 'dollar'.

### **Equalising War Losses**

These changed attitudes and conditions account for the fact that the issue of the capital levy, which was so popular after World War I, played virtually no role in connection with public debt after World War II. So far as the debt itself became a problem it was manifested in monetary form and was met by programmes of monetary reform directly, which only to varying degrees were supplemented by extraordinary property taxation on a scale which warrants the designation of 'capital levies'.

Though monetary reform itself has frequently been considered a special

application of the capital levy principle, it essentially embodies another kind of policy instrument with distinct issues and problems of its own. Moreover, the capital levy experience after World War II was influenced to an extraordinary degree by the desire to equalise the unequal incidence of wartime losses in property and income or to collectivise property holdings on a large scale. This latter motive appeared to govern the capital levy legislation which ran its course in most eastern countries under Soviet influence. Here the fiscal details and mechanisms are overshadowed by the setting of social transformation and the exercise of power by quasi-revolutionary regimes. The capital levy experience in Germany essentially revolved around the effort to segregate a sizeable stream of taxation on current income in a form and subject to an administration which would earmark proceeds for purposes of equalisation of war losses. Elsewhere capital levies on a small scale and not involving massive property transfer were worked into programmes for monetary reform which hinged to varying degrees on 'blocking' techniques.

Validity—and with it at least a potential public policy interest—in the capital levy would require that it be treated primarily as a measure of rationalisation. The financial system conceived of as a world of interrelated claims for payments and rights to property has grown up haphazardly with overlapping payment flows and claims which cut across each other. In the process there may be generated an undue amount of strain and friction and conditions which foster the rise of uneconomic management or investment practices.

### Rationalising Public Debt

The continuous turning over of an immense debt by refloating in the market, the subsidisation of the financial organisation by means of interest payments, the warping of investment practices brought about by the availability of a large supply of gilt-edged investments, the overlapping of interest payments with tax returns at high brackets, the lack of clear-cut responsibility for fiscal management, the need to provide the economy with a large amount of liquidity—these are among the issues which would be involved in any comprehensive effort at rationalisation of the fiscal and financial system grown up around a large public debt.

No effort can be made here to work out the politics and economics of this still evolving area of Western public life. Certainly the desirable amount of public debt that would survive any rationalisation would be much larger than even a few decades ago. More of the economy is now dependent upon liquidity generated by debt and worked into the monetary system in ways which cannot easily be reversed. But it is equally true that an excess supply of liquidity can be built up into the economy and render it dangerously volatile and liable to aberrations or can generate outright inflation.

The interest cost registered in official budgets for a public debt may be affected by the all too easy temptation to issue and seek to maintain a large structure of indebtedness on terms considerably below what investors, both private and organisational, will voluntarily support over an extended period. The official and budgetarily recorded interest cost must be compounded with the disabilities and inhibitions entailed by it.

### Some Principles

Possibly the most important general rule that could be enunciated regarding any such rationalisation of the financial system is that it must be regarded as a total process without segregated consideration of any of its component elements. From this point of view the over-all feasibility of rationalisation involving any considerable scaling down of public debt would probably turn around the comparison of interest cost for an economically surplus amount of debt related, not to national income, but to tax potential and expenditure needs. Whether a given interest burden will be deemed excessive or not will depend upon the strength of these two forces which pull in contrary directions.

On the one hand the trend of economic development over the past century has tended to enlarge the tax potential of the economy. By tax potential is meant the ability to raise varied tax yields out of a national income with a given scale of cost. This cost will include a reckoning of the check to enterprise, the hampering of saving, costs of collection and administrative waste, distortion of production and social stress. *With a given amount of cost and given national income, a society which in 1850 could raise only 4 per cent of the national income in taxation can today raise 15 per cent.* As national income increases, larger tax yields can be raised with smaller additional increments of cost than were experienced a few decades ago. Whereas in a time of national crisis a capitalist society could with difficulty raise 10 per cent of the national income in taxation, the present-day society can run its extraction ratio

*concluded on page 190*

## New Books Reviewed

*The Structure and Capacity of Australian Manufacturing Industries, prepared and published by the Division of Industrial Development, Department of National Development, Melbourne. Distributed in the U.K. by Angus & Robertson, Ltd, London.—£3.*

'Australia will not be a nation until she produces her own motor car', said an Australian economist recently, trying to account for the widespread desire in the Commonwealth for some measure of economic autarky. Secondary industries experienced a rapid development in the hothouse of war-time needs, and are continuing their growth. In this survey the Department of National Development has clothed the skeleton of trends with a mass of factual and up-to-date information, under 17 industrial group headings. Each group chapter contains details of the structure of the industry, its capacity, and its basic statistics. To show that Australia really means business, the book, consisting of 528 foolscap pages, is printed on paper made in Australia from indigenous eucalypt woodpulp.

*British Overseas Trade from 1700 to the 1930's*, by Werner Schlote, translated by W. H. Chaloner and W. O. Henderson, Basil Blackwell, Oxford, 22/6.

This is a translation of *Entwicklung und Strukturwandlungen des englischen Aussenhandels von 1700 bis zur Gegenwart* which appeared in 1938, a work which is often cited for reference and is therefore welcomed in an English translation. It will be the more warmly welcomed in that the translators have taken infinite pains to clear up obscure points, by reference to the author, and also, when that did not take them all the way, by adding in brackets their own amplifications of the text. That, however, is the extent of their work: this is not an attempt to produce a critical edition; but the translators have added information when research done since 1938 had added to our knowledge of British overseas trade. There is also a useful bibliography of more recently published books and articles dealing with some of the problems discussed by Dr Schlote, in relation to many of which he was a pioneer. The book is essentially a statistical study of the long-term development of capitalist economy.

### **New Publications of United Nations and Specialised Agencies**

*Demographic Yearbook 1952*, United Nations (H.M.S.O., London, paper-bound 45/-, clothbound 55/-).

The present issue—the fourth—stresses the geographic distribution of population and draws heavily upon the results of censuses of 1950 and 1951. Estimates of the population of the continents and major regions of the world have been revised for the period 1920-1951. Other new tables include population counts from 1850 to 1952, urban and rural population 1900-1951, a list of cities with over 100,000 inhabitants, crude divorce rates, and resettlement and repatriation of refugees by IRO.

*Preliminary Report on World Social Situation, with special reference to standards of living*, United Nations (\$1.75).

This is a new venture. Its limitations are—as the foreword acknowledges—that it is not based on new research data, and that it deals only with existing conditions. Individual chapters are devoted to population trends, health conditions, food and nutrition,

housing, education, conditions of work and employment, general levels of income and welfare, some special circumstances affecting the standard of living, and to surveys of three underdeveloped regions—Latin America, Middle East, and South-East Asia.

*Economic Survey of Europe Since the War: A Reappraisal of Problems and Prospects*, E.C.E., Geneva, March 1953 (H.M.S.O., London 25/-).

This latest E.C.E. survey not only covers the past year on similar lines to its predecessors, but seeks to draw on the experience of the whole of the post-war period and to analyse its significance for the future. Part I analyses the main features of Europe's changed position in the post-war world. Part II examines the aims and methods of economic policy in different countries. Part III deals with the inadequate structural adjustments carried out so far and the conditions for restoring external equilibrium. Part IV discusses problems of man-power, then turns to three major industrial sectors—

agricultural, textiles, and heavy industries. It concludes with an analysis of attempts at economic integration.

(*Economic Digest* will give some extracts from the Survey in the next issue.)

*Economic Survey of Asia and the Far East 1952*, E.C.A.F.E., Bangkok (\$1).

With commendable promptness this survey has been issued only a few months after publication of the survey of 1951. The new report deals mainly with developments during the first half of 1952.

*Instability in Export Markets of Underdeveloped Countries*, United Nations 1953 (H.M.S.O., London 7/6).

This contains data on price fluctuations from 1900 to 1951 for eighteen important primary commodities.

*A General Economic Appraisal of Libya*, United Nations (H.M.S.O., London 4/6).

*Tobacco*, F.A.O., Rome (H.M.S.O., London 2/6); *Rice*, F.A.O., Rome, December, 1952 H.M.S.O., London 1/3; *Carpet Wool*, F.A.O., Rome, November 1952 (H.M.S.O., London 1/3).

These are all in the series of commodity studies. *Tobacco* is dealt with for the first time.

*Output and Expenses of Agriculture in Some European Countries*, E.C.E./F.A.O. Agricultural Division, Geneva, February 1953, Document AGRI/42 (H.M.S., London 12/6).

#### IS THE CAPITAL-LEVY IDEA DEAD? (continued from page 188).

up to 50 per cent or better. The larger the tax potential of the society, which has in the Western world for a variety of reasons continually risen during the past century, the smaller the burden—real and felt—of a given magnitude of interest payments.

#### Spending Appetites

This favourable development has often been alluded to without calling attention to the counteracting force which has frequently swung the balance around the other way: namely, the growth in expenditure appetites and needs. The means by which tax potentials have widened have also stimulated the development of spending appetites. An organised social movement has in various forms in all Western countries done much to pave the way for varying modes of social expenditure. Above all, military outlays for intra-civilisation combat have developed apparently insatiable spending needs.

Finally, in a postwar period expenditure needs are likely to mount for several reasons. In pre-

cisely, such a period when tax potential is likely to be low and expenditure needs are pitched high, the burden of interest payments on what one may term excess debt holdings may be eyed critically. It is at such a juncture, too, that some form of capital levy would be found helpful in dealing with various types of inequities inevitably arising out of war or national emergency.

It is however dubious whether this post-capitalist social order is so constituted that the issue of debt and debt-extinction or rationalisation will have much appeal, or will rank very high in the order of importance of public policy issues. It is even dubious whether the Machiavellians of Right or Left will see the enormous socialisation potential latent in any far-reaching levy aimed at debt rationalisation, or that they will feel the attractiveness of being able to mobilise on their side all those traditional fears regarding debt which, though no longer virulent or controlling, still can be exploited, like all the 'decaying conventions' of the past, to good political effect.

**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.

**Norway:** *Norway's Economic Position in 1952*, by Governor Gunnar Jahn. An address to the Supervisory Council of the Norges Bank, in which the Governor of the Bank surveys Norway's economic progress in 1952.—Norges Bank Bulletin, February 21, 1953. (275)

**India:** *India's First Five-Year Plan*, by G. P. Brownie. What new opportunities does the Plan open up for the British exporter? The author discusses this question with special reference to the powerful competition of German and Japanese industry. See also p. 117 and Ref. 252 in the March issue of E.D.—F.B.I. Review, London, February, 1953. (276)

**Rhodesia:** *Electric Power for the Rhodesias*. At an estimated cost of £27.6 million it is planned to erect a hydro-electric plant at the Kafue gorge, having an initial capacity of 257,000 kW. This power will have a profound influence on mining in the Northern Rhodesian copper belt, as well as on the development of Southern Rhodesia.—Times Review of Industry, London, March, 1953. (277)

**Australia:** *Steel Mill for West Australia*. The proposed erection of a steel rolling mill with a capacity of 50,000 tons per annum is the first major step towards the founding of a basic heavy industry in a part of Australia which has so far had little share in this development.—Times Review of Industry, March, 1953. (278)

**Zanzibar:** *The Protectorate of Zanzibar*. A further instalment in the Financial Times series of Colonial Surveys.—The Financial Times, London, February 27, 1953. (279)

**Public Finance:** *Performance Budgeting in the Government of the United States*, by Professor Catheryn Seckler-Hudson. This article traces the important changes which have taken place in the public budgeting procedure of the U.S. since 1939. Although the Budgeting and Accounting Act of 1921 provided for the

introduction of the executive budgeting concept, it was not until 1939 that the Executive Office of the President was established, and today the President is the centre of the budgetary administration. The 'Performance Budget' concept, revived by the Hoover Committee in 1949, focusses attention on the ends served by Government rather than on the amounts spent.—Public Finance, The Hague, No. 4, 1952. (280)

**Schuman Plan:** *Progress with the Schuman Plan*, by Sir Cecil Weir. The head of the British delegation to the High Authority here discusses the importance of the new Community to the U.K., and its prospects for developing into a United Nations of Europe.—F.B.I. Review, February, 1953. (281)

**Export Prospects (i):** *The Struggle for Trade*. This is a series of four articles, taken from the Manchester Guardian Survey of Industry, Trade and Finance, 1953. They deal with competition, production, labour relations, and international obstacles to British exports. (282)

**Export Prospects (ii):** *British Exports and the Rate of Sterling*, by Colin Clark. The competitive strength of British goods is vitally affected by the rate of exchange. Mr Clark here expresses the view that, since British costs are rising faster than U.S. costs, the pound will have to be devalued again if Britain is to have a surplus for investment overseas.—Manchester Guardian Survey of Industry, Trade and Finance, 1953. (283)

**Agricultural Index Numbers:** *International Index Numbers of Food and Agricultural Production*, by M. I. Klayman. The index number problem has bedevilled many an attempt to reduce economic data to a common denominator. Here the author surveys the achievements of the FAO in constructing a workable index for agricultural commodities.—Monthly Bulletin of Agricultural Economics and Statistics, FAO, Rome, January, 1953. (284)

**Agricultural Engineering:** *The British Agricultural Engineering Industry*, by R. A. Dudman. From a net output valued at £4 million in 1938, the British agricultural engineering industry had increased the value of its product to approximately £112 million in 1952—a ten-fold increase at constant prices. The importance of this striking development is enhanced when the export figures are considered: £2 million in 1938,

£60 million in 1952. Half the industry's output goes abroad.—Westminster Bank Review, London, February, 1953. (285)

**Labour Force: The Employed Population, 1948-1952.** This comprehensive statistical summary provides detailed figures of the numbers and sex distribution of the British working population as between different industries.—Ministry of Labour Gazette, London, February, 1953. (286)

**Canals: British Inland Waterways Today and Tomorrow,** by Robert Aickman. Every student of economic history knows that the Third Duke of Bridgewater built the Bridgewater Canal in 1761, and that the canal boom was followed by the railway era. He may not know what has happened to the canals since. The author paints a picture of neglect, which, he claims, Britain's inland waterways do not deserve. 'The Docks and Inland Waterways Executive', he says, 'is riddled with timidity, defeatism, and impecuniosity', and goes on to outline the canals' potential value.—Royal Society of Arts Lecture, London, February 18, 1953. (287)

**Shipbuilding: Aid for Japanese Shipbuilding.** An article on page 85 of the February issue of E.D. pointed out that, contrary to popular belief, many of Japan's heavy industries were high-cost producers. The Japanese shipbuilding industry is a case in point. Shipbuilding costs in Japan are from 10-15 per cent higher than ruling international levels, and for tankers the disparity even rises to 20-25 per cent.—Financial Times, London, February 19, 1953. (288)

**Radio and Television: Prospects for Radio and Television in 1953,** by John H. Dunning. The radio industry is one of the fields in which Britain can lead the world by virtue of technical and scientific excellence. The author shows the importance of the industry to the rearmament programme, and how the purchase tax of 66½ per cent has restricted civilian demand, while German and Japanese products are beginning to make big strides in the important Middle East market.—District Bank Review, March, 1953. (289)

**Aluminium (i): The Production, Economics and Future of Aluminium.** A beautifully pro-

duced appendix to Barclays Bank Review, February, 1953. (290)

**Aluminium (ii): Kenney Dam in Operation.** Aluminium production requires ample resources of cheap electric power. This has been made available through the construction of the Kenney Dam, which harnesses the waters of the Nechako River in British Columbia. This article describes the dam and its influence on aluminium production.—Times Review of Industry, London, March, 1953. (291)

**Petroleum: Surfeit of Oil.** The present abundance of fuel oil is not regarded as a temporary condition only. The position, incidentally, is a striking demonstration of the economic phenomenon of the joint product: for fuel oil is a residue left over after the production of higher-grade fuels for which there may be a greater demand than for the by-product.—Petroleum Press Service, London, March, 1953. (292)

**Zinc: World Zinc Situation,** by S. D. Straus. Like fuel oil, the production of zinc now exceeds consumer demand. The author believes that, with zinc smelting capacity fully employed, and still increasing, there will be a period of accumulation. See also Ref. 240 in the Feb. issue of E.D.—The Mining Journal, London, January 2, 1953. (293)

**Precious Metals (i): Gold,** by M. A. Kriz. A further survey of the position of gold. The author finds that world output of the metal is rising, that official monetary gold holdings are increasing, and that private hoarding is slackening, owing to a relaxation of the inflationary pressure.—Engineering and Mining Journal, New York, February, 1953. (294)

**Precious Metals (ii): The Problem of Silver.** It is now generally thought that as a monetary metal silver has had its day. That this is far from true is demonstrated by the fact that, in 1952, 45 per cent of silver produced was used for coinage purposes, mainly in the U.S.A.—The Mining Journal, London, February 20, 1953. (295)

**Rice: Commodity Report,** issued by the FAO, Rome, December, 1952. (296)

**Carpet Wool: Commodity Report,** issued by the FAO, Rome, November, 1952. (297)