# ECONOMIC DIGEST

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*The time has now come for*

## A New Approach to International Trade

BY PROFESSOR J. E. MEADE, C.B., F.B.A. (LONDON)

AFTER the Second World War an attempt was made to devise a general set of principles to govern international trade and payments in such a way as to maintain equilibrium in the balance of payments in domestic conditions of full employment and in an international atmosphere of relatively free trade.

This attempted settlement was particularly associated with the International Monetary Fund, the International Bank for Reconstruction and Development, the Anglo-American Loan Agreement, and the General Agreement on Tariffs and Trade. There are a number of reasons why the next year or two may present an opportune time for an attempt to reconsider and renegotiate some of the general principles involved.

(1) The United Kingdom has got into the habit of having a balance-of-payments crisis every odd year—the convertibility crisis in 1947, the devaluation crisis in 1949, and the crisis of 1951. The idea that there would be a transitional post-war period of strain followed by a reasonable equilibrium has worn pretty thin.

(2) There is the change in the United States administration. We can be sure that the new administration will want to do something different from the old and this *may* present a new opportunity. In any case, the United States Trade Agreements Act under which all the commercial policy concessions given by the United States under the General Agreement on Tariffs and Trade have been negotiated comes up for renewal by Congress in 1953. To this extent the new administration must formulate its ideas on commercial policy in the near future.

(3) Natural disappointment with the recurrent balance-of-payments crises tends, on both sides of the Atlantic, to obscure the fact that the United Kingdom is now in a much stronger basic economic position than it was at the time of the Round 1' economic settlement (1944-46). The balance-of-payments crisis of 1951 appeared as serious as those of 1947 and 1949. But it should be remembered that we were struggling to achieve a balance which included the use of the Anglo-American Loan in 1947 and of Marshall Aid in 1949.

But in 1951 there was no loan or Marshall Aid; we were really concerned with standing on our own feet. The following figures suffice to show the underlying change:—

*From "Bretton Woods, G.A.T.T., and the Balance of Payments," Three Banks Review, London, December, 1952*

| | | |
|---|---|---|
| UK Industrial Production | | |
| Pre-war | 1946 | 1951 |
| 100(1935) | 102 | 145 |
| UK Volume of Exports | | |
| 100(1938) | 99 | 182 |

An important part of our necessary structural adjustment has already been achieved.

(4) There are now two new problems of first-rate importance which ought to be brought into any general international settlement and which were not on the agenda in Round 1: The problems of the joint defence effort under N.A.T.O. and the problems of the finance of the economic development of under-developed territories.

**Conditions of Freedom**

Any new attempt to build a more or less universal system for a freer international economy for the free world must be based on the following principles:—

(1) An obligation on the part of deficit countries to avoid inflationary pressures and on the part of surplus countries to avoid deflationary pressures at home.

(2) A *serious shift of emphasis* away from the use of import restrictions and exchange controls on to variations in exchange rates as the basic means of preserving equilibrium in balances of payments.

(3) The *provision of a much* larger fund of international liquidity to cushion temporary deficits in *balances of payments while a depre*ciated exchange rate is allowed to have its effect in changing the chan*nels of trade, or while a surplus* country is coping with a domestic recession.

(4) A further reduction of import barriers, simplification of customs procedures, removal of commercial policy escape clauses, and removal of national quantitative regulations over shipping and other services, by *all countries but more particularly* by the surplus countries in return for the shift from import restrictions by *the deficit countries.*

(5) A development of N.A.T.O. in *such a way as to remove the need* for, and to control the use of, protective devices on security grounds.

(6) A development of the principles of the joint responsibility for the military defence of the free world in such a way that, with due regard to military security, all supplies for the armed forces are pur*chased in the cheapest market.*

(7) The application of the same principle to funds provided by developed countries for the economic development of underdeveloped countries, namely, that such funds should be untied and free to be spent on the purchase of the appropriate capital and other goods in the cheapest market.

(8) Recognition of the principle that funds supplied for the economic development of undeveloped countries should be used for economic forms of development, that is to say for the development of sources of primary products when the terms of trade between primary products and manufactured products are such as to make this economic.

***"Festina Lente"***

In my view, such is the long-run interest of the United Kingdom in the development of a free international market for goods and services that the type of world economic system outlined in this article should certainly constitute our ulti-

mate objective. It is another question whether we should attempt to achieve it through an immediate brave new settlement or whether we would all be wise to hurry more slowly to our final goal through a series of more tentative and particular adjustments.

A new settlement which promptly broke down would leave us further away than ever from our objective. And this might happen if the settlement were quickly followed by a serious American recession; or if trade flows were not made sufficiently responsive to price changes, so that any new fund of international reserves disappeared like the post-war Anglo-American loan; or if for similar reasons the dismantling of our import controls were allowed to cause such a sharp deterioration in our terms of trade as seriously to threaten domestic standards of living or the stability of money, wages and prices. It cannot be too strongly emphasised that the various items in the proposals made in this article are not alternatives to each other.

This fact makes the present timing of negotiations a matter of vital importance. The Commonwealth economic conference will have taken place by the time this article is published. It must not lead to a wholesale one-sided dismantling of our protective controls, though it is greatly to be desired that it will have resulted in proposals to start dismantling our controls as part of a bargain with the United States for further appropriate action by that great surplus country. The whole programme stands or falls together.

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## U.S. INVESTMENT ABROAD

*WASHINGTON, December 22—United States' investors have financial* stakes in virtually all countries of the free world.

*The biggest foreign stake—70 per cent, $8,200,000,000—is in the Western* Hemisphere. The preponderance of American investment in this area reflects the development of nearby resources for raw materials and the U.S. participation in the industrial development of countries like Canada, Venezuela, and Brazil, which have been expanding at a rapid rate.

Among countries outside the Western Hemisphere in which large sums have been invested are the United Kingdom ($840,000,000) and the countries in the Persian Gulf—in which about $726,000,000 was invested at the end of 1950. Others include France ($285,000,000), Australia ($198,000,000), South Africa ($140,000,000), the Philippines ($149,000,000), Egypt ($40,000,000), Indonesia ($58,000,000) and India ($38,000,000).

Although oil investments abroad showed the biggest increase after the war, the new data shows that manufacturing investments were still the largest, with a total value of $3,800,000,000 at the end of 1950. Because the establishment of manufacturing operations requires a sizeable local market, the biggest investments are found in the countries already industrialised, such as Canada, the United Kingdom and France, or in countries which have already made good progress in that direction, such as Brazil and Australia.

*From Survey of Current Business, Department of Commerce, Washington. December 22, 1952*

# Sterling Convertibility—At What Exchange Rate?

BY A. C. L. DAY

*The answer, according to the author, is—Not at any rate, until the international payments position is such that every country can maintain a reasonable balance in its overseas payments. Unilateral and drastic action by Britain would put an unreasonable burden on her economy.*

SINCE a freely fluctuating sterling exchange rate would give rise to world problems for which we are ill-prepared, we must consider the reason that has been put forward why convertibility demands a free rate. The reason, in its simplest form, is that a decision by the authorities about the correct rate would initially give one which would not be one at which convertibility could permanently be maintained.

As a corollary to this, it is feared that the attempt to maintain convertibility at fixed exchange rates would demand a series of downward jags of the exchange rate; such a series of devaluations would destroy the prestige of sterling utterly.

## A Free Rate

It is worth pointing out that this argument demands a completely free rate, and not merely a rate determined by a market in which the Exchange Equalisation Account is taking a position. If the Account is operating, it would presumably be subject to the same temptation to try to maintain too high a value of sterling, and in time the position would prove itself indefensible just the same as would a rate fixed by the Government in a more rigid way; a weakening of sterling after the Account has to abandon an indefensible position would be just as serious a blow to the prestige of sterling and the coherence of the sterling system as would be a further devaluation under a system with fixed exchange rates.

When the authorities have to abandon a position which they have taken up the results must be disturbing, either when fixed parities are in force, or when the Exchange Equalisation Account is taking up a definite position. The alternative policy open to the authorities is to follow the market but to use the Account to smooth out day-to-day trends. Only in such a case will the majority of speculators be denied the pleasures of a one-way option.

Unfortunately, there is no reason to believe that a free market of this type would attain, in a matter of a few months or a year or so, an exchange rate at which sterling convertibility could permanently be maintained. The permanent level of the sterling-dollar exchange rate will not become apparent until the problems facing the world financial and payments system are within reach of solution. While the world trade pattern remains seriously disturbed, and while economic policies and capital movements are both subject to violent shocks and changes, it will remain impossible to say with con-

*From "The Price of Sterling Convertibility," Economia Internazionale, Genoa, November, 1952*

fidence that any given sterling-dollar rate, however determined, can be maintained for several years together.

Private operators may or may not show more awareness and foresight than the authorities; it is certainly perfectly possible that the initial rate they might set in the first few months would be more favourable to sterling than in fact proved maintainable a year or two later, so that the rate would eventually take a dramatic plunge. It is hard to believe that free market forces would in, say, the autumn of 1949 or the spring of 1951 have been nearer to what now appears to be a permanently maintainable rate than the authorities then were. A temporarily free market is not a magic way of discovering permanent equilibrium, while a permanently free market might just as well involve serious falls in sterling in the future.

**Government Intervention**

It appears, then, that either with a free market or with Government intervention, there would remain a severe danger that the initial level that would be established for sterling would not be maintainable, and that serious shock would result because of later falls. It is by no means unlikely that these dangers would be greater under a free market system, if one can judge by the optimism shown in the City about maintaining convertibility at around the present rate, and by the pessimism which undoubtedly exists in Whitehall on the same score. It is not unlikely that if a policy of convertibility were adopted, a lower sterling rate would be chosen if the decision were Whitehall's than if it were that of the City, New York and Basel, and that the dangers of subsequent falls would therefore be the less if the rate were fixed by the Government.

On the other hand, there is a real danger that the Government would choose "too high" a rate, in circumstances where a free market might not. The reason for this possibility is that the Government would have to pay attention to all the consequences of fixing a very low rate, and in particular to the effects on the terms of trade. There is undoubtedly some exchange rate where the adverse effects on the terms of trade would be so harmful that they would outbalance the advantages accruing from convertibility, and the Government would therefore not willingly adopt an exchange rate lower than this.

There is no certainty, however, that convertibility would not demand such a low rate; moreover if convertibility demanded it, a free market would sooner or later bring the rate down below that level.

**The Alternative**

The fundamental difference between using policy decisions and a perfectly free market to determine the exchange rate now becomes apparent. If it does transpire that convertibility demands a very unfavourable exchange rate, the authorities are left with freedom of choice between abandoning convertibility and adopting a very bad rate, if they fix the rate by policy decisions. If, on the other hand, they leave the rate to market determination, they are committing the country to accepting the price of convertibility, however great it may be.

It appears, then, that the sterling exchange rate at which convertibility is maintainable is unknowable. Since it is unknowable, neither the authori-

ties nor a free market will necessarily immediately approximate to it, and they may well move towards its apparent position by a series of sickening jolts. The upshot of the argument so far is that a free market will not necessarily save sterling from loss of prestige, and it may force us into paying an intolerable price for convertibility.

**Terms of Trade**

We must next consider how serious is the danger that convertibility may have very adverse effects on Britain's terms of trade, by raising the price of imports in relation to that of exports. There is thus an important group of factors which covers the risk involved in heavv capital movements. Practically all responsible commentators argue that convertibility can only be made available for currently earned sterling.

It is worth noting in passing that if any sterling at all continues to be subjected to limitations on its use, then some sterling will continue to be at a discount against the dollar, and that an elaborate exchange control mechanism would still be needed. The early days of exchange control, in Central Europe in the "thirties," soon taught the lesson that exchange control must control all current transactions, even if it is only capital transactions which the authorities wish to limit.

There is no hope of a unified world payments system working successfully and permanently until *every* country in the world is in a position of reasonably maintainable balance in its overseas payments. Then, and only then, will the dollar problem and the problem of sterling's inconvertibility disappear. The fundamental question which must be answered by the supporters of immediate action is whether this condition of world equilibrium can be established by brusque action now, by Britain alone. The uncertainty of events and the obtuseness of men and of circumstances seem to put the supporters of immediate and drastic action under a much bigger burden of proof than they have yet shown themselves able to carry.

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## PROTEST AGAINST U.S. IMPORT RESTRICTIONS

New Zealand has officially protested against the decision of the United States Department of Agriculture to place import quotas on dried milk.

A note to the State Department, the text of which was released today, said the restrictions were a clear breach of the General Agreements on Tariffs and Trade (G.A.T.T.). They would affect a large part of New Zealand's dairy industry.

The note added that there was widespread concern in New Zealand over United States trade barriers.

*From Press Bulletin, New Zealand Government Office, London, January 20, 1953*

*Australian Economist states the*

# Case for Sterling Area Authority

By Bruce Miller

*Staff Tutor, Sydney University*

*The development of the Sterling Area bears the hallmark of the Commonwealth's political evolutions. De-centralisation; increasing autonomy of the constituent members; absence of formal rules; and adherence to an unwritten and tacitly-accepted code of conduct. The author is well aware that his suggestion of setting up a political authority, capable of making binding decisions on behalf of the Area's members, is contrary to this trend. But he thinks that " if the sterling countries want convertibility, their circumstances demand that they should pay for it by some surrender of sovereignty." Will they think it worth the price?*

The demand for industrialisation in the overseas dominions has been the target for a great deal of sniping in the London press in recent times.

I have some sympathy with this sniping, because I think that much dominion industrialisation, especially in Australia, has been uneconomic and can be preserved only by restrictionist policies. But the reasons behind these policies of industrialisation should be better understood in Britain. Much of dominion industrialisation has been the necessary result of crisis situations in both wars and in the depression of the 1930's

As well as the crisis aspect, however, there is the very real nationalist element in the growth of secondary industries in the overseas sterling countries. For nearly a century Australia, for example, has had publicists and thinkers who stressed the need for her to manufacture her own goods if she was to be any more than a hewer of wood and drawer of water for other people. 'Australia will not be a nation until she produces her own motor car', was a slogan which has now reached fulfilment.

That sort of sentiment is deep and widespread: it is essentially a nationalist sentiment. The same is true to an even greater extent of new dominions like India and Pakistan and even Ceylon. They see primary-producing countries as largely at the mercy of secondary-producing ones, and they see manufactures as the key to high living standards. The overseas countries are extremely wary of any policy which seems to be designed in Britain's interests and not theirs. They do not want to be governed from the City of London.

I want to dispel certain illusions:

(1) That Britain is strong enough to make her own decisions about convertibility; (2) that any decisions she makes will be necessarily carried out

*From B.B.C. Third Programme Talk, "The Listener," London, January 1, 1953*

by the dominions; (3) that dominion governments are likely to accept British judgements about what is good for them, in preference to their own.

Having said that, it is important that I should emphasise the strong desire of the overseas sterling countries to keep the sterling area together and to achieve convertibility. Yet if we attempted convertibility now without applying, throughout the Commonwealth, the stark ecomic policies which are needed to build up our gold and dollar reserve, there would be a smash and we would see the break-up of the sterling area as we know it today.

**Central Authority**

What should be done? The first need is to create a political authority which can speak in the name of the sterling area and accept the responsibility of making policy for it. At present the sterling area has no governing authority, and no one makes binding decisions. It lives in an atmosphere of gentlemen's agreements, secret conferences, and guarded statements. What semblance of common policy it has is decided by discussions between Commonwealth ministers, who do not even correspond to the membership of the sterling area.

Such an arrangement encourages misunderstanding and evasion of responsibility. We had an undignified example of it earlier this year, when the Australian Treasurer said the Finance Ministers' Conference had decided one thing and the British Chancellor of the Exchequer said it had decided another.

In suggesting some stronger authority for the sterling area I am running against all the Commonwealth tendencies of recent years, which have been away from binding commitments and towards consultations and colloquy. The situation of the sterling area, however, demands a reversal of that trend. In effect, the sterling area countries are running a joint business. They have a central reserve of gold and dollars which they use, in the long run, to finance their trade. Before the war the whole responsibility for this could be taken by Britain; that is the case no longer. Now, the area's backing is so weak that a single dominion acting the drunken sailor in its import policy can upset the rest.

It seems to me common sense that if the sterling countries want convertibility, and want it soon, their circumstances demand that they should pay for it by some surrender of sovereignty.

**"Atlantic Payments Union"**

If it proved possible to work out a concerted policy, then we should stand more chance of approaching the United States and suggesting an 'Atlantic Payments Union'. The political difficulties of getting such a payments union under way would be eased if we had a sterling area council which was able to take responsibility for what it said it would do. It would be more acceptable to the Americans as a bargaining agent than the present uneasy system. In the long run, convertibility can be assured only with American support.

*For further reading: "Great Britain, The Sterling Area and Europe," by F. V. Meyer, published by Bowes and Bowes, Cambridge. (Reviewed in this issue)*

# U.K. Export Trade Controls

## *HOW THEY WORK IN PRACTICE*

BY L. G. PEARCE

*Assistant Chief Cashier—Exchange Control and Overseas—Bank of England*

*This item is by a practical administrator, who takes the question out of the realm of political argument into that of experience.*

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WHAT are the effects of Britain's Exchange Control?

Firstly, the effects on international trade and under this heading two sub - headings — limitations and diversion.

Exchange control, including import and export controls, does result in a reduction in the total volume of world trade. Evil begets evil—and other countries, even if they had no other reason for so doing, would have to introduce some controls of their own in self-protection against the discrimination necessarily involved in any form of exchange and trade control exercised by a major trading community.

The fact that we have, because of our balance of payments difficulties, to limit our imports must mean that there is a reduced consumption of both raw materials and manufactures.

The minor irritants of any control, form-filling, licensing procedure, etc., cost money, increase export prices and so make the goods that much less attractive to the importing country.

Some limitations must be imposed by exchange controls on the activities of the entrepôt and merchandising trades if only to ensure that they do not result in serious loss of dollars.

Commodity markets are another victim of exchange control; we are endeavouring in the United Kingdom to re-open some of those international markets which proved so valuable a source of invisible income in pre-war days, but if markets were free to deal in dollar commodities without restriction we should be making sterling convertible through commodities.

Some countries who would be willing to buy our exports on long credit are unwilling or unable to do so on the credit terms which the exchange control finds it necessary to enforce.

Now for the diversion or the twisting of international trade from its normal and natural course. Exchange control can be used as an instrument to divert trade from its normal channels, and it has been and is still being used for that purpose by the sterling area. We avoid purchasing anything in the dollar area which we can obtain elsewhere, even if, on occasions, it costs us more; and we make considerable efforts to encourage the export of raw materials and manufactured goods to the same area.

The other side of the picture is that our efforts to increase our exports to North America have of necessity limited our capacity to export to those countries holding large

*From British Exchange Control: the System and its Effects, Banking and Foreign Trade, Published for Institute of Bankers by Europa Publications Ltd., London, December, 1952*

sterling balances.

The existence of these large accumulations of sterling both within and outside the sterling area facilitates, if it does not encourage, another and major distortion of trade. There are many variations of what are known here as cheap sterling deals but the basis of the transaction is usually a purchase for sterling by a non-resident of sterling area goods ostensibly for export to his own country. At some stage in their journey the goods are diverted to North America where they are sold cheaply for dollars and these dollars are used to buy dollar goods.

**Effect of Sterling Balances**

We suffer in several ways from such trade—we lose dollars which would otherwise obtain for the sterling area goods exported to North America; the sale of these goods at a price lower than market price makes it more difficult for the genuine trader to sell there and, finally, sterling is depreciated in terms of dollars and so we get the so-called free market rates for sterling in New York, Zürich and elsewhere, which tend to undermine the official rates of exchange.

Against all this, however, we must set the fact that the sterling area with the transferable account countries is the largest trading unit in the world.

True, it is a limited freedom; the restriction on sterling is that it is not normally convertible into gold or dollars. The regrettable result is to divide the world into two exclusive trading communities, the sterling and the dollar world, with but limited freedom of movement between the two.

In examining the effects of exchange control we ought to glance briefly at the two basic factors which vitally affect the United Kingdom's balance of payments.

In the late 'thirties the world's increasing dependence on supplies from the dollar area was already making itself felt in the United Kingdom's balance of payments. After the second world war it was clear that she would never be able to play this role again.

But it was the convertibility crisis in 1947 that made us face the other problem squarely: London was no longer the creditor of the sterling area and the non-dollar world but a debtor. Net disinvestment during the years 1939-45 had probably amounted to some £4,000 million, the sterling balances by December, 1947, had reached roughly the same figure. The pressure of these two factors—dollar shortage and world debtor—on our exchange control policy is profound.

One effect of that pressure can be seen in the almost complete cessation of capital investment outside the sterling area. Even before the war the Treasury, through the Foreign Transactions Advisory Committee, had exercised a close supervision over these investments, and exchange control is now used to prevent any but those which are of obvious benefit to the area, either because they are likely to yield substantial dollar returns in the fairly near future or because they are essential to maintain an existing British investment.

London would never have become the world's financial centre nor sterling an international currency in an age of exchange control, and the effects of that control on London's invisible earnings has been wholly pernicious.

# British Merchants Still Have Flair

A SIGNIFICANT object lesson in the vigour of London's merchanting tradition, and in the strains to which sterling would have to be subjected if it became fully convertible once more, was provided by the short-lived experiment through which British merchants were allowed to buy certain commodities in the dollar markets for resale in the countries forming the European Payments Union.

The reason for this relaxation of exchange and import controls was a deterioration of the United Kingdom's position in E.P.U. to a point at which the whole of Britain's deficits with Europe had to be met in the form of gold. In those circumstances there was nothing to be lost by buying commodities in dollars for resale in European currencies, since the loss of gold due to the first part of these operations would be counter-balanced by the gain of gold from (or the reduced loss to) E.P.U. on the other. Furthermore, the balance of profit and loss in this equation would be weighted on the profit side by the arbitrage profits that would accrue from these transactions.

**What Went Wrong**

The logic of the move was thus beyond reproach, but nobody had foreseen the extent to which the concessions would be used.

In one week applications for dollar-E.P.U. arbitrage operations are understood to have been made for a total trade of some $750 million. Of this total, authorisations were granted in respect of business amounting to about $150 million.

After this the shutters came down. The Treasury announced that the scheme had been launched with the limited objective of accelerating the recovery of gold previously lost to the E.P.U.

The figure of $150 million can be explained by the fact that when the relaxations were announced the United Kingdom had accumulated a deficit with E.P.U. of some $160 million in excess of its basic quota and had paid the whole of this excess in gold. Any reduction of this deficit would be recovered wholly in gold. But any subsequent reduction of the E.P.U. deficit made at the cost of payments to the United States would on balance cost some gold because once the quota limits had been reached again, only a proportion of further reductions in the accumulated deficit with E.P.U. would be repaid in gold.

The episode seems to teach two lessons. The first and more reassuring is that British merchants have clearly lost none of their flair for seizing an arbitrage opportunity as soon as it offers itself.

The second and rather more ominous lesson is the revelation of the initial pressure to which sterling would be subjected if it became convertible in isolation against the dollar. It would seem, therefore, that if convertibility is to be regarded as a practicable objective in the near future, it must not be a privilege reserved for sterling but must be tendered to the whole group of E.P.U. currencies.

*From Barclays Bank Review, London, November, 1952*

# Higher Price for Gold?

*Arguments Against and For*

THE key question is whether there is to be any change in the official price of Gold in the U.S.A. A rise in the American Gold price of even 25 per cent would make a difference of upwards of 150,000,000 dollars in the sterling area's balance of trade, and this is obviously attractive. What in fact are the chances of its coming about?

**Thumbs Down**

In the absence of fresh emergency legislation, power to make a change rests with Congress and not with the President alone.

Arguments against a change have been well summarised by Mr. Herbert Bratter in an article in "Optima," a review published by the Anglo-American Corporation of South Africa. He writes:—

"That the price of Gold should go up because other commodities have gone up is a non-sequitur, since Gold is not a commodity, but rather the measure of value. Moreover, for those who allege that 'everything has gone up but Gold,' it is noted that, while wholesale prices in the United States are 78 per cent above the 1926 level, Gold, at $35 an ounce, is 69 per cent above the price in 1926. If the arguments of the Committee for the Nation in 1933 were sound—that the price of Gold must be increased to lift the general price level—it would be equally sound to recommend, today, a lowering in the Gold price to counteract recent price inflation."

Nor does Mr. Bratter place any credence in the argument that a higher price of Gold would relieve the United States of more than a fraction of its current foreign aid burdens. The U.S.A. allocates its contributions on a selective basis and would certainly not wish to help just those countries who happen to produce Gold or who have Gold stocks.

"Raising the price of Gold to $44 an ounce would produce, on the basis of Gold Stocks other than those of the United States, an increment of $2.9 billion; or less than one-tenth of the amount of American net foreign aid to other countries from July, 1945, to December, 1951, not counting the United States' contributions to the International Monetary Fund and the International Bank for Reconstruction and Development. And a good part of the $2.9 billion would accrue to Switzerland, Canada, Latin America and other countries not most in need of help."

Finally, Mr. Bratter describes the uncontrolled inflationary effects of a rise in the price of Gold in the current American price structure if no steps are taken to neutralise it in any way. The special interest groups connected with the mining states who were so influential twenty years ago in raising the price of Silver are not in a position today to exert the same pressure on behalf of Gold, and Mr. Bratter takes the view that the foregoing arguments combine to present an insuperable barrier to the raising of the American Gold price by Congressional action.

**Thumbs Up**

The counter-arguments that the British representatives have to offer when they visit Washington in the spring can be briefly summarised. Psychologically the idea of "Trade not Aid" must make its appeal to an administration in which business is more actively represented than it has been for many years, and the foreign aid programme is in any case bound to be revised and will

*From Mocatta and Goldsmid Annual Circular, London, December 31, 1952*

probably have to be recast. The conception of the British Commonwealth being able to stand on its own feet economically is bound to make an irresistible appeal to the Western world and the United States authorities may be invited to raise the price they pay for newly mined Gold in order to help achieve this. Nor need such a step have the dire inflationary effects on the American economy that Mr. Bratter foresees. The great influx of Gold into the U.S.A. in the thirties was effectively sterilised and had very little effect on the American price structure. Sterilisation in this connection is purely a question of book-keeping, and the system successfully evolved in the thirties could be repeated and adapted if necessary in the fifties. Finally, the introduction of a system of selective import licences for Gold could ensure that the benefits of the higher price should be confined to the Gold producers in those countries which the U.S.A. wish to assist. Gold hoarders—notoriously unpopular with monetary authorities—would not necessarily find the new American price available to them, somewhat on the analogy of the official American Silver price which is available only to producers of the metal in the U.S.A. More will be heard on both sides in the coming months but the future of the Gold mining industry will largely turn on the visit of the British ministers to Washington.

## The Position of Silver

The future of Silver is also uncertain.

In England and on the Continent industrial consumption has fallen and—with the exception of a further order for Saudi Arabia — the amounts of new silver used in coinage have been negligible. Moreover, the Japanese Government has begun to liquidate its stocks of Silver estimated at about 10,000,000 ounces: some of this has come to London but it has mainly gone to the U.S.A. With the market for Foreign Silver in New York freely supplied with its requirements by Mexico and by Cuban demonetised Silver it would appear that the tendency is likely to be downward.

**Repayment to the U.S.A.**

However an incalculable element is introduced by the as yet unknown attitude of the American Government to the difficulties involved in the return to the U.S.A. of 410,000,000 ounces of Silver supplied to Allied Governments on Lease Lend. Repayment is due five years from April 28, 1952. The United Kingdom's own liability is confined to 88,000,000 ounces and this will no doubt ultimately be provided out of demonetised stocks. The British Government has, however, also guaranteed the repayment by the Indian Government of over 200,000,000 ounces, and it is not thought that Indian Government stocks contain anything approaching this figure.

If the American Government insists on this repayment in kind it will have a violent effect on the market outside the Western Hemisphere, and any pronouncement by the American Authorities as to their intentions in this matter will be most eagerly scanned.

# "We Can Prosper Without War Orders"

BY PROFESSOR J. K. GALBRAITH (HARVARD)

THE most damaging charge made against the United States in recent years is that we cannot afford real peace.

The argument runs something as follows: The American economy is notoriously unstable and accordingly must be propped up by sizable Government expenditures. The Marshall Plan was really a way of keeping the United States prosperous. Rearmament, which has now taken its place, is also necessary for maintaining full employment (and also high profits) in American industry. Thus American foreign policy is really the handmaiden of domestic economic policy.

To shrug off this unpalatable attack as Communist propaganda, seems to me less than wise. The simple assertion that we could not possibly have a depression is no answer. It is time that we dealt plainly with the charge.

**Dangers of Depression**

The first part of the indictment—namely, that rearmament and military aid are really inspired by the need to prop up the American economy—can be disposed of: So far, the cost of rearmament in the United States has been paid out of current taxes—were rearmament only for the sake of maintaining output and employment we would be financing it by borrowing.

It is still worth inquiring, however, whether a depression is indeed the price that we would have to pay for peace.

Unfortunately, the possibility of depression, in the event of a dramatic reduction in arms budgets cannot be dismissed as an idle bogey. The depression of the Thirties is impressively on the record. In all of the years since then, moreover, we have had sizable military outlays. (Even at their post-war low in the fiscal year ended June, 1948, military outlays were somewhat greater than all Federal spending in the pump-priming days of the New Deal.)

**Memories of the Thirties**

There are also dangers in the sheer vigour which the economy has displayed since 1945. Expansion has required a large volume of investment which has been sustained in turn by a high rate of saving. Were peace to lead to a general cutback in private investment while savings for the sake of personal security continued to increase, there could easily be trouble.

The list of misfortunes of the early Thirties which could not recur is impressive. Between 1929 and 1932, for example, farm incomes and prices fell spectacularly. Perhaps a million farmers lost their farms. By contrast, farmers are now exceedingly solvent: mortgage debt amounts only to about $6 billions as compared with $10 billions in the smaller economy of 1929. Above all, any drop in farm prices and farm incomes would now be checked by Government support prices which farmers and their Congressmen have taken care to see are far above depression levels.

*From The New York Times Magazine.*

Similarly, the unions would now be able, as they were not twenty years ago, to prevent competitive wage cuts. A substantial body of economic opinion would now agree that resistance to such cuts in purchasing power is proper anti-depression policy.

In the Thirties the worker who lost his job was dependent on his own savings or meagre public and private charity. Unemployment compensation now provides a floor, albeit a rather low one, under his standard of living and spending. With deposit insurance there would be no frantic runs on the banks or frenzied hoarding of cash. A depression would undoubtedly bring some business insolvencies. However, no one can suppose that either corporate financial structure or home finance are as vulnerable now as they were left by the strange fiscal aberrations of the great Bull Market.

Finally, broader income taxes have the effect of automatically reducing tax liability as incomes fall and thus releasing income for private spending. It is doubtful if many people realise how much stability has been built into the American economy in the last twenty years.

**Modern Remedies**

The chances for positive action to check a slump have also been greatly improved. In the event of a sharp cutback in military spending it would require no very sophisticated economic advice to persuade Congress to enact a whacking reduction in taxes.

Tax reduction might not be a complete answer, for not all of the income that would be released by a dramatic reduction in taxes would be spent. The strong saving instinct of the American people would govern the use of this extra income while, as noted, private investment might decline.

A vigorous housing and public works programme would be in order. So would liberalisation of social security and, perhaps, a further tax abatement for the explicit purpose of sustaining private purchasing power.

What of the longer perspective? Can the United States continue to find a peaceable outlet, year after year and decade after decade, for its productive energies?

**The Social Need**

The answer is, " Yes, we can prosper without war orders."

Here the answer depends less on economics and more on a broad assessment of social need. It is perfectly true that, by any past standard, the American people in the last five years have been living in a condition of opulence. Moreover, the average family income—about $3,300 in 1950—no longer conceals a vast number below the poverty line. There are still a great many poor people in the United States. But there has also been a very considerable levelling up of living standards in recent years.

It has been easy to go on from this condition of comparative well-being to formulate a theory that demand has been saturated.

That is absurd. Families with a present income of $6,600—or twice the average—have not the slightest difficulty in spending their money. So easily acquired is the amiable art of spending money that the same is true, though with some increase in saving, of those with three or four times as much.

In a world at peace, the United

States could afford a higher level of consumption.

Instability, in the past, has been in some part the result of a high rate of saving and investment on which, in turn, a rapid rate of growth depends. Investment and expansion, however, should be subordinate to individual preference. In a peaceful world, more years of better education, more time for enjoyment of home, the arts, the countryside or, for that matter, going to the races might be preferred to more steel mills to produce more automobiles, refrigerators, television sets and other gadgets.

Both a growing population and the dynamic of technical change will continue to make substantial demands on private investment resources. In housing alone, there are enormous shortages to be made up. In the field of public enterprise, There are schools, roads, hospitals and slums requiring attention. Peace would not quell the ambitions of dam-builders and land reclaimers—and the Missouri is still untamed.

More important, peace would not quiet the ambitions of the hundreds of millions of people in the so-called backward lands who must have the help of the United States if they are to make progress toward better living. This is a task in relation to which even the resources of the United States are, in fact, pathetically small.

We have not yet developed the techniques for providing such assistance and this is far from a mere detail. I am not certain that we can provide the requisite funds, year after year in the necessary volume, from budget appropriations. I am even more sceptical of those who say, blithely, that private investment will do the job. Perhaps we will need some new kind of instrument for the task—some extra-governmental authority which will channel resources into foreign investment and in which public funds will ensure regularity and provide a safety buffer for such private savings as are made available.

These problems remain. What is certain, however, is that men, machines or their counterpart in investment funds must not and cannot remain idle in the United States when they could be serving the urgent demands of other countries. The moral case for the matching of resources to need is strong; the practical case—the case that arises out of self-interest—is even stronger.

*For further reading: Expenditures in* 1952 (*Ref.* 239)
*Also: The United States and World Economic Prospects* (*Ref.* 243)

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## BUFFER AGAINST UNEMPLOYMENT

The amount of money available for jobless benefits to workers covered by state unemployment insurance laws has reached a record $8,400 million. The Bureau of Employment Security said the available money had grown by more than $500 million this year but the growth in the fund had not kept pace with the growth in potential liabilities as represented by the vastly increased numbers of covered workers. Since 1945, for instance, the total number of workers covered by state laws had grown by 8,500,000 to just under 36,000,000. In 1945 state reserves totalled almost $7,000 million. They were now only $1,500 million more to cover the higher number of eligibles.

*From Bureau of Employment, Washington, December 29, 1952*

# A President's Economic Swan-Song

BY HARRY TRUMAN

UNITED STATES progress during this past quarter-century is evident in the figures which sum up total economic activity.

In 1929, the output of all goods and services was $172,000m.; in 1952, total output amounted to $345,000m. measured in both cases in uniform 1952 prices. Industrial production has doubled, and agricultural output has risen about 50 per cent.

**The Nation's Progress**

Last year, on the average, more than 61,000,000 workers had civilian jobs, compared with almost 48,000,000 in 1929. Both were good years for employment. In 1952, however, the average individual worked fewer hours—and produced more goods. From 1929 to 1952, the length of the work week for all types of activity dropped from about 48 to 40 hours, but each worker turned out on the average 80 per cent more goods and services.

In 1952, for example, we spent about $26,000m. for machines and other kinds of durable equipment, compared with a little more than $11,000m. in 1929, both measured in 1952 prices.

The Nation's progress is shown also in greatly increased earnings and improved living standards. In 1929, average annual income after taxes was a little more than $1,000 per capita, while last year the average was about $1,500, again measured in 1952 prices. It should be noted that, while the real buying power of individuals was rising the population of the United States increased by about 35,000,000.

The greatly improved living standards which have been achieved during the past quarter-century are evident in more tangible data than the number of dollars earned or spent.

In 1929, there were 23,000,000 automobiles in use, and in 1952 there were 44,000,000. In the same span of time, the number of homes with a mechanical refrigerator increased from about 10 to 80 per cent. The number with radios increased from 40 to 96 per cent and 40 per cent now have television sets. Compared with 10 per cent in 1929, nearly 90 per cent of all farms are now electrified.

During the era as a whole, we have built 12,000,000 new non-farm homes, most of them since World War II. Home ownership increased from 48 per cent of all families in 1930 to 55 per cent in 1950.

**Distribution of Incomes**

The products of our economy are now far better distributed than they used to be. Adequate statistics do not go back to 1929. But since 1935-36, the real incomes of families and single persons in the lowest two-fifths of the income range have increased 90 per cent, while the increase in the top fifth has been about 40 per cent.

In the mid-1930's it was no exaggeration to speak of one-third of a nation ill-fed, ill-clad, and ill-housed. Since then, the one-third

*From Economic Report to Congress, January 14, 1953*

has been reduced to one-fifth, or maybe less, on the old standards.

But as our power to produce increases, our standards and goals rightly increase also. The job ahead of us remains large. About one-fourth of our non-arm dwelling units and a much higher percentage of our farm housing are sub-standard. Many families still suffer from malnutrition. The amounts spent in recent years for schools and hospitals have been far less, as a per cent of total national production, than was spent in 1939. Living conditions in large sections of our cities are distressing, calling for vast slum clearance and re-development effort.

Despite much progress in Social Security since the real beginning of the programme in 1935, important gaps remain. Farmers are not covered by old-age insurance. Some 5,000,000 wage and salary workers are still outside the unemployment insurance programme. Welfare assistance is not adequate to meet the requirements of many disabled people, un-insured old people, and their dependents. About half of our families find difficulty in meeting the cost of essential medical care.

## Targets for Eisenhower

Ten years from now, a labour force of 76-80,000,000 working more effectively with better tools but somewhat fewer hours per week, could produce annually about $475,500,000m. worth of goods and services — measured in today's prices. This is about 40 per cent above the present level, and represents an average increase of slightly over three per cent a year.

The consumer portion of total production could by then come to about $340-350,000m. This would be about $2,000 for every man, woman and child in the country, or about 40 per cent more than each person received in 1952. Over the next ten years, we should be able to raise the average income of all American families correspondingly.

With a Gross National Product of about $475-500,000m., well over $40,000m. could be spent for new non-farm plant and equipment; $15,000m. or better for new housing; more than $15,000m. on schools, highways, hospitals, resources, development projects, and other public works. Investment in American agriculture could be substantially larger than the 1952 level of $5,500m.

## RETURN TO ORTHODOXY?

*When Congress in 1946 passed a "full employment" law calling for a* council of advisers to guide the President, little thought was given to the fact that an existing public body—the nation's central bank—already filled he bill. Perhaps the oversight was due to the central bank's traditional self-effacement from "politics." Also to the fact that during the war the bank had seen fit to subordinate its functions to the professed cheap-money needs of the Treasury.

Anyway, the dramatic consequences of the post-war slighting of the Federal Reserve have long been history. The triumvirate of Presidential counsellors set up after the war came into conflict, finally, with the Federal Reserve on the relationship between inflation and the availability and cost of credit.

In the ensuing dispute the Federal Reserve was the winner. The central bank not only asserted but re-established its independence of the Truman Administration's ideas about the cost of Government borrowing.

*Paul Heffernan, New York Times, December* 28, 1952

# Size of British Manufacturing Establishments

THE total number of establishments with more than ten employees in manufacturing industries in Great Britain, for which returns were received in May, 1952, was 56,638. This total is analysed into nine size-ranges in the following Table, which also shows the numbers of employees:—

ESTABLISHMENTS WITH MORE THAN TEN EMPLOYEES

| — | Number of Establishments | Number of Employees | | | |
|---|---|---|---|---|---|
| | | Males (000's) | Females (000's) | Total (000's) | Females as Percentage of Total |
| 11-24 employees ... | 17,441 | 202 | 97 | 299 | 32 |
| 25-49 employees ... | 14,730 | 337 | 180 | 517 | 35 |
| 50-99 employees ... | 10,473 | 456 | 275 | 731 | 38 |
| 100-249 employees ... | 8,364 | 798 | 496 | 1,294 | 38 |
| 250-499 employees ... | 3,179 | 701 | 403 | 1,104 | 37 |
| 500-999 employees ... | 1,471 | 677 | 334 | 1,011 | 33 |
| 1,000-1,999 employees ... | 619 | 625 | 232 | 857 | 27 |
| 2,000-4,999 employees ... | 290 | 659 | 167 | 826 | 20 |
| 5,000 or more employees | 71 | 427 | 114 | 541 | 21 |
| Total ... ... | 56,638 | 4,882 | 2,298 | 7,180 | 32 |

It must be emphasised again that the figures relate to establishments from which returns were received in May, 1952, and that it is not known to what extent (if at all) they fall short of the actual numbers of establishments in existence at that time. It is probably safe to say, however, that the deficiency is small and mainly in the lower size-ranges. The Table shows that, of the total of 56,638 establishments from which returns were received, 42,644, or 75 per cent, had less than 100 employees, and 8,346, or 15 per cent, had 100—249 employees. The total number of returns received, however, was greater than on the previous occasion, the most noteworthy feature being an increase from 342 at December, 1949, to 361 at May, 1952, in the number of manufacturing establishments with 2,000 or more employees. These establishments now account for 19 per cent of the total number of employees, and those with less than 100 employees account for 22 per cent.

The last column in the Table shows that there were considerable differences between the various size-ranges in the proportion of females among the employees. At the establishments with 11—24 employees the proportion of females was 32 per cent, but it rose to 35 per cent in the 25—49 range and to 38 per cent in the ranges 50—99 and 100—249. Thereafter the proportion fell steadily from size-range to size-range, and at the large establishments with 2,000 employees or more it was only 20—21 per cent.



*From Ministry of Labour Gazette, London, December, 1952*

# U.K. Wages, 1914-1952

BY PROFESSOR SIR ARTHUR BOWLEY (LONDON UNIVERSITY)

*"The index-number of wage-rates, published seriatim in the 'Bulletin of the London and Cambridge Economic Service', is not easily accessible in its complete form," says Professor Bowley in his introduction to this collection of tables and explanatory notes. "The series has for various purposes been adjusted to different basic dates and there have been minor amendments as belated data have become available. Consequently it appears to be worth while to publish the series in extenso." The result is a most valuable collection of comparative data, from which the following tables have been taken. The complete set of tables may be consulted under Ref. 227*

**WAGE-RATE INDEX**

*Yearly average.* 1938 = 100

| *Year* | *Index* | *Year* | *Index* | *Year* | *Index* |
|---|---|---|---|---|---|
| 1924 | 96 | 1934 | 90 | 1944 | 146 |
| 1925 | 96 | 1935 | 91 | 1945 | 154 |
| 1926 | 96 | 1936 | 93 | 1946 | 167 |
| 1927 | 96 | 1937 | 97 | 1947 | 175 |
| 1928 | 96 | 1938 | *100* | 1948 | 188 |
| 1929 | 95 | 1939 | 101 | 1949 | 193 |
| 1930 | 94 | 1940 | 112 | 1950 | 197 |
| 1931 | 93 | 1941 | 122 | 1951 | 216 |
| 1932 | 92 | 1942 | 131 | 1952 | 231 till June |
| 1933 | 90 | 1943 | 138 | | |

*Approximate Index-numbers* 1914-24

| | 1914 | 1915 | 1916 | 1917 | 1918 | July 1919 | 1920 | 1921 | 1922 | 1923 | 1924 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1924 = 100 ... | 52 | 56 | 62 | 74 | 98 | 119 | 147 | 141 | 109 | 97 | 100 |
| 1938 = 100 ... | 50 | 54 | 60 | 71 | 94 | 115 | 141 | 135 | 105 | 93 | 96 |

*From "Index Numbers of Wage-Rates and Cost of Living," Journal of the Royal Statistical Society, London, Vol. CXV, Pt. IV,* 1952.

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## WAGE-TRENDS IN SWEDEN

The over-all increase in wages for industrial workers in Sweden during the thirteen-year period 1939-1952 totals 189 per cent for men and 220 per cent for women. The largest relative increases are recorded for workers in the stone, timber, textile and clothing industries, who during the 1930's lagged behind other groups in respect of wages. Through increases in cash incomes and in real wages farmers and farmhands have now attained parity with industrial workers.

*From Swedish International Press Bureau Bulletin, Stockholm, January* 12, 1953

# Economics of the Breakfast Table

*The United Kingdom is the world's greatest margarine exporter. The Scandinavians sell butter and eat margarine. China supplied 90 per cent of world exports of egg products before 1939. These are some of the significant facts which emerge from this survey of world trade in eggs, butter and margarine*

## MARGARINE v. BUTTER

WHILE world butter production has declined by approximately 16 per cent in the course of the last fourteen years to 3.3 million tons—due, in the main, to increased consumption of liquid milk and cheese—world margarine production has risen by some 86 per cent to 2.33 million tons. The most important margarine producer is the U.S.A., with an annual output of about 547,000 tons.

The United Kingdom is the largest exporter of margarine with 10,500 tons in 1951, followed by Holland (5,000 tons—as compared with nearly 70,000 tons in 1926-30!) and the U.S.A. (approximately 1,000 tons per annum).

**MARGARINE PRODUCTION**

| 1,000 tons | 1938 | 1946 | 1950 | 1951 |
|---|---|---|---|---|
| Germany ... ... ... | 439 | 26 | 358 | 466 |
| U.S.A. ... ... ... | 172 | 255 | 418 | 463 |
| U.K. ... ... ... | 208 | 330 | 374 | 447 |
| Holland ... ... ... | 70 | 67 | 173 | 172 |
| Denmark ... ... ... | 80 | 6 | 59 | 72 |

*Translated from Handelsblatt, Düsseldorf, December 15, 1952*

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At present the Australian butter producer is favoured by a strong overseas demand, as besides the ready export openings in United Kingdom and Eastern markets an unexpected approach made by European importers indicates the existence of a highly profitable market there. Comparative prices per cwt. f.o.b. Australia in the main markets are as follows: Australia 417/8d.; United Kingdom 392/6d. and European and Eastern Countries (average) 420/-. Substantial quantities have already been shipped to Europe but, owing to official concern that in supplying European markets exporters are endangering traditional and more permanent ones, the issuing of permits has ceased until the amount of exportable butter for this season is more certain. At all events, a decline in local consumption has become evident since the price rise in July and at present it is about 20 per cent less that that of the previous year.

(*Continued overleaf*)

Substitutes for butter form an important part of the national diet in many European countries, where a much higher per capita consumption of margarine than in Australia is the general rule.

*Scandinavian countries, preferring to boost their butter exports, have been traditionally large consumers of margarine.* Danish consumption, rationed till November, 1950, is returning to its high pre-war level, whilst in all other European countries consumption in 1950 was substantially greater than pre-war. Per capita consumption in the United States of America, though considerably less than in Europe, is nevertheless twice that existing in 1938.

*Estimated Per Capita Consumption of Margarine*
lbs. per annum

| Country | 1938 | 1948 | 1949 | 1950 |
|---|---|---|---|---|
| United Kingdom | 10.0 | 17.5 | 17.9 | 16.7 |
| Norway ... ... | 41.2 | 40.6 | 41.9 | 44.8 |
| Netherlands ... | 15.7 | 22.0 | 31.1 | 37.5 |
| Sweden ... ... | 20.5 | 15.7 | 22.0 | 24.7 |
| U.S.A. ... ... | 2.9 | 6.1 | 5.7 | 6.1 |
| Denmark ... | 47.4 | 24.7 | 27.8 | 30.9 |
| Belgium ... ... | 14.8 | 17.0 | 16.1 | 16.3 |
| Australia ... | .9 | .9 | .7 | .4 |

*From Monthly Summary, National Bank of Australasia Ltd., November 12, 1952*

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## EGGS

Egg production in Western Europe has made a speedy recovery from the low point of the immediate post-war period. In 1951-52 production in the European countries was 62 per cent larger than in 1947-48, and 13 per cent above pre-war. Western Germany showed the most significant increase.

In 1951-52 the average per caput consumption of eggs in Western Europe as a whole was only slightly below the pre-war level. Pre-war consumption levels were exceeded in Denmark, France, Western Germany and Sweden. On the other hand, in Austria, Greece, Ireland and the Netherlands, per caput consumption was considerably lower.

United States production in 1952 will be the largest on record. Per caput consumption, which since pre-war has been the highest in the world, is at present about 30 per cent above pre-war.

Canadian production, on the contrary, has been declining, a contributing factor being the absence of United Kingdom purchases since 1949, but even at its lowest post-war level in 1951, it was 43 per cent larger than pre-war.

### Declining World Trade

Despite a significant recovery in the post-war period, world trade of eggs in shell in 1952 was smaller than pre-war.

Of estimated world total exports of 300,000 metric tons in 1951, Denmark contributed 85,000 tons and the Netherlands 74,000.

Exports from Canada and the United States, which had been insignificant before the war, rose to considerable importance during the immediate post-war years. How-

ever, Canadian exports contracted severely in 1950 with the cessation of purchases by the United Kingdom. Exports from the United States have expanded since 1949, the main outlets being Cuba, Mexico and Venezuela.

In South America, domestic markets have absorbed nearly the whole increased production, leaving smaller quantities for export than before the war.

**U.K. and Germany**

World imports of eggs in shell are mainly concentrated in the United Kingdom and Germany. During 1934-38 and in 1950 these two countries accounted for 70 per cent of total imports. In 1951, however, their total share was reduced to about 60 per cent.

These two major markets have shown interesting and rather different developments. *Before the war, the United Kingdom took nearly half of the world imports of eggs in shell,* or twice as much as pre-war Germany. Imports into the United Kingdom reached a post-war peak in 1949, with a tonnage of 143,000 metric tons, while Western Germany in that year imported about 10,000 tons only, but *in* 1951, *Western Germany was the leading importer with* 96,000 *tons* against 77,000 tons imported into the United Kingdom.

China, *which before the war supplied* 90 *per cent of world exports of egg products,* exported much less during the post-war years. In 1951, the volume of its exports, consisting mainly of liquid eggs, was only about one-sixth of pre-war.

On the other hand, during the war, production and exports of dried eggs had expanded heavily in the United States, Canada and Australia, mainly because of scarcity of shipping space. Since 1947, exports of dried eggs have been shrinking.

*The United Kingdom has been absorbing annually* 70 *to* 90 *per cent of world exports of egg products.* Whereas pre-war imports of liquid eggs into the United Kingdom from China were about 40,000 metric tons, in 1951 imports from that country were only 5,000 metric tons.

Reflecting in part the increased cost of feedstuffs, egg prices in Western European countries in 1951-52 were generally higher than during the preceding year. The price of Australian eggs to the U.K. which has been agreed upon for 1952-53 is 29 per cent above the price for 1951-52 which in turn was 26 per cent higher than in 1949-50.

**Prices are Falling**

In Canada and in the United States, 1952 has seen considerable declines in egg prices. In Canada, wholesale prices for eggs during the first eight months of 1952 were 25 per cent lower than a year before; in the United States, during the first seven months of the year, prices as received by farmers, were about 16 per cent below the corresponding level of 1951.

*From Monthly Bulletin of Agricultural Economics and Statistics, F.A.O., Rome, December,* 1952

# The World's Paper

By George F. Underhay

*Director of Bowaters Development and Research*

*This article shows the relationship between national living standards and paper consumption. The vast scope of potential demand is clearly shown, as well as the adequacy of raw material resources.*

In 1950, the last year for which complete figures are available, the total quantity of paper and paper board consumed in the world amounted to nearly 42 million long tons. By far the greater part of the raw material for this very substantial total was provided by wood, the quantity of all varieties of wood pulp produced (excluding a considerable re-use of fibre in the form of waste paper) having amounted to 30 million tons.

The most recently available figures indicate that consumption is continuing to increase and, at current levels, it has reached the highest figures yet recorded. Some indication of the way in which the demand for paper has grown in recent times may be obtained from Table 1:—

Population increases, the spread of literacy, and the widening uses to which paper and paper products are put are all having their effect in increasing the demand. Only in the United Kingdom, as a direct result of war-time and post-war economy measures, is a decrease shown.

Almost any kind of tree or plant can be used for paper making, but although the possible range of varieties is enormous, in practice the choice is narrowed down to a relatively few types selected because of their availability, the quality of the fibre that can be made from them, and the cost of producing a suitable pulp.

In times of paper shortage dozens of possible alternatives are pressed

TABLE 1

WORLD ANNUAL CONSUMPTION OF PAPER AND BOARD EXPRESSED AS MILLIONS OF LONG TONS

| | *Year* | *Newsprint* | *Other qualities including board* | *Total* |
|---|---|---|---|---|
| United Kingdom ... | 1913 | 0.5 | 0.6 | 1.1 |
| | 1937 | 1.3 | 2.1 | 3.4 |
| | 1950 | 0.6 | 2.5 | 3.1 |
| Canada ... ... | 1913 | 0.1 | 0.1 | 0.2 |
| | 1937 | 0.2 | 0.5 | 0.7 |
| | 1950 | 0.3 | 1.2 | 1.5 |
| United States ... ... | 1913 | 1.4 | 3.4 | 4.8 |
| | 1937 | 3.8 | 10.5 | 14.3 |
| | 1950 | 5.2 | 20.6 | 25.8 |
| World ... ... ... | 1913 | — | — | 11.2 |
| | 1937 | 7.9 | 21.1 | 29.0 |
| | 1950 | 8.9 | 33.0 | 41.9 |

on the paper industry for their urgent consideration. Examples of these, available in this country, are fruit tree prunings, hop bines, the common nettle, and sawdust. It is possible to make paper from all of these and hosts of other materials, including even grass mowings from the lawn, but even if the fibre quality is good (the common nettle, for instance, has an outstandingly good fibre), collection and transport costs are almost invariably far too high and the yields obtainable are often low.

In tonnage the most important of the non-fibrous materials in this country is china clay. The total quantity used for paper in Great Britain approaches 200,000 tons annually, and the Cornish mines do important dollar earning export business with paper mills in North America. China clay is mixed in with pulp to improve the opacity, printability, and the brightness of printing papers.

### What Consumption Needs

The world total usage of paper and board is over 40 million tons annually. This represents an estimated consumption of 45 lb. a year per head of the population; 45 lb., however, is only the average of figures which show great differences from country to country. The United States heads the list with a figure approaching 400 lb.; this is in striking contrast to the figure for the continent of Asia where the consumption is only 2 or 3 lb. per person. In Northern Europe the figure is around 115 lb., and in the United Kingdom, it is about 160 lb. Thus, if the high consumption figures per head of the population per year for the most advanced countries are to be followed in due course by those areas of the world where education and modern standards of living have either not begun to operate or have not yet had their full impact, then indeed the world demand for paper and, therefore, for the raw materials to make it, will be very great indeed.

In the United States, the shortages that have arisen from the unwise denuding of the softwoods that used to flourish in the North-East and Middle-West States are being alleviated to some extent by the pulping of hardwoods not previously used, and by afforestation. Furthermore, the rapid development of the use of Southern pine for making kraft paper and board, and for newsprint, and the vigorous developments on the N.W. coast have greatly contributed to the healthy state of U.S.A. industry.

### Paper in Canadian Economy

In Canada, the total production of the pulp and paper industry during 1950, 7.6 million tons, was half a million tons more than it was in 1949, and in 1951, *both in domestic and international trade, the Canadian pulp and paper industry was the largest single factor in Canada's prosperity.* By 1951 the gross production of all products had risen to 8.5 million tons (of which 4.9 million tons was newsprint), representing an increase of nearly 40 per cent in five years. There are estimated to be over a million square miles of forest area in Canada out of which 470,000 are regarded as being accessible.

Russia, in pre-war years, was estimated to have 425 thousand square miles in its European territory; roughly equal to the Canadian accessible area and also to the United States forest area. Now the iron

curtain has encompassed a considerably increased area of pulp wood forest, and very little is known about the present position there.

France is an interesting example of a country where a man-made forest supplies a useful proportion of her needs. In the sandy hinterland of the Bordeaux area maritime pines were planted extensively some years ago to hold together the light sandy soil. These forests formed the basis firstly of a rosin industry and more recently of a paper industry, which is now of much greater importance than the rosin industry. A similar stand is now being exploited at the present time in Portugal, though on a small scale. In New Zealand a man-made forest, the largest in the world, is to be utilized in connection with the Murapara project. It is planned to produce, in the first instance, some 100,000 tons of pulp and paper a year from the Monterey pines (*pinus radiata*) of the 1,300 square mile Kaingaroa forest.

Australia has for some years been quietly and effectively developing the use of a hardwood tree, the Eucalyptus, not previously considered suitable for paper making. Only 1 per cent of the total area of Australia is reserved for forestry, and of this only about half is considered good forest country (Sweden has 55 per cent, Canada 33 per cent, France 18 per cent, and the United Kingdom 5 per cent).

In the United Kingdom in 1950, some 54 per cent of the furnish required for paper making was processed in this country, a small quantity of it (10 per cent), from indigenous materials (straw 2 per

TABLE 2

WORLD TOTAL PRODUCTION OF WOOD PULP IN 1950, EXPRESSED AS MILLIONS OF TONS AND EXCLUDING RUSSIAN CONTROLLED AREAS

| | |
|---|---|
| *Europe* | |
| United Kingdom | .12 |
| Norway | 1.00 |
| Sweden | 3.11 |
| Finland | 1.88 |
| Denmark | .001 |
| France | .49 |
| Belgium | .08 |
| Netherlands | .12 |
| West Germany | .90 |
| Austria | .34 |
| Spain | .03 |
| Portugal | .006 |
| Italy | .18 |
| Switzerland | .14 |
| | 8.40 |
| *North America* | |
| United States | 13.22 |
| Canada | 7.57 |
| Mexico | .07 |
| | 20.86 |
| *South America* | |
| Brazil | .14 |
| Argentine | .03 |
| Chile | .02 |
| | .19 |
| *Other Countries* | |
| Australia | .09 |
| New Zealand | .02 |
| Japan | .74 |
| Turkey | .01 |
| | .86 |
| *Totals* | |
| North America | 20.86 |
| South America | .19 |
| Europe | 8.40 |
| Other countries | .86 |
| | 30.31 |

*For further reading: "The Timber Trade," Supplement, "The Financial Times," London, January* 19, 1953

cent, china clay 7 per cent, and home-grown wood 1 per cent) and the remainder from waste paper (30 per cent), esparto (5 per cent), imported wood (5 per cent) and rags (4 per cent).

We may sum up the world situation as follows:—

(1) The recurring "shortage" conditions in world cellulose supplies follow from the demand temporarily outstripping the rate of expansion in pulping capacity and are not due to lack of fibrous raw materials which exist in such quantities and can be grown so readily that no world shortage can yet be envisaged.

(2) Artificially high price levels which prevail under "shortage" conditions must not be used as a datum line when assessing the prospects of new pulping projects.

(3) Competitive price considerations make it probable that the greater part of the increasing requirements of the world will continue to be supplied from wood sources.

(4) Agricultural residues, annual crops, grasses, reeds, and so on, whilst of undoubted value in many instances, seem more likely to be developed for local and specialized uses, providing only a smaller part of the required expansion.

*From Paper read to the Royal Society of Arts, London, November 26, 1952*

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## U.S. FARMERS' INCOMES

It is believed that farmers' total gross income in 1952 was almost $1,000m. higher than the $36,700m. realised in the preceding year. Because of higher costs, however, it is expected that final figures will show net income at or even a little below 1951's $14,300m. Some further decline in real farm income would not be surprising in as much as prices of farm products have weakened to a much greater extent than those of non-farm products.

*From Guaranty Survey, Guaranty Trust Co. of New York, January, 1953*

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## Next Meeting of Economic Research Council

The Right Honourable Hugh Gaitskell, M.P., will speak on "The Sterling Area Today," at a meeting of the Economic Research Council, on Thursday, February 12, at 8 o'clock in the Angus Room, 55 Park Lane, London, W.1.

Please note the change of date from that originally announced.

Non-members of the Council will be welcome, if they will kindly notify their intention to be present to the Secretary, Economic Research Council, 18 South Street, London, W.1. (GROsvenor 4581).

# Wheat Galore

*A Report on the 1952 Harvest*

THE year 1952 will stand out in agricultural annals on at least three counts—the largest wheat crop ever harvested; the outbreak of foot-and-mouth disease, which interrupted a profitable trade in meat and live stock with the United States that has not yet been resumed; and the termination of export contracts with the United Kingdom covering a number of important food products.

**"Year of Wonders"**

Certainly, 1952 has been a "year of wonders" for grain growers. An unusually prolonged period of favourable weather made possible the successful spring harvest of a very large part of the grain left in the fields on the prairies last fall because of the sudden early onset of winter, and the 1951 crop at 552 million bushels proved to be only 27 million less than the September, 1951 (pre-frost), estimate.

During the present season practically ideal weather conditions in the West attended the seeding, growing and harvesting periods in turn, resulting in a wheat crop which at the current estimate of 688 million bushels exceeds by 121 million bushels the previous record set in 1928. The Saskatchewan crop alone at 435 million bushels exceeds by nearly 50 million the 1941-50 average for the whole of Canada.

Nor was this bounty confined to wheat. Record crops of barley and soybeans, near-record crops of rye, sugar beets and shelled corn, and above normal yields of most other crops add up to one of the most successful growing seasons on record.

The 1951-52 season saw also the heaviest exports of grains to date. Shipments of wheat, flour (reckoned in terms of wheat), and coarse grains totalled over 500 million bushels. Shipments of wheat and flour at 356 million were the highest since the record of 408 million established in 1928-29, and the combined total of barley, oats, rye, and flaxseed at 149 million bushels was the largest ever reached.

Despite this unusual volume of exports, total supplies of both wheat and feeds in 1952-53 are at near-record levels. The current production estimate of wheat plus the carryover of 213 million gives a total supply of over 900 million bushels, which has been exceeded only once, in 1942-43 when it was 980 million, and which is well above the wartime average, when there was an abnormally large accumulation of supplies. What then, are the prospects for disposing of this very large volume of wheat?

**"Domestic Disappearance"**

"Domestic disappearance," which includes use for human food, animal feed, seed, industrial use and waste, does not vary greatly in actual amount from year to year. The only item which shows any substantial fluctuation is the residuary item attributed to feed and waste, which is normally high in years of heavy

*From "A Review of Agriculture," Commercial Letter, Canadian Bank of Commerce, Toronto, December 2, 1952*

supply. This is especially so when there are large quantities of low-grade grain on hand, and low when the reverse condition exists.

Over the decade of the 'forties all domestic use averaged 156 million bushels, of which 50 million was converted into food for humans; 31 million was used for seed and about 3 million in industry, and a residual amount of 72 million was allocated to feed and waste. Last season somewhat higher figures for all items brought the total domestic use to the relatively high figure of 173 million bushels, and it would seem possible that this year's total might be upwards of 180 million.

There would remain, then, over 720 million bushels for export and carry-over. Last season world trade in wheat reached the record total of over a billion bushels—a surprisingly high figure in that world crops, apart from those of the four major exporters, were about 265 million bushels higher than in the previous year and well over 800 million higher than the 1945-49 average.

**Crop Distribution**

The *distribution* of the crop appears to supply the answer. This season even more bountiful crops are in prospect in the non-exporting area, possibly 120 million bushels more than the good crops of 1951, with Western Europe, a traditionally deficit area, harvesting near-record crops. India and Pakistan, on the other hand, are less well situated than last year. Production in the four major exporting countries, Canada, United States, Australia, and Argentina, plus that in France, which is a party to the Wheat Agreement as an exporter, seems likely to be well over 600 million bushels higher than last season, and competition over and above allocations under the Wheat Agreement, may therefore be expected to be active.

**Wheat Agreement**

Continued effort must, therefore, be made to market outside the International Wheat Agreement, and there may be some difficulty in coming months in achieving sales at last year's levels. However, two factors are currently contributing to a very active world demand for Canadian wheat, forward commitments for which are reported to be heavier than any on record at this time. These are the severe drought in the winter wheat area of the United States, and the good quality of this year's crop. Every effort is being made to move as much grain as possible to the seaboard before the close of navigation, in order not only to have as large a volume as possible in export positions, but also to relieve the congested storage in the interior.

Assuming domestic disappearance of approximately 180 million and exports at last year's level, we should have a carry-over of over 360 million, substantially higher than any in the post-war period but well below any during the war years 1941-44. If, however, exports do not exceed the ten-year average, a carry-over of approximately 460 million seems to be in prospect. Such a total was exceeded in two previous years, 1943 (595 million) and 1941 (480 million), but could scarcely be regarded as other than burdensome unless 1953 brought widespread crop failure.

**Supply of Feed Grain**

The supply of feed grains is also expected again to be at near-record levels. Barley, with new records for both carry-over and crop should total 368 million bushels. Supplies

of oats are not a record at 571 million but are about 90 million bushels above the ten-year average. Mixed grains, field roots and hay are somewhat less plentiful than in 1951, but actual shortages, if any, in this type of fodder seem likely to be confined to a few districts.

**Livestock Increases**

Grain crops in most export markets are reported to have been quite good this year, and might, therefore, be expected to reduce import requirements below the high level reached last season, though export demand to date has been quite active. Moreover, the world livestock population tends to increase, and in 1951 was 4 per cent above the pre-war average, though still 10 per cent below that average on the basis of livestock units per capita. Domestic consumption of coarse grains in 1951-52 was relatively high, though by no means a record.

On the average about three-quarters of all feed grain is disposed of in Canada for human food, seed, industrial uses and animal feed, largely the last mentioned. The trend of the livestock and poultry population is, therefore, the dominant factor in its utilization. Feed constitutes but one item in the cost of livestock production, but its abundance or scarcity, and its price in terms of livestock, usually establish the trend of livestock holdings.

The succession of poor harvests in the 'thirties was accompanied by a sharp decline in the livestock population; the abundant supply of feeds in the last three years of the war made possible the record production of meats in that period; and the post-war years brought dwindling stocks of feed grains, a rising lever of grain prices in relation to livestock prices and a sharp decline in holdings of meat animals. The return of an abundance of feed in 1950 and 1951 brought another upturn in animal units and the June 1952 survey records an increase of 17 per cent in hogs, 10 per cent in cattle and 8 per cent in sheep. This year there are still larger supplies of feed.

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## FRIVOLOUS FOUNDATIONS

The annual report of H.M. Commissioners of Customs and Excise* would shock our Victorian grandparents.

Whatever may be the moral basis of the Welfare State, it is in fact built on smoking, drinking, and betting—children's allowances and the health service would vanish overnight without the determined self-indulgence of the community. *Smokers, drinkers, and gamblers between them last year contributed* more than a thousand millions to the revenue—truly has the State done a deal with Mammon! It has, indeed, been so grasping that it has driven almost a dangerously hard bargain. Luxuries, it is well known, are the last things that hard-pressed families are prepared to give up, but in the last resort they may have to be given up—and with austerer living the State would at once run into difficulties. Other taxation could not possibly be racked up sufficiently to make good a serious decline in smoking and drinking—whatever good advice we give our children they will fail in their duty as citizens if they do not take to beer and cigarettes. *It is not an attractive thought, and it is doubtful if it is really* in the interests of the nation that State expenditure should depend to the extent it does on individual self-indulgence.

**Report of H.M. Customs and Excise Department* (1951-2), *January* 7, 1953
*From leading article, Manchester Guardian, January* 8, 1953

# Let The Price Mechanism Work

By PROFESSOR IVAR SUNDBOM (Göteborg)

THE case for free price formation as an instrument for a good social economy by no means stands or falls with laissez-faire. An efficient price system can co-exist with many forms of economic policy. The essential thing is that the community should use the positive momentum of the pricing system in order to achieve its social aims.

Prices must be flexible if they are to constitute the essential key to distribution in the social system. If economic policy attempts to fix the whole price system while at the same time creating new purchasing power by means of new supplies of money, either the turnover of goods must be increased or the velocity of circulation of money must be reduced. If there is already full employment, so that production cannot be increased, the velocity of circulation will decline.

Such a "purchasing power surplus" or "compulsory saving" renders the free-market system more or less incapable of functioning.

Note that the movements in the price system which are necessary in order to absorb a surplus or a deficit, as the case may be, are only to be regarded as a symptom. Their causes are essentially outside the sphere of price formation. Suppressing the symptom—the price movements—does not remove the causes and consequently only means that a system of defective equilibrium will become permanent.

It would, however, be an exaggeration of the opposite kind to maintain that it would always be possible, irrespective of what the causes of the disturbances of equilibrium are, to bring about equilibrium automatically by corresponding movements in the price system.

In this connection economic policy is of decisive importance. It can utilise the price movements as an effective instrument for establishing equilibrium, but it cannot avoid the duty of influencing—stimulating or damping down—the data which determine the balance in the social economy.

**Keynes's Emphasis**

In a way it is to be regretted that the "new economic thinking" which is principally connected with the name of Lord Keynes has laid so little emphasis on the proper interconnection between price formation and economic policy. In spite of the fact that the new theory has filled important gaps in the old approach, especially through the closely analysed connection between saving, investment, incomes and employment, it has had the effect of putting price formation into a far too obscure place in the economic system.

Without a properly planned monetary policy which intervenes at the right moments it is not possible either to avoid extreme fluctuations in prices, turnover and employment, or to keep the price mechanism functioning properly. Nor is it possible, especially during depressions, when monetary policy has less effect than during booms, to do without a systematic financial policy. In this

*From "The Free-Market Economy and the Laissez-Faire System" Quarterly Review, Skandinaviska Banken, Stockholm, January, 1953*

sphere a laissez-faire attitude is untenable and indeed has scarcely been seriously proposed.

Laissez-faire in the field of monetary policy leads to extreme price movements on the markets, and when it is desired to restrict these movements the authorities resort to direct detailed control over individual sectors instead of general control over the monetary factor. It is therefore reasonable to assert that laissez-faire leads to a controlled society, and that an active monetary policy makes it possible to utilise the self-regulating properties of the price mechanism so that direct control over supply, demand and prices becomes superfluous.

The question, therefore, is not: "Control or no control?", but: "What control is necessary in order to keep the price mechanism functioning properly and to allow the free-market economy to achieve a natural equilibrium?"

**Data and Laws Confused**

It is important for the solution of the problems of the free-market economy that the distinction between data and phenomena should be properly established. The data consist of the various primary conditions for the social economy: organisation, legal system, social arrangements, needs, factors of production, etc. These data can be changed and can be affected by various circumstances. They can also be scientifically investigated by means of historical research, for example.

The economic phenomena themselves, however, are described by theory, and theory does not comprise data but only their effects. These are the expression of the unavoidable facts which we call economic laws. The assumptions which the theorists undertake to accept set the problems which economic theory has to solve.

The fact that data can be altered by human actions means that there are assumptions which must be affected by economic policy. On the other hand it is not possible to alter the effects, in so far as these are really the expression of the economic laws. Many errors and hesitations in economic policy are traceable to the fact that this distinction between data and economic laws is not observed.

**Function of Planners**

Once it is realised that a free-market economy with a flexible price system corresponding to the constant fluctuation in essential data is a matter of economic law, economic policy will then devote itself to creating the best conditions for the market from various points of view, of which the social aspect will not be the least important. When it is understood that the laws are hypothetical in the sense that they rest on assumptions chosen by the community, then two kinds of exaggerations are avoided—the view of laissez-faire capitalism that economic policy serves no purpose at all; and the Marxist standpoint (which at bottom is exactly the same) that the community itself cannot influence or create the basic conditions of the economic system.

Both views overlook the fact that economic laws are limited by those conditions of a political, legal and social nature which the people in a community may decide upon.

# Schuman Plan and Britain

BY ROBERT SHONE
*Director, British Iron and Steel Federation*

*This study in comparative organisation shows interesting similarities between the organisation of Western Europe's pooled Iron and Steel industry and the framework envisaged under the Iron and Steel Bill at present before Parliament. The author believes that this parallel development may well facilitate future co-operation.*

STRONG parallels exist between the Schuman Treaty and the British Iron and Steel Bill. In Britain the Supervisory Board will have functions which correspond in many respects to those of the High Authority. Over the Board is the Minister, with certain rights of intervention on broad policy matters affecting the national economy, just as the Council of Ministers, in their relations with the High Authority, have certain final powers over it, including, of course, powers of appointment to the Authority.

In both cases the firms in the industry will be wholly or mainly privately owned and will be in competition with one another. Although there will be a few publicly owned steel firms and, in the case of France, a publicly owned coal industry, under the Treaty the publicly owned sectors are to be subject to full competition with the privately owned firms under the common supervision of the High Authority. As the publicly owned firms will only represent a minority of the production of the Community, there should be no danger of any ownership monopoly strong enough to undermine the principle of competition through decentralised ownership.

On prices, the Treaty lays down the principle of free price competition and no discrimination between consumers within the Community. The publication of price schedules and conditions of sale by individual firms will be compulsory. The High Authority may, however, under certain conditions fix maximum or minimum prices.

In this, it will act as an independent non-ownership body, which must judge as to an equitable level of prices that will ensure efficient development on the one hand, and protect the consumer's interest on the other. The British Iron and Steel Bill also envisages supply under competitive conditions with the independent control of prices when necessary. Both systems prevent an ownership body either by statutory monopoly or by collusion determining prices.

**Power of Veto**

In regard to development the High Authority has power to veto a project only on the grounds that it is "uneconomic in that it would need a subsidy in order to operate." In the Iron and Steel Bill there is power to veto a project likely to prejudice "the efficient and economic" development of the industry.

In both cases, however, the more important question is to secure the

*From The Financial Times, London, January 7, 1953*

**PRODUCTION OF CRUDE STEEL AND COAL IN THE SCHUMAN COUNTRIES AND U.K.: 1952***

(million long tons)

| | Crude Steel | Coal |
|---|---|---|
| W. Germany | 15.54 | 121.31 |
| France | 10.63 | 54.61 |
| Saar | 2.80 | 16.05 |
| Belgium | 4.95 | 29.88 |
| Luxemburg | 2.95 | — |
| Italy | 3.48 | 1.09 |
| Netherlands | 0.64 | 12.40 |
| Total Schuman Countries | 41.00 | 235.34 |
| U.K. | 16.20 | 224.50 |

* Estimated totals for the year

positive development needed. The main motive force in development in both instances is the freedom of firms to expand and make profits by taking advantage of the market possibilities and with the knowledge that if one firm does not expand its competitors will. In both cases, however, there are further positive powers should this traditional motive prove insufficient.

**Safeguarding Competition**

The Iron and Steel Bill attacks the matter directly and gives the Supervisory Board power to recommend to the Government the building of publicly owned works in competition with privately owned companies, if development is inadequate. The High Authority, on the other hand, has the power of guaranteeing loans for development when it is satisfied that projects are commercially sound. These loans are guaranteed out of a compulsory levy, of not more than one per cent on the turnover of the Community.

Finally, the High Authority must examine all devices of a restrictive or protective nature which soften the impact of real costs and thus impair genuine competition between firms. These will be judged on their individual merits in the light of the Treaty principles, but taking account of current economic and market conditions. They may be retained or abolished at the High Authority's discretion.

This amounts to an admission that co-operative action between firms is not necessarily wrong, but that any device which would modify competition must be publicly examined and can be abolished if it has an unfavourable effect on the efficient development of the industries within the Community. The same approach is inherent in the Steel Bill, although the view appears to have been taken by the Government in drafting the Bill that the problem is a general one and that the powers of specific prohibition should in the final resort be exercised through the Monopolies Commission procedure.

**Problems of Organisation**

Wherever the final powers reside, it is becoming increasingly accepted that collective organisations, whether of management or labour, must not exist for any restrictive purpose. A vital test of both structures will be whether they ensure that no co-operative activity takes place that does not increase efficiency and

speed up progress.

The Schuman Plan represents one facet of the pressure towards political unity in Europe. But within the industrial field its main significance is the attempt to create an industrial structure which can harmonise and use effectively the forces of both competition and non-restrictive co-operation.

The Iron and Steel Bill in Britain signposts a strikingly parallel course. Along it the British industry can advance with the confidence that all the targets set in its first post-war development plan have been exceeded and that its second has been launched.

It may well be that the parallelism in organisation will lead to a constructive working together of the British and Continental industries, competition with one another, yet at the same time in a framework in which there are many common principles and common ideals.

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## STEEL POOL'S INVESTMENT PLANS

Co-ordinated investments of $1,000m. to $1,300m. annually for the next ten years are projected for raising the output of the six-nation European Coal and Steel Pool. This figure includes the normal annual replacements, which account for between 40 and 50 per cent of the total.

Some $300m. will be required over four or five years for providing workers' dwellings.

Investments in coal-mining will be especially directed to raising the supply of coking coal, modernising electric generating plants attached to collieries, raising the output per man shift by improved underground and surface equipment and developing the supply and consumption of lignite briquettes.

The long-term consumption trend is upwards, both for coal and steel.

The trend is estimated approximately as follows:—

| | (million tons) | |
|---|---|---|
| | Coal | Steel |
| 1952 | 240.4 | 41.6 |
| 1957 | 280 | 46½-50 |
| 1962 | 295 | 52½-56 |

Joint studies are in progress with the British Mission to the High Authority with a view to forecasting how far British coal will again be available to meet the needs of Pool countries.

*From The Financial Times, London, January* 10, 1953

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## BRITISH CARS IN SOUTH AFRICA

The £1,000,000 British car factory now being built at Blackheath, near Cape Town, is expected to be finished by June and the assembly of cars will begin as soon as possible afterwards. The factory is one of the biggest of its type in the southern hemisphere. The company has expansive long-term aims which include the almost entire manufacture of cars from South African raw materials.

*From News from South Africa, Pretoria, December* 30, 1952

# Communal Work Without Wages in S.E. Asia

BY PROFESSOR W. ARTHUR LEWIS (MANCHESTER)

AN IMPORTANT development in the countryside which was initiated by Ceylon, but which is now being copied also by Malaya, by India, and by Burma, is the movement to encourage the villagers to do public works with their own unpaid labour.

The villagers can build themselves minor roads, to connect with major roads, wells, irrigation channels, drainage channels, bunds, soil conservation works, schools, hospitals, community centres, and other public works. Experience shows that they will do this willingly if the work to be done benefits the village only or primarily; if there is someone in the village to organise their efforts; and if the government supplies materials and any technical or other assistance which the villagers cannot afford to provide themselves.

To Western minds it may seem inconceivable that people will do such work without pay. But in a small village of 500 people, where everybody knows everybody else, the atmosphere is rather that of a large family, and it is not difficult to organise communal endeavour.

**"Rural Development Societies"**

Ceylon has entrusted this work to a special department, which has over a hundred officers in the field. These officers organise in each village a "Rural Development Society," consisting of the villagers, and it is this society which decides on the programme for the year. Last year the villagers built with their own labour 1,712 houses for communal use (schools, community halls, etc.), 2,480 miles of road, 1,750 wells, and 5,781 latrines. The total value of this construction was 2,526,000 rupees, towards which the government contributed only 263,000 rupees.

**The Spread of an Idea**

The movement has caught on this year. In Ceylon, the government has decided to make this a major programme, and has stepped up its contribution to 3,000,000 rupees. In Burma the programme was initiated in October with a contribution of 20,000,000 rupees. In India voluntary labour is to be encouraged in all Community Projects, and funds have been set aside. Malaya initiated its programme two years ago, when it set up the Rural and Industrial Development Authority, which was to have put 100 officers into the field. At the beginning of this year less than ten had been appointed, but the programme has been speeded up in recent months.

All the governments in this area are poor. If they are to pay the full cost of all public works and public buildings required in the villages, village progress must be slow. A movement which encourages the villagers to help themselves is therefore of the greatest value. Not only does it result in concrete works; it also stimulates an attitude of mind which, if it were applied to all rural problems, would greatly increase the prospects of rural progress.

*From "Reflections on South-East Asia," District Bank Review," Manchester, December, 1952*

# Japan—A High-Cost Producer

*This is a revealing account of Japan's post-war difficulties. It shows that the problems of finding export markets, paying for vital imports and financing the re-equipment of heavy industries are as pressing in the Land of the Rising Sun as anywhere else in the world.*

MR. JOSEPH M. DODGE, President of the Detroit Bank and former Financial Adviser to the Supreme Commander for the Allied Powers in Japan, stated Japan's problem in general terms in a farewell message to the Japanese people in November, 1951: "Too many people, too high a birth rate, too little land, too few natural resources."

The disastrous war made these problems worse. The population, which in 1937 was 70 million, had increased by 1951 to nearly 85 million, partly due to the repatriation of some 5 million Japanese from the lost empire, and the urgent problem of finding sustenance and jobs for some 700,000 to 1,000,000 more people every year remains.

Progress of recovery may be divided into three distinct phases:

**Three Phases**

The first phase lasted from the end of the war until the spring of 1949. As inflationary pressures, held down during the war, were released, and were augmented by huge government spending for pressing rehabilitation needs, violent inflation ensued, with wholesale prices increasing over fifty times.

The second phase began with the inauguration of the Dodge Stabilization Programme in the spring of 1949. Deficit financing was halted, a single exchange rate established, local government budgets balanced, hidden subsidies drastically reduced or eliminated, government participation in private economic activity curtailed, and many controls abolished.

The third phase opened with the outbreak of the Korean war. At the outbreak of the Korean war, Japan's industrial production index (1934-36=100) reached about 88. It has now levelled off at around the 137 mark, compared with an average of 150 for the year 1941, just before Pearl Harbour.

One of Japan's great problems is finding capital for the rehabilitation and modernization of her industries.

Contrary perhaps to the general impression, *a large share of Japanese industry is characterized by high rather than low-cost production.* Costs are low principally in the lighter industries. In the heavier industries, which in the world conditions of today offer the best prospect of finding export outlets, as underdeveloped countries seek to promote their own lighter industries, the Japanese are, generally, high-cost producers. Under-mechanization and use of outmoded equipment is still, despite notable exceptions, handicapping large sections of Japanese industry.

Due both to the magnitude of this rehabilitation and modernization job, and to the effect of inflation in wiping out corporate working capital and national savings, resort was

*From Monthly Letter on Economic Conditions and Government Finance, The National City Bank of New York, November, 1952*

GEOGRAPHIC DISTRIBUTION OF JAPANESE TRADE

(Percentage Distribution of Total Value)

| | 1935—37 | 1947 | 1949 | 1950 | 1951 |
|---|---|---|---|---|---|
| IMPORTS | | | | | |
| Former empire and China (a) | 33 | 2 | 5 | 10 | 4 |
| Other Asia ... ... | 18 | 4 | 13 | 22 | 28 |
| United States ... ... | 25 | 92 | 64 | 44 | 35 |
| Latin America ... ... | 3 | — | 2 | 7 | 14 |
| Europe ... ... ... | 10 | 2 | 8 | 4 | 8 |
| Others ... ... ... | 11 | — | 8 | 13 | 11 |
| Total | 100 | 100 | 100 | 100 | 100 |
| EXPORTS | | | | | |
| Former empire and China ... | 43 | 17 | 5 | 9 | 5 |
| Other Asia ... ... | 21 | 40 | 45 | 37 | 46 |
| United States ... ... | 16 | 12 | 16 | 22 | 14 |
| Latin America ... ... | 4 | — | 1 | 6 | 7 |
| Europe ... ... ... | 8 | 23 | 16 | 12 | 11 |
| Others ... ... ... | 8 | 8 | 17 | 14 | 17 |
| Total | 100 | 100 | 100 | 100 | 100 |

(a) Former empire includes Sakhalin, Formosa, South and North Korea, Manchuria and Kwantung.

Source: FEA and SCAP publications; for recent years the publications of the Japanese Economic Stabilization Board.

made to heavy borrowing from the banking system. During the first years of demoralized conditions after the war, the Government was forced to supply industry's capital requirements, which it did by borrowing from the Bank of Japan. Later, in 1949, when the Dodge Programme put a stop to this, the demand shifted directly to the commercial banks. Loans, discounts, and security holdings of the banks have more than doubled since the end of 1949. As a result, Japanese banks as a whole are overloaned, and their liquidity has declined.

**Self-Finance**

Since the tax reforms instituted by the Shoup Mission, providing for upward revaluation of corporate assets more in line with present-day inflated values and allowing more adequate depreciation charges, business is being able to increase its self-financing through retention of earnings.

**. . . and Foreign Investment**

But the problem of obtaining capital remains, and is causing Japan to look again to foreign, and particularly American, sources. Already some of the oil companies have made substantial new investments in Japan.

A second great problem of Japan is that of adjusting her trade to the loss of her colonial empire. That it has not yet become acute is due to a large extent to American grants in aid and heavy spending by the U.S. military forces in Japan. But this cannot be counted on to last.

*DIGEST BOOK REVIEW*

# "Irish Agriculture in Transition"

BY JOSEPH JOHNSTON

THIS book should be of great interest to anyone concerned with increasing Great Britain's food supplies. Eire is well endowed with natural advantages to expand considerably her agricultural output and exports to this country.

"It is calculated that a modest increase of 25 per cent in agricultural output (which should be realisable within a period of five years) would increase by 100 per cent the surplus available for export."

Eire's economy is essentially complementary to that of Great Britain. This book shows how public policy in both countries has foregone the advantages of this complementarity and suggests that changes in policy on both sides would be advantageous all round.

There are three main themes in Professor Johnston's argument: (1) Since 1930 government policies have continually offset "the long-term tendency (of Eire) to specialise in producing livestock, and export the surplus to Great Britain."

The initial reason for this was the penal tariffs from 1932 to 1938 imposed on imports of animal products from Eire as a result of the dispute over Eire's liability to compensate Great Britain for land compulsorily purchased from British owners to provide farms for Irish peasants. As a part of the battle Eire adopted a policy of stimulating arable farming at the expense of livestock production. This was technically unsound, and has tended to reduce the capacity to produce of Irish agriculture. Unfavourable price levels and stagnant productivity thus handicapped the export of livestock products from Eire.

"The Economic War was an unmitigated disaster for both countries. But for it our real national income might well have been 25 per cent more in 1939 than it actually was, and 25 per cent more today than it actually is. But for it, the volume of Irish agricultural exports to Britain would probably be at least twice as much as it is today."

Since 1939 the British Ministry of Food has pursued a policy of price discrimination which has produced similar effects to the Economic War. Prices for Irish products consistently below those ruling for similar British products have been paid. (In 1951 the Ministry of Food offered 2s. a dozen for Irish eggs!)

"Consequently prices for our agricultural exports lower than are in fact commanded by producers of exactly similar products in the United Kingdom constitute a strong economic inducement to export agricultural labourers to Great Britain instead of agricultural products. We have, in fact, done so to an extent that now embarrasses our agricultural effort. . . . I am strongly of the opinion that equal prices for equal qualities of produce sold in the United Kingdom is the policy which would best facilitate agricultural production in and export from our country."

Policies of economic isolationism in both countries should be reversed:—

"In spite of political separation, the agricultural, and indeed the national economies of the two countries, remain by nature so closely interwoven that all artificial manipulations of price levels over there are bound to have repercussions over here. Since, however, the long-term economic interests of the two countries are complementary rather than in conflict the practical conclusion is that there should be almost continuous con-

*Hodges, Figgis and Co., Dublin; Blackwell, Oxford, 15s.*

sultation between the Governments concerned, and a disposition to study the effects on the other country before any *particular national price policy is implemented.*"

(2) Given satisfactory prices the possibility of expanding Irish agricultural output are considerable. The enlarged output of Northern Ireland's agriculture in the last twenty years, as compared with the stagnation of Eire's agriculture, is evidence of what can be done. (The reviewer suspects that there is more scope for expanding the agricultural output of Eire than that of Great Britain.)

"*The gross output of our agriculture* has scarcely exceeded an average of £5 per acre in the decade and a half before 1940. On well managed, fully equipped farms a gross output of £15 to £20 per acre is not only possible but actual on farms of all sizes. . . . It should be public *policy to promote the increase of* agricultural output to an average of at least £10 an acre at 1939 prices, on farms of all sizes, and to further the intelligent use of additional capital as a *sine qua non* of such a policy."

A programme of added capital input should be accompanied by a spreading of technical know-how concerning ley-farming, for grass and grass products are basic to an expansion of livestock.

"*It is no exaggeration to say that the* general adoption of the new grass technique will double the stock carrying capacity of our land. . . . This means curtailing wheat growing for domestic consumption (except in time of international emergency) and concentrating on a *livestock policy dependent mainly on* grass, fresh or preserved, but supplemented by a programme of tillage, in which forage crops like oats and roots will figure with increasing prominence."

(3) The need for improved techniques and more intensive capital application are intimately associated with the problem of the size of farms. About 60 per cent of Irish farmland is occupied by farms of less than 100 acres in size, and 35 per cent by farms of below fifty acres. Thirty-acre farms are common. It would be uneconomic to equip these farms for their own exclusive use with the necessary implements for ley-farming.

"Modern conditions of mechanised husbandry have outmoded the small 30-acre farm as an economic unit. If tillage is to expand and the cereal raw materials of the specialised animal husbandry, which alone is appropriate to the small holding, are to be made available at an economic price, then tillage must be envisaged with reference to 500 to 1,000 acres. Only with reference to such units is it possible and economic to have not only the tractor power, but the great variety of expensive implements which enable maximum use to be made of available power, and in any case are essential for efficient cultivation and land improvement."

*But farms over 500 acres are few.* Perhaps there are some 1,500 in all. Further, large privately-owned farms in Eire are regarded as socially undesirable; and public policy, working through the Land Commission, aims at breaking up the larger farms to create holdings of around thirty acres in size. Professor Johnston sees the way out of this dilemma by a further extension of co-operative principles in agriculture. Large farms co-operatively-owned would be socially acceptable. The aim should be to get at least one of these in every significant area of small family farms, and the policy of the *Land Commission should be revised* accordingly.

Such a farm should provide the leadership required to develop the new techniques, for it would be able to employ skilled management, capable of applying new methods and, by example, of securing their adoption on surrounding co-opera-

tors' farms. It would also supply the area's requirement of new machinery. This would be bought for use on the co-operative farm and maintained by the staff, and would also be hired out to members of the co-operative. In addition, the central large farm would aim to produce for the small family farms the feeding stuffs which the smaller units cannot economically produce, and would carry out trading functions normally associated with agricultural co-operatives.

In some cases, these co-operative farms can be worked into existing trading co-operatives. Practical examples of this can be found in the milk producing areas of southern Ireland.

"A number of (co-operative) creameries in the south of Ireland have bought farms which they run on a commercial basis. They equip them in the most modern way, and the machinery they own is available for hiring out to members as well as for use on the common farm. The members have other interests in common besides the common ownership of implements, and the jealousy about priority of use which are apt to break up mere implement societies are said to cause no inconvenience in such more highly organised societies."

This is a most interesting essay in political economy. The reviewer feels completely convinced by Professor Johnston's suggestions for regaining the economies of large-scale production. Tampering with the size of farm holdings is always an extremely difficult matter in democratic countries and progress in enlarging holdings is invariably very slow. Professor Johnston's approach to the problem, given enterprising leadership, seems to offer more prospects of success than the various legal programmes for consolidating holdings of some Western European countries. One wishes, however, that Professor Johnston had been able to give more attention to the problems of the clash of various vested interests which would arise if his recommendations for "equal prices for equal qualities" were implemented. As a result of this omission it is felt that the discussion of the first theme avoids some extremely difficult but highly relevant issues.

With this caveat, Professor Johnston's book shows clearly what can be done by intelligent leadership on both sides of St. George's Channel. Given a mutual willingness and ability to sacrifice vested interests for the more general good, the national income of Eire and the food supplies of Great Britain might be both considerably increased by an application of the policies which emerge from "Irish Agriculture in Transition".

G. R. ALLEN.

★

**PLANNERS ARE OPTIMISTS**

Sometimes I have a sneaking suspicion that the planners believe that, if only a country makes use of the whole machinery of trade and exchange control, including a stiff dose of discrimination, it will somehow be possible for it to get away with a laxer financial policy at home. But, as far as I can see, all the evidence of the post-war period goes to show that such a possibility does not exist, and that those who have pursued a lax financial policy in their domestic affairs have sooner or later run into serious difficulties, no matter what controls have been imposed upon foreign trade and the movement of prices.

*Per Jacobsson, Banking and Foreign Trade, Europa Publications Ltd., London*

## MIDLAND BANK LIMITED

### Lord Harlech on Britain's Economic Progress

The 117th annual general meeting of Midland Bank Limited will be held on February 17th at the Head Office, Poultry, London, E.C.

The following are extracts from the Statement issued to Shareholders by the Chairman, The Rt. Hon. Lord Harlech, K.G., P.C., G.C.M.G.:—

The Statement begins with an account of steps taken within the Bank to ensure the maintenance of effective methods of staff recruitment, training and selection for promotion. Referring to the financial position of the Bank, extensive comment is made on the changed method of valuation of investments.

#### Assessment of Britain's Economic Position

Passing to more general topics, the Statement reviews Britain's economic progress during 1952 and suggests that the position can best be assessed by bringing together the answers to the four following questions:

(1) Has the shrinkage of purchasing power of the pound, which has gone on more or less continuously since 1939, been arrested?

(2) Are the nation's depleted monetary reserves being replenished, and is its standing in international economic and financial relations being steadily reinforced?

(3) Are the people of this country producing more and consuming relatively less than they were before the "crisis" of 1951?

(4) Is Britain's industrial system showing greater flexibility than hitherto?

No one can yet give an unqualified affirmative answer to the first question. The purchasing power of the pound for imported goods—particularly raw materials—has increased over the year, chiefly owing to the reaction of prices from a previously inflated world demand; and the effects upon the position of this country are mixed, for while cheaper materials make for lower costs they also reduce the buying power of important overseas markets. Lower raw material costs, moreover, have not been fully reflected in prices of finished goods. Indeed, the purchasing power of the pound in the hands of the consumer has not, on the face of the figures, shown any improvement. The shrinkage over the past year, however, is largely the result of definite policy in the curtailment of the food subsidies. In general it may be said that factors of more or less universal operation have favoured an improvement in the purchasing power of the pound, but there is little sign so far that domestic factors, within our own power to shape and control, have worked in the same direction. On the contrary, the course of wage rates suggests that there is still a danger of further cost inflation, while some aspects of our tax system—particularly the excess profits levy—are discouraging to economy in both production and distribution.

Against this factor must be recorded a shrinkage of profits in several categories of business—a development which, within limits, exerts pressure towards higher standards of efficiency and may increase the effectiveness of the official monetary policy as now expressed in higher interest rates.

On the whole it cannot yet be said that the course of the pound sterling, judged by its purchasing power, has been brought decisively under control.

On the second question the figures speak for themselves. The drain on gold and dollar reserves appears to have been arrested, and stocks of some commodities

in battle dress, admirably and authoritatively told. But not exhaustively told. Indeed the general editor of the series, Mr. W. K. Hancock, concedes that the title, chosen by him, promises rather more than could be achieved in a single volume. Later studies will fill in the blanks, which include certain important controls, the effect of controls on productivity, and other important spheres of action. Even so it must rank as a classic, for this book is "the first in any language to illuminate an aspect of modern warfare which, though undramatic, is no less significant than military operations or the production of munitions." By any standard the authors have achieved a considerable feat. How considerable may be judged from the circumstance that (we quote the general editor again) "the wartime records of the Board of Trade are contained in twelve million files which occupy sixteen miles of shelf space."

have been replenished; there has been a favourable turn in Britain's relations with the European Payments Union; the balance of payments for the first half of the year showed a small surplus on the current account; and the excess value of merchandise imports, as recorded, over exports has been diminishing. On the other hand, the restoration of reserves to a level adequate to the needs of a fully convertible pound sterling is still not in sight. The expansion of exports to dollar markets is lagging behind requirements, and in many markets exporters are meeting added difficulties, both by way of restrictions on total demand and in the form of more intense international competition for the available orders. Unless we can expect developments from the recent Commonwealth Economic Conference and from subsequent talks with the new United States administration, it seems that there is still some way to go before the pound sterling can be secure in standing on its own feet, in international relations, on the lasting foundation of "trade, not aid."

To the third question, again, no plain Yes or No can be given. It is true that in important branches of industry, notably iron and steel and some of the non-ferrous metals, a welcome rise in output has been recorded; but industrial production as a whole has been somewhat lower than in 1951. A slight diminution has been noted also in the total volume of consumption of goods and services, but it seems unlikely that the margin available for other purposes —explicitly for rearmament and new capital construction—can have been enlarged, especially since the excess of imports over exports, visible and invisible, has been removed during the past year.

Under the fourth heading some progress has been made. Within the total working population a moderate shift has taken place towards industries of highest national importance, particularly the metal trades and engineering, while the turnover of workers in those industries has declined. Stocks of many materials, moreover, are now at a higher level for an orderly movement of manufacture, and we hear less than in the past of checks imposed on production by delay in delivery of parts and components. Many of the physical controls over supplies of materials have, happily, been lifted, and altogether the impression is of the more flexible system doing its job with rather less strain and irregularity.

Nevertheless, there is still too much evidence remaining of the condition to which attention has been called again and again since the war, namely that as a nation we are making demands on our basic resources—for current consumption, rearmament, capital construction and restoration of monetary reserves—which collectively are too large to be met in full by production at the present level. Thus the choice still confronts us, only less obstinately than at earlier stages in the post-war period: either to expand production by added achievements in industrial efficiency or to curtail consumption and new capital investment, whether public or private. To some extent, improvements in efficiency may still be brought about with the manpower and equipment already available. But to keep fully abreast of needs and take advantage of new technological advances, and to secure a competitive position in international trade, a greater flow of new industrial capital is urgently required. We are brought back to the source of the underlying strain in our national economy, namely persistent over-consumption in relation to real resources, reflected in over-taxation and inadequate saving and insufficient investment in productive enterprise.

**Long-Term World Problems**

The Statement directs attention to two basic problems, well-nigh universal in their range, to which constant attention will have to be given over the next generation; these are the problems of monetary stability and of a continuing flow of capital into new development. The close relationship between these two problems is clear: thus, currency depreciation is a powerful deterrent to personal saving, which undermines the will and the desire to save; and a shortage of saving at a time when large new capital expenditure is needed is a certain generator of inflation. It is evident, too, that if this country is to hold its place in an actively competitive world and maintain even its present standards of living we shall need large-scale capital investment in new industrial enterprise as well as in the increased production of food and raw materials. Indeed, any further improvement in standards of living of mankind in general is dependent on more and more efficient use of new capital both in primary and industrial production and a greater stability in the real value of the pound and of other countries' currencies.

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# New Books Reviewed

*History of the Second World War: Civil Industry and Trade, by E. L. Hargreaves and M. M. Gowing, H.M. Stationery Office, London, and Longmans, Green & Co., London, 37s. 6d.*

This is the story of the Board of Trade in battle dress, admirably and authoritatively told. But not exhaustively told. Indeed the general editor of the series, Mr. W. K. Hancock, concedes that the title, chosen by him, promises rather more than could be achieved in a single volume. Later studies will fill in the blanks, which include certain important controls, the effect of controls on productivity, and other important spheres of action. Even so it must rank as a classic, for this book is "the first in any language to illuminate an aspect of modern warfare which, though undramatic, is no less significant than military operations or the production of munitions." By any standard the authors have achieved a considerable feat. How considerable may be judged from the circumstance that (we quote the general editor again) "the wartime records of the Board of Trade are contained in twelve million files which occupy sixteen miles of shelf space."

*Great Britain, The Sterling Area and Europe, by F. V. Meyer, published by Bowes and Bowes, Cambridge; 21s.*

One of the characteristic features of the Sterling Area is the haphazard nature of its development. "It just growed" with a fine disregard of red tape and constitutional niceties, and the flexibility it thus achieved helped it to survive the depression of the '30's, the strain of accumulated war-time balances and the sterling devaluation of 1949.

But this casual development also resulted in a dearth of literature on this important chapter of contemporary economic history. The publication of the ECA's monumental Sterling Area survey of last August went a long way towards filling the gap. Now Mr. Meyer has written a searching analysis of the principles underlying economic unions, with special reference to the Sterling Area and Western Europe. His aim is "to elucidate the significance to Britain of actual and potential economic unions."

He starts by reviewing the U.K.'s present inflationary position due to: (1) cyclical causes reinforced by rearmament; (2) under-capacity of existing capital equipment relatively to effective demand; and (3) the existence of sterling balances equivalent to approximately one-third of the U.K.'s annual national income.

Then follows a concise history of the Sterling Area with much useful statistical material and this attractive definition: "The function of the United Kingdom in the Sterling Area is to act as administrator of the Area's generally acceptable means of international payment."

Finally, Western Europe's prospects and methods of economic union are discussed, and the author briefly examines the bearing of GATT, OEEC and the EPU on this subject before turning to the U.K.'s dual rôle as a leading member both of the Sterling Area and the Western European economy.

A useful Appendix discusses the Customs Union problem in terms of economic analysis, making use of the Marshallian offer curve technique.

*Planning for Freedom, by Ludwig von Mises, Libertarian Press, South Holland, Illinois; $1.50*

This is a collection of twelve essays, the most substantial of which is on Profit and Loss. It is doubtless good for everybody, bearing in mind the leftish trend of the age, to have this uncompromising and unrepentant liberal thundering away on the right. At least this particular thunderer knows his job as an economist and he has no inhibitions whatever as a propagandist.

## *New Books Reviewed—continued*

*Banking and Foreign Trade, published for Institute of Bankers, Europa Publications Ltd., London, 15/-*

The series of books presenting the lectures delivered at the annual International Banking Summer School of which this is the latest (July, 1952) example, is steadily building up into a sort of encyclopaedia. The present volume contains ten lectures: Present-Day Pattern of World Trade, by A. J. Brown; International Regulation of Trade and Exchanges, by R. F. Kahn; Trade and Financial Relationships Between Countries, by Per Jacobsson; Governmental Intervention in Foreign Trade, by W. B. Reddaway; British Exchange Control, by L. G. Pearce (from which an extract is published elsewhere in this number of *Economic Digest*); Methods of Financing Foreign Trade, by H. H. Thackstone; Sterling in International Trade, by Paul Bareau; Problems of Foreign Trade, by Sir Cecil Weir; Practical Carriage of Goods by Sea, by F. E. Harmer; Documents of Marine Insurance in Relation to Overseas Trade, by C. H. Johnson. The list is imposing, most of the lectures rise to the level of one's high hopes, and there is some entertaining by-play between the lecturers of which Per Jacobsson on Professor Kahn is an attractive example.

*Official Year Book of the Church of England, 1953, Church Information Board, London, 12s. 6d.*

Each post-war edition of the Year Book has moved a step nearer to adequate statistical records. The 1953 edition marks a very real advance. Here are a few of the recorded facts:—

Voluntary offerings in the parishes totalled £6,404,180 for parochial purposes, plus £870,417 for extra-parochial purposes, in 1950; plus a very large but unascertainable sum contributed otherwise than through the parochial church councils.

Returns from 13,702 parishes show 1,895,573 Easter communicants in 1950 (an increase of 36,000 on 1949, but a decrease of 240,000 compared with the year 1940); and 2,958,840 on the electoral rolls (a decrease of 31,000 on 1947, and a decrease of 430,000 on 1940).

Confirmations in 1951 totalled 139,431 (compared with 142,294 in 1950, 144,132 in 1949, and an average in the first quarter of the century of about 220,000 per annum.

It remains true, however, that the Church of England is statistically, as doubtless in every other sense, *the* church of England. (Was it not H. L. Mencken who defined the Church of England as the church that most Englishmen stop away from?) More marriages are celebrated in the Anglican churches than in all other places—churches of other denominations and register offices. It has been said also that something like 70 per cent of all children born are baptised in Anglican churches.

There is room for much detailed research into the statistics now readily available, and even more into records that still await investigation.

*The Groundwork of Economics, by H. A. Silverman, Pitman and Sons, Ltd., London; 8s. 6d.*

This is the fourth edition of a successful school textbook, first published in 1927. It is intended to cover the ground for General Certificate and other similar examinations, and has all the desirable characteristics of such a treatise—chapter summaries, test questions, and so forth. Revision in terms of the post-war scene is thorough, and an additional chapter on Economic Change completes the process of renovation. Schoolteachers will be glad that so much has been got into 140 pages.

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*Correction*: Owing to a printers' error in "Economic Aspects of the Transport Debate", reprinted on p. 26 of the January issue, "tariffs" was used in col. 2, para. 3, line 3, instead of "traffics".

## .....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.*

**Cost of Living:** *The Consumer Price Index.* The old Cost-of-Living index has now been replaced in Canada by a newly-calculated Consumer Price Index, with the base year 1949. This article describes how it works, and in what ways it is superior to the old index.—Commercial Letter, Canadian Bank of Commerce, Toronto, November, 1952. (227)

**Gold—(i):** *The Price of Gold.* After an examination of the arguments put forward in favour of raising the price of gold—and, incidentally, referring to a number of other useful sources on the subject—this article comes down firmly on the side "leave well alone."—Monthly Letter, National City Bank of New York, January, 1953. (228a)

**Gold—(ii):** *Australian Gold,* by J. A. Dunn, D.Sc., F.G.S. An historical summary of the Australian gold industry's development, ending on the pessimistic note that if the official gold price remains at $35 an ounce, the outlook for the industry is glum indeed.—Paper read at the Royal Society of Arts, London, December 9, 1952. (229)

**Convertibility:** *Convertibility of Currencies.* Starting with a definition of the problem, via Bretton Woods, Canadian experience and the sterling aspect, the belief is expressed that a "dollar exchange standard" would be a first step towards full international convertibility. —Monthly Letter, National City Bank of New York, January, 1953. (228b)

**Metal Container Industry:** *Statistics of Tins and Cans,* by John Ryan. To anyone concerned with the industry this paper should be of the greatest interest. It covers both the technical and economic aspects with a profusion of clearly arranged data, in addition to a bibliography on the subject.—Journal of the Royal Statistical Society, Part iv, 1952. (230)

**Inflation:** *Inflation in Relation to Economic Development,* by E. M. Berstein and I. G. Patel. An investigation into the economics of inflation as it affects the under-developed areas.—I.M.F. Staff Papers, November, 1952. (231)

**Point Four:** *Survey of How Point Four Programme Tackles Basic Problems in Undeveloped Areas.* A country-by-country account together with a brief description of how the Programme came into being.—New York Times, January 12, 1953. (232)

**Asia:** *Economic Development in Asia,* by H. Belshaw. Starting with abstract assumptions, the author gradually relaxes them, introduces important non-economic elements, and views the problem against the background of social conditions, foreign capital, imports and domestic capacities. He points out the dangers of too rapid industrialisation at the expense of vital agricultural production.—Economia Internazionale, Genoa, November, 1952. (233)

**Primary Producers:** *The Reduction of Fluctuations in the Incomes of Primary Producers,* by P. T. Bauer and F. W. Paish. The authors point out that present methods for reducing the violence and magnitude of temporary fluctuations in the incomes of primary producers have been ineffective. They outline an alternative method of stabilisation which is "self-adjusting in the sense that there can be no loss of contact with the trend of prices or of incomes." — Economic Journal, London, December, 1952. (234)

**Money for Development:** *Industrial Finance Corporations,* by S. L. N. Simha. After an introductory survey of international experience the author describes the working of the Industrial Finance Corporation of India.—Reserve Bank of India, Bombay, October, 1952. (235)

**Italian Film Industry:** *The Cinema.* Some interesting facts and figures about a flourishing Italian industry.—Italian Affairs, Rome, November, 1952. (236)

**Russia:** *Stand und Entwicklung der Grundstoffindustrie und die Energiebilanz der Sowetunion in der Nachkriegszeit* (Development and present state of the raw materials industry and power-generating capacity in the Soviet Union since the war), by Dipl.-Ing. Alexander

*For Reference—continued*

Sieger. Based on such information as is available, the author summarises Russian post-war development in the coal, oil, electricity and metal industries (in German). — Europa - Archiv, November-December, 1952. (237)

**Netherlands:** *Economic Policy in the Netherlands,* by G. M. Verrijn Stuart. A description of the measures adopted by successive Dutch Governments to cope with post-war problems.—Lloyds Bank Review, London, January, 1953. (238)

**Uganda:** A geographical and economic survey of the Colony.—The Financial Times, London, December 17, 1952. (247)

**Zinc:** *A Versatile Metal,* by R. Lewis Stubbs, O.B.E. An account of the industry and the many uses to which this metal is put.—The Financial Times, London, January 2, 1953. (240)

**Shipping:** *Economics of Passenger Liners.* The one-class ship is becoming increasingly popular on the South African and Far Eastern routes. This article discusses some of the technical changes as well as the economic consequences of this trend.—The Times Review of Industry, London, January, 1953. (241)

**Trieste:** *Economic Relations between Italy and the Trieste Free Territory.* A brief statement of the Italian case in the present dispute.—Italian Affairs, Rome, November, 1952. (244)

**Slump in the U.S.A.?:** *Prospettive economiche negli Stati Uniti e nel mondo* (The United States and World Economic Prospects), by Thomas Balogh, and a reply by Francesco Coppola D'Anna. Prof. Balogh believes that America's great productive potential is capable of counteracting any inflationary pressure to which it may be exposed as a result of demand stimulated in order to ward off a threatened recession (in Italian, with English summary). — Bancaria, Rome, October, 1952. (243)

**Europe at the Cross-Roads:** *Europe—the Chrysalis,* by J. H. Huizinga. In a series of four articles the author discusses the political and economic implications of the changes now coming about as a result of E.D.C., N.A.T.O. and the Schuman Plan.—Manchester Guardian, Manchester, January 1, 2, 3, 5, 1953. (242)

**British Columbia:** *The Pacific Frontier.* An interesting account of economic conditions in "Canada's Boom Province," illustrated by a large map.—Monthly Review, Bank of Nova Scotia, Toronto, November, 1952. (245)

**Australia:** *Taking Stock of Migration.* —Monthly Summary of Australian Conditions, November 12, 1952, and *Migration to Australia,* by Douglas Wilkie.—Manchester Guardian, December 22, 1952. Both articles describe the present Australian reaction to the Calwell doctrine that White Australia's survival depends on achieving a population of 20 million within 20 years. (246)

**U.S.A.:** *Expenditures in 1952.* A comprehensive account of how the national income was spent. — Federal Reserve Bulletin, November, 1952. (239)

**India:** *Indian Banks and their Business Abroad.* A review of Indian banking since Partition. The anomalous position of the branches of Indian banks which, from one day to another, found themselves in foreign territory is described, and country-wise statistics of assets and liabilities of Indian banks relating to their foreign offices are given.—Reserve Bank of India Bulletin, Bombay, October, 1952. (248)

**Finland:** *Our System of Excess Export Profit Withholdings,* by Matti Valtasaari. Basing its export tax system on the Swedish model, the Finnish Government uses the funds raised to subsidise the purchase of esesntial imports, thus reducing the cost of living. The system is described in this article.—Kansallis-Osake-Pankki, Economic Review, Helsinki, o. 4, 1952. (249)

**Petroleum** (i); *Upward Climb of World Oil Production.* This article may be regarded as supplementary to "Free World's Petroleum," on p. 22 of the January issue, which described consumption trends. This survey shows that crude oil production rose by five per cent over the 1951 figure in 1952, and that four countries now provide nine-tenths of the free world's oil imports.—Petroleum Press Service, London, January, 1953. (250)

**Petroleum (ii):** *Statistics relating to the Petroleum Industry, with particular reference to the United Kingdom,* by A. L. King. A thirty-page collection of facts and figures, with a useful bibliography.—Journal of the Royal Statistical Society, Part iv, 1952. (251)