But Pressures to keep out foreign imports may not be as strong as the desire to increase exports, which would be greatly helped by sterling-dollar convertibility, now believed to depend upon a strengthening of G.A.T.T. The Democratic Party has traditionally favoured the exporters, and their interests may prevail.

Is the American Recession ending or deepening?

U.S. public works schemes are being developed, especially highways and waterways.

American wages are still rising.

The housing boom shows no sign of abatement.

Dollar balances abroad continue to rise.

The current talk is optimistic.

But Steel Production is still only 72 per cent of capacity.

Iron ore mines are trying to barter their surplus output.

Unemployment is expected to increase during the winter months.

U.S. inventories are still shrinking, which suggests a lack of confidence in the future.

Armament production may be tapered off faster than is yet announced.

The Editorial Board of Economic Digest

wish all their readers

the compliments of the season

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ECONOMIC DIGEST

DECEMBER, 1954 VOLUME VII NUMBER TWELVE

Co-existence—with whom?

'I WILL have no attacks upon my Empire', said King George V to Mahatma Gandhi. The revelation of this eminently sane remark in Lord Templewood's admirable book *Nine Troubled Years* caused one or more reviewers to speak of the tactlessness of the King and the tact of the Mahatma in avoiding a verbal clash. Such a comment seems a strange inversion of values. How deeply and perpetually concerned for the Empire was the King we know from his dying words. It was merciful to him that he did not survive to see the diminution of his realms by successive surrenders either to force or superior diplomacy. Apart from territorial dispossession, there have been losses equally malign. We have reached the state where neither our military dispositions nor our economic policies remain in our own control.

Nine Power Pact

The Nine Power Pact was only made possible by Mr Eden, on behalf of the Cabinet, declaring Britain's readiness to put into pawn a large portion of her military manpower: the revision of the General Agreement on Tariffs and Trade, now under discussion, threatens to continue a situation where Imperial Preferences are to be barred for the sake, or in the hope, of better multilateral trade between the assenting nations. These changes from the pre-war autonomy of Great Britain may be inevitabilities, they may be good or bad, but it is wise to consider their implications. Political temperament may dictate a tolerance of such changes, or even an enthusiasm for them, but it would be well if the true root motive were clearly realised.

Commercial Competition

It is a commonplace that the good of the whole often means a hurt to the part, and that the far gain can often only be assured by a sacrifice of some immediate advantage. In the post-war years all national policies have had to be framed and pursued in the knowledge that danger, like poverty, makes strange bedfellows. Nations under a common threat are compelled to regard their mutual relations very differently from the regard given to them in a world where even the most intense nationalism and competition carry no menace of military conflict. Nowhere is this more true than in the realm of trade.

It may, of course, be urged that commercial competition, such as that between Germany and Britain at the opening of the century, always harbours a certain threat to diplomatic and political amity which may be a contributor to military conflict, but, speaking generally, in a world where political antagonisms are generated by a clash of trade interest, and not by a clash of irreconcilable ideologies, those interests can be pursued with

From 'The Statist' for October 9, 1954 energy in the protection of *ad hoc* agreements and accommodations. In the world as it is, the inter-trade relations of those who compose the anti-Marxist *bloc* cannot be separated in the statesmen's thoughts from the strategic needs of general and mutual defence. The problem is, in both the military and commercial spheres, at what point the common need demands a surrender, or a diminution, of sovereignty too severe to be justified by the end in view.

'Co-existence'

'Co-existence' is becoming as blessed a word as the old lady's 'Mesopotamia', but it means in current usage co-existence as between Communism and anti-Communism. There are others with whom Britain must exist, and the generous gesture of Mr Eden at the Nine Power Conference complicates rather than eases the choice which still—but may not for long—faces the peoples of the United Kingdom. The school of thought which clamours for World Government for World Government's sake is vocal, but not large. Speaking with all respect to a body of no doubt sincere and high-minded zealots, it is a school which seems to comprise a large number who resemble Gilbert's

> *. . . idiot who praises in enthusiastic tone*
> *All centuries but this one, every country but his own.*

It certainly does not embrace the mass of people to whom nationhood is still a matter for pride and not for shamefacedness. Those starry-eyed idealists who long for a World Government seem blind to its one grave danger—that if thugs of the Lenin and Hitler type can capture, like pirates, the government of a nation, they might capture the government of the world. A totalitarian nation is an evil enough affliction; all nations enthralled by totalitarians would be a world without hope. Co-existence would offer but one tyranny, clamped and welded, as the alternative to another almost indistinguishable in its brutal and debasing characteristics. In any event, the delay in securing general agreement on any international issue shows that the ideal of World Government is still far away, if it be even conceivable as a practicality.

Britain and Europe

If co-existence between a 'World' Government of the West and a Marxist *bloc* of the East be too remote a conception, the coagulation of the democracies into other *blocs* is a visible process. The question is, to what *blocs* should the diplomatic skill of Great Britain's leaders direct that process. Britain is *of* Europe, in the cartographers' sense, but not *in* it; in the politicians' sense. Disraeli's constant contention, that Britain is not a European but an Asiatic Power, has lost much of its force with the cession of India, but it is still true that Great Britain, while being a European Power, is an Australasian and African and American Power, none the less so because the bonds of Imperial attachments have been loosened to permit the growth of the Colonies which Disraeli knew to be the Dominions and Realms that we know.

With her Imperial commitments and obligations, and with the mutual trade needs between the components of the Commonwealth and Empire, sorely truncated as that is, Britain with every addition to her European military commitments over-extends her forces. With every over-extension she throws more weight upon the other English-

speaking democracy, the United States. If her concentration upon Europe intensifies too much, she helps forward a very natural adhesion of the Australasian and Canadian communities to the American system, she strengthens on them the pull of the Pacific and weakens that of the Atlantic. In the ultimate result, such a process might leave Britain as a kind of American client in Europe, her sovereignty a sentimental myth, her true nationhood a nostalgic memory.

G.A.T.T.

If the other components, whether by will or by force of political and economic circumstance, are to be drawn towards a pan-American grouping, it were surely well that Britain herself should be with them, that she should take all means and every opportunity both to proclaim and make real the Imperial connection. This connection is not to be cemented by sentimental loyalty only; its continuance and re-consolidation demands also material advantages for and between its components. From this point of view, pledges of resident forces in Europe and self-abnegations under G.A.T.T. —though justified by the emergencies of a cold war waged by a relentless and unresting, implacable enemy—are not, in the long run, to Britain's advantage.

It is, of course, supremely true that, if Europe is ever submerged under the tidal wave of the Marxist hordes, Britain's survival as a free nation would be gravely imperilled, if possible at all, but that contingency is not eased by any further integration of the United Kingdom into the European system to the neglect of the Imperial connection. It is, indeed, arguable that the Russian threat might be better met by the wilful creation, or fostering, of three separate *blocs*, in close association—the European, the American and the British Imperial, their amicable 'co-existence' making possible a joint 'co-existence' with the Russo-Chinese *bloc*, however unamicable. Such a new compartmenting of the Powers should do much to change the intransigence of the Kremlin and the provocations of Peking.

Imperial or Cosmopolitan?

The course to avoid is that of long-dated commitments. There must be avoided, too, any feckless readiness to perpetuate agreements simply because they came into being in the common necessity of wartime dislocation—G.A.T.T. being a prime example. The British need at this time is a readiness to denounce treaties that are legitimately denounceable rather than to extend and renew them as the more pleasant and easier of the alternatives, and thus be able to reshape Imperial policy in the light of the experience of the past nine years. Harding's egregious and ungrammatical 'back to normalcy' was always a meaningless phrase, for in human political relations there is never a normal. But there are times at which it is possible to discern with relative certainty the shape of things as they will be over a decade or two or a generation. Such a moment is now. It is for Britain to decide whether the Eden pledge marks the ultimate stage of Britain's adhesion to the European system, and, if so, whether in the revision of G.A.T.T. and other trade agreements the Imperial, and not the International, factor is to be of the greater weight.

The World Economy

BY IVAR ROOTH

(Managing Director of the International Monetary Fund)

THE original proposals to establish the International Monetary Fund and the International Bank were accepted at the Bretton Woods Conference ten years ago. At the end of ten years it is useful to look back at what has been done and to evaluate what must still be done. The Bretton Woods Conference was important not merely because it created new institutions. At best, institutions are merely tools, the intelligent use of which may help in applying effective solutions for our problems. The solutions themselves must be found in the positive action of governments, each dealing first with its own national problems, and then jointly dealing with the international problems which are common to them.

The most important fact about the Bretton Woods Conference was the clear recognition of international responsibility for international financial problems. The validity of this concept has been more and more clearly demonstrated by the experience of the Fund in the postwar world.

Postwar Payments Problems

Postwar payments problems are largely to be explained in terms of the inability of countries with inadequate production to maintain or to raise their standards of living, and at the same time to provide large resources for reconstruction and modernisation. The real cause of postwar payments difficulties was the attempt of many countries to do more than they could. The difficulty of achieving internal stability was thus aggravated by inflationary fiscal and credit policies. The difficulty of restoring international balance was aggravated by over-valued exchange rates and an excessive faith in controls. And the international tensions which have developed in a way and to an extent which no one at Bretton Woods could have foreseen have still further complicated all the problems of economic adjustment.

Improvement

In many countries the postwar payments difficulties have now been brought reasonably well under control. One favourable factor has been the striking increase in production. Another has been the fulfilment of the extraordinary requirements for reconstruction and modernisation. In some countries, there is still not enough domestic and foreign capital for the investment that is being undertaken; but in many, domestic savings are now adequate or nearly adequate for investment needs.

Restraint plus Aid

Sound financial policies have contributed strikingly to the recent improvements in the world payments situation. Stronger budgetary positions, stricter credit controls, and more suitable exchange rates have made it possible in many countries to restrain excessive demand and to place the economy on a competitive basis in world markets. Moreover, the United States, Canada, and other countries, some of them confronted at the same time with difficulties of their own, have made available generous aid without which even these wide credit and exchange policies could not have been fully effective. Finally, high levels of income and favourable trade conditions in the United States and elsewhere have provided larger markets in which other countries could sell more exports to pay for their imports.

Firmer foundation

The world economy is now, by and large, being placed on a sound basis. The volume of world trade is larger than before the war. Gold and foreign exchange reserves are being restored. Although many countries still have payments difficulties, the over-all payments of the rest of the world with the United States show a surplus.

There are, however, uncertainties ahead. The need for security has imposed on many countries large defence budgets which make more difficult the attainment of economic stability and international balance. For the time being, U.S. aid is available in some countries to meet part of this burden. As such extraordinary assistance diminishes, these countries would be in a better position to pay their way if they could look forward to an expansion of U.S. imports and of U.S. foreign investment.

Convertibility means Competition

Contemporary payments problems cannot be regarded as solved until the currencies of the great trading countries are convertible, and until world trade is conducted with a minimum of restriction and discrimination. The importance of convertibility lies not so much in what it is as in what it does and in the basic policies implied in its adoption. Convertibility is not a favour conferred by one country on others. When national policies in harmony with the requirements of convertibility are adopted, all countries can share more fully the benefits of expanding world trade. Convertibility then becomes a powerful instrument for achieving internal stability, external balance, increased production and trade, and higher standards of living.

In making its currency convertible, a country indicates its willingness to expose its trade to world-wide competition. Such a country should buy its imports, regardless of origin and of the currency in which payments are made, exclusively on a price and quality basis. The ability to buy in any market at the best prices will enable it to secure larger, better, and cheaper imports. The need to sell in all markets under competitive conditions will compel it to maintain productive efficiency and to avoid an inflation of costs.

Depression and Discrimination

In a deep depression or in response to widespread economic dislocation, countries may seek to increase their trade or to check its decline by bilateral arrangements that create non-competitive markets. It is possible to get some temporary respite from payments difficulties through restrictive trade and payments practices. But in a prosperous world economy, where nearly \$80 billion worth of goods are bought and

From International Financial News Survey, October 1, 1954

sold annually by the free world, the case for maintaining restrictions and discriminations becomes steadily weaker. A strong world economy cannot be assured without convertibility in all the great trading countries.

The full benefits associated with convertibility are contingent upon steady adherence to the same policies which in the first instance have made convertibility possible. If the trade of the dollar countries is then to expand, they must also expand their imports and their foreign investments. In countries whose currencies were formerly inconvertible, a balanced expansion of trade will be possible only if their economic and financial policies permit appropriate responses to the international price mechanism.

Caution on Convertibility

No one knows, as yet, when convertibility will be further extended by the great trading countries. The readiness of a country for convertibility may be indicated in a variety of ways. The market view will be particularly influenced by the existence of a surplus in its international payments and by quotations for its currency in free markets which are close to the official rate. But convertibility is not a policy that can be adopted one day and abandoned the next. The care with which governments have been preparing the way and are moving step by step toward convertibility justifies the expectation that, when in due course it is achieved, it can be effectively maintained.

Stand-bys for Convertibility

No one can predict the strains to which a currency may be subjected after it has been made convertible. In some instances the impact may be large but will subside quickly. In other circumstances the strains on a country's payments may be moderate but persist for some time. Some countries already have reserves large enough, or almost large enough, to meet these unpredictable pressures. In others, reserves may not at present be quite sufficient to give the confidence that is essential if convertibility is to be firmly established.

The Fund's resources are intended to be a second line of reserves for its members. Protection against undue pressure following upon the adoption of convertibility is obviously a purpose which it is proper to serve by allowing members that need it to draw upon the Fund. Our resources in gold and convertible currency are considerable, and they should go far to meet eventualities which may reasonably be expected.

Development with Stability

The attainment of international balance is as necessary for the less developed countries as for the industrial countries. For the under-developed countries, the solution of their payments problems depends upon the adoption of policies that will ensure steady development without sacrificing stability.

Many of these countries have increasingly come to realise that, in attempting rapid development through the use of inflationary methods, a point is soon reached when inflation makes no contribution to constructive investment and becomes instead a positive hindrance to balanced development. The social and economic harmony necessary for progress is undermined by economic measures that penalise thrift, encourage speculation, and through

windfall profits lead to large-scale income transfers. The under-developed countries need development; they are more and more coming to understand that they will be disappointed in their efforts to get it except in an environment of stability that encourages savings at home and an inflow of capital from abroad. Governments must take much of the responsibility for establishing such an environment. But they will also need the support of far-sighted policies on the part of businessmen and of wage earners.

Transactions of the Fund

In the calendar year 1953, the Fund sold various currencies to the amount of $230 million, the largest in any year since 1947, when the critical conditions preceding the Marshall Plan forced many members to draw on the Fund. Nearly three quarters of the 1953 transactions were in currencies other than the U.S. dollar—mainly in sterling, but one also in deutschemarks. This shows that the Fund's role already extends further than the provision of marginal amounts of dollars to members pressed to meet their dollar payments. Some transactions during the last year have also shown the Fund's willingness, in suitable circumstances, to make effective use of the waiver provisions in its Articles of Agreement. More recently, the volume of transactions has declined, because of the generally stronger payments position of most members. In 1954 we have, however, already made two stand-by agreements.

Repayments in 1953 were much larger than in any previous year of the Fund's history. Members repurchased from the Fund $167 million of their own currencies, making payment in gold or U.S. dollars. In 1954 further repurchases of nearly £200 million have again considerably reduced the net indebtedness of members to the Fund. The proportion of the Fund's resources held in gold or hard currencies has thus been rising during the past few years.

Recovery

When countries were overwhelmed by their postwar economic problems, there was a widespread feeling that they were helpless in dealing with their payments problem, that its origin lay in forces beyond their control, and that a solution could be found only in the action of others. The impact made by the outside world is of course important, but the remarkable change in the past few years in the world payments situation has also shown how much can be achieved by the initiative of countries determined to deal directly with their own problems.

Commonwealth Tariffs are a Family Matter

Extracts from the Address of the Chairman, MR NIALL MACPHERSON, M.P., *to the Annual General Meeting of the British Commonwealth Producers' Organisation.*

THE war left us short of commodities and short of dollars. The U.S.A. and Canada afforded us generous aid to overcome these shortages, but they naturally expected us to take steps to be able to stand on our own feet as soon as possible. Such steps have been taken in the Commonwealth Countries within the sterling area. Successive Commonwealth conferences have laid stress on the need to develop resources so as to earn dollars or save dollars. Developments to save dollars have been put in hand and in consequence increased production within the Commonwealth can be expected.

It would be strange indeed if having encouraged such increases, the Governments of the Commonwealth and in particular the U.K. Government, were to take action which would render it impossible to dispose of them or to refrain from action to facilitate their disposal. I hasten to add that it is clearly not in the minds of Commonwealth Governments at present that dollars should be saved no matter the cost.

The shortage of commodities has been overcome more quickly than the shortage of dollars. One consequence of this fact is that surpluses have been accumulated in dollar countries, particularly the U.S.A.—a consequence the effect of which has been considerably augmented by the failure of Governments to adapt their internal policies quickly enough to changing conditions. The present U.S.A. administration has begun to tackle the problem by the substitution of flexible for rigid farm support prices, although it looks as if the room for manoeuvre that it originally proposed will be halved by Congress. Meantime it has to dispose of the surpluses as best it can.

Disposal of American Surpluses

In these circumstances it is hardly surprising that it has resorted to export subsidies, which have affected sales of Commonwealth products in European countries. Another means of reducing the surpluses is to give them away. This country has received some gifts of this nature under the U.S.A. Mutual Security Act. It would be churlish not to express and indeed to feel gratitude for this aid. The sterling proceeds of such gifts to the United Kingdom have been credited as a grant-in-aid towards the cost of Defence. While it is stipulated that such transactions are not to interfere with existing levels of trade, they have caused very grave concern among producers in the Commonwealth, who foresee trouble not only in marketing the increased production which has been officially encouraged but even in maintaining present volume if there were to be any extension of this ingenious expedient. They feel that defence aid to the Commonwealth, welcome as it is, should not be given in a form which is likely to weaken the economy of the Commonwealth in the long run.

From 'Commonwealth Producer', September/October 1954

Facing the Present

As this country learned to her cost after the First World War, it is not possible in every case to restore trade to its pre-war level; for during a war new industries are established and new habits of trade and consumption develop. In the same way the U.S.A. should not expect to regain all its pre-war markets in this country. The exigencies of war have inevitably changed the pattern of trade for many years to come. Whatever may be the prospects of a return of some measure of convertibility—and despite the recent study given to the matter by O.E.E.C. the prospects do not appear imminent—it is certain that this country will not be in a position to throw open its gates to dollar goods without restriction in the near future. At the same time there has been and is likely to continue to be, a tendency gradually to relax restrictions as circumstances permit.

Forms of Protection

While, therefore, the protection afforded to Commonwealth producers in the U.K. market through the shortage of dollars is not likely to be suddenly removed, it may well become gradually less effective. Commonwealth producers have in the main been doing everything in their power to improve quality and efficiency in the interval afforded by the dollar shortage. They are well aware that to wave a flag is no substitute for offering the right goods at the right price.

Another form of protection for Commonwealth products in the U.K. market lay in Government purchasing. The last three years have seen a notable reduction in inter-government trading or trading between the U.K. Government and Government-sponsored boards in the Commonwealth countries. The return of these commodities to private trading, however desirable from the point of view of the consumer and of commerce in general, poses grave problems of re-adjustment and lays a particular onus on the U.K. Government to see that in the process the interests of Commonwealth producers are not forgotten in favour of those of foreign countries. The Commonwealth Sugar Agreement differs from most other commodity agreements in that it is multilateral and not bilateral. Whatever may be the future of the Ministry of Food, this agreement remains unaffected so far as the sellers are concerned.

Need of More Safeguards

Few would not agree that producers in the Commonwealth need some safeguards to replace those that are no longer appropriate. For them the U.K. is as much their principal market as the heavily populated industrial states in the east of the U.S.A. are the main markets for producers in the agricultural states. Let me give you an example of extremely current interest to this organisation. The U.S.A. consumes about 90 per cent of the canned fruit it produces. Australia exports nearly half and South Africa some 60 per cent of their canned fruit, most of it to the U.K. Other territories such as Malaya and the British Caribbean countries and such developing producers as Kenya and Swaziland are almost wholly dependent on thte British market. None of these countries can afford to export their output at unremunerative prices or to subsidise on a significant scale. American exports, on the other hand are marginal. They can be more readily sold at a loss or subsidised.

Revision of Duties

What protection should we seek? The Organisation has given much thought to this matter in the past year. No one solution can cover all commodities. In pre-war days a tariff preference was available. The G.A.T.T. of 1947 reduced these preferences and in a few cases eliminated them. The first need is to restore *ad valorem* duties to their former level, and specific duties to a rate which bears the same relationship to current price levels as the Ottawa duties bore to prices then prevailing. Even so, U.K. duties will be in general considerably lower than those in most foreign countries. It is to be hoped that the U.K. Government will secure these adjustments at the forthcoming negotiations on the revision of G.A.T.T. this autumn. Meantime, producers should do all they can to ensure that their own Governments lend their whole-hearted support to preferences within the Commonwealth family. We believe that the Commonwealth is to be regarded as an organic unity and that what members of the Commonwealth do in regard to tariff concessions within the Commonwealth family is a matter for them and them alone.

Tariff Preferences not Enough

But tariff preferences of this order cannot alone give adequate protection against dumping and subsidies. Nor does the G.A.T.T. itself. What is clearly needed is legislation providing for the imposition of countervailing duties such as exists in the U.S.A. and such as existed at one time in the United Kingdom.

Should there be an extension to other commodities of the principle of the Commonwealth Sugar Agreements, under which the U.K. undertakes to purchase a given quota from each territory for a given number of years, part of which is at a predetermined price? In the case of canned fruit, we have come to the conclusion that such an idea is not practicable at the present time.

Quotas for Dollar Imports

Much the same effect, however, can be achieved by fixing a quota for dollar imports. Quotas are apt to be exceeded on account of the difficulty in preventing a rush of imports at several ports in the closing days of the quota. Any excess in any one period would, therefore, have to be deducted from the quotas for succeeding periods. We have, in fact, recommended that this plan should be adopted for canned fruit. It may well be found desirable to apply it to other commodities.

Toils of British Taxation

BY THE RT HON. L. S. AMERY, C.H.

THE immense change that has come about in our system of taxation has given to import duties an importance which has never yet received proper recognition. The case for free imports has always been based on the assumption that our domestic taxation was derived from the profits of industry, and did not enter into the cost of production. This was, no doubt, true in the hey-day of Victorian free trade and low taxation. But it has long ceased to be true.

The Spiral

In these days of high taxation and trade union power, every increase in the cost of living, however caused, leads to an increase in wages and so, directly and indirectly, to the cost of every article produced in an English factory or on an English farm. The employers' insurance contributions are a further direct addition to costs. Nor can it be argued that income tax and surtax have no effect upon production. The professional man, no less than the working man, aims at keeping up his standard of living. Even without collective bargaining he gets his or her way, as is shown by the steady all-round rise of salaries, from that of the shop assistant or typist up to managing directors or Harley Street specialists. Even in the case of the taxes on company profits the indirect effect of the difficulties in the way of re-equipment and expansion upon costs of production are by no means negligible.

Unspecified Excise

The cumulative effect of our taxation is, in fact, equivalent to an unspecified excise upon British production. Its precise amount may not be easy to estimate, and obviously varies very largely between one industry and another. But with taxation taking 40 per cent of the national product it is not unreasonable to assume that it may well amount to, at least, a 25 per cent excise on our main industries.[1]

In the case of a specific excise duty, like that on spirits, no rational person would dream of imposing it without simultaneously buttressing it with an equivalent customs duty on the import of the same product, or of any product that could be substituted for it. Otherwise both the industry and the revenue derived from the excise would very soon disappear. There is, therefore, a clear necessity for seeing to it that our customs tariff should, at least, equal the excise effect of our general taxation.

To Help the Home Producer

In present circumstances, when it is of supreme importance to encourage new industries, or revive old ones, such as agriculture, it will be essential

1. 'It is not disputed that all the expenses of central and local government find their way into the cost of goods and services . . . (and constitute) . . . an overhead of about 35 per cent of the selling price.' (Letter addressed to the Chancellor of the Exchequer by Mr Yates as President of the British Chambers of Commerce.)

From 'A Balanced Economy', published this year by Hutchinson for 12s. 6d.

to encourage enterprise and stimulate investment by allowing a substantial margin in favour of the British producer. This argument was, in fact, advanced by the British Government, in connection with agricultural duties, at last winter's Commonwealth Conference, as a reason for securing release from the restrictions of the Geneva Agreements against preference. But it applies no less to the whole scale of duties to which we have provisionally agreed under G.A.T.T. Their inadequacy from the point of view of encouraging our own production and investment, once arbitrary controls are removed, definitely outweighs any prospect they can offer in other markets subject to increasing foreign competition.

Subsidies Sometimes Justified

In some cases, indeed, where it is desirable to keep down the price of necessities, or where the new industry to be encouraged can only, at the outset, produce a relatively small share of the national demand, it may be preferable, at any rate for a time, to give the required encouragement to production by way of subsidy, special loan facilities or guarantees, rather than of protective duty. That is the justification of the existing agricultural subsidies. It is true that such subsidies, direct or indirect, *considered by themselves*, involve an increase of taxation. But if they create additional production, the revenue collected from all concerned in that production, or in supplying the additional home market created by that production, may well be many times more than the revenue sacrificed, and so contribute to the reduction of taxation. This apart from the direct effect on the balance of payments position and the disinflationary effect of additional production.

So far I have dealt with the problem of encouraging saving for productive investment on the part of companies and of the higher-income classes. But there can be no sufficient progress unless corresponding incentives and disincentives are applied to the vast field of working-class earnings, which in 1952 represented £5,460 million, or 44 per cent of the whole personal income of the nation. There is probably still some scope for extending the discouragement of consumption involved in existing indirect taxation. (The net expenditure, i.e. before taxation, on tobacco and alcohol alone amounted in 1951 to £583 million.) But there should certainly be no further reduction either of the purchase taxes or of the other consumption taxes until the more urgent needs of our production have been met.

Working-Class Saving

So far as working-class saving is concerned, this, even with much lower wage rates, used to represent a substantial addition to the national capital. In many industries the workers used to invest freely in the ordinary shares of their own industries. This was especially the case in Lancashire, where the workers were badly let in by the greedy over-capitalisation of the cotton industry in the boom after the First World War. In any case, however, the penalising of profits as anti-social in recent years has offered little inducement to working-class investors to risk their money in their own or other industries.

Another form of investment, once favoured by working men, was the saving up to buy a few small houses, with a view to living in one of them in their old age and drawing a little

income from the others. That has been killed by the Rent Restriction Acts. Their revision to cover the cost of repairs should afford some help in this case.

Scope for Stockbrokers

If reasonable consideration is once more given to the interests of the equity shareholder it should be possible, both for the industries themselves and for stockbrokers, following the American and Canadian example, to be more active in laying themselves out for the small investor. American companies make a point of advertising the fact that they are supported by small investors. I have before me the widely publicised shareholding analysis of one great industrial concern which shows that 25 per cent of its capital is held by over 10,000 owners of not more than ten shares and 76 per cent by 28,000 owners of not more than fifty shares. There is no reason why industrial shares should not be easily purchasable in quite small units: even penny units have been suggested.

It is for the Stock Exchange to go out and create a new clientèle by more publicity as to the working of the stock market, more easily intelligible statistics and explanation of company results, etc., and for stockbrokers to set up their offices in working-class districts. If doctors can do this without sacrifice of professional standards, there is no reason why stockbrokers should be afraid to follow suit.

Other Inducements to Save

Another direction in which small investment might be well worth encouraging is through the extension of co-partnership, the workers' shares being tax free and exempted from death duty. But perhaps the largest scope for increased saving lies in directly raising the rate of interest for savings certificates and at the Post Office Savings Bank. A low rate of interest may mean a good deal to the man with many thousands to invest. But it offers very little inducement to the small man as compared with the immediate attractions of an extra weekly packet of cigarettes or with the speculative and sporting chances of the football pool.

In this connection it has always seemed to me that there is a strong case for linking the ineradicable English love of a flutter with the need for encouraging saving. A savings certificate at a somewhat lower rate of interest, but including a chance of drawing a prize, small or great, would, I believe, be really attractive. Nor is the man who has saved, for years perhaps, and then finds his savings doubled or trebled, likely to spend his windfall in riotous living. He is much more likely to invest it in promising shares, in a house of his own, or a shop or a garage, or even a small factory, and so contribute to the contentment or efficiency of the nation.

It is sheer hypocrisy for Parliament to acquiesce in the spending of hundreds of millions a year on every form of nationally undesirable gambling, and then refuse to harness so powerful and universal an instinct to serve national ends.

Trends of U.S. Foreign Trade

The question asked with apprehension a year ago as to how U.S. foreign trade would react to a business recession here can now be answered at least in part. From the figures available for the first seven months of 1954, the showing has been much better than generally expected. The decline in U.S. imports that began in the late spring of 1953 was moderate and reached a low point during the first quarter of '54. At the same time, commercial exports have been buoyant under the influence of booming business activity in Western Europe.

The strong trend of exports evidently will leave the U.S. with a greater trade surplus in 1954 than in '53. As this, however, will be more than offset by military, tourist, and investment outlays abroad, the accumulation of gold and dollars by foreign countries resulting from their transactions with the United States promises to continue, albeit at a somewhat reduced pace.

In the case of exports, a decline in military shipments will apparently leave the total short of the 1953 record of $15.8 billion. Military and strategic goods shipments under the Mutual Defence Assistance Programme are gradually declining from last year's peak of $3.5 billion and, as shown in the table, the total of $1.6 billion for the first seven months of this year was $750 million less than a year ago.

In contrast, commercial exports have held up and, if the present rate is maintained, the 1954 total may exceed last year's $12.2 billion.

Imports, while reduced, seem likely to hold within 5 per cent of the $10.9 billion total for '53. Thus, the surplus of commercial exports over imports—$1.3 billion in the first seven months—may run to $2 billion or more for the full year, against $1.4 billion in '53.

U.S. Exports by Main Divisions
(In Millions of Dollars)

	12 Months			7 Months	
	1951	1952	1953	1953	1954
Total Exports	$15,032	$15,191	$15,764	$9,472	$8,986
Less: Military aid	1,065	1,988	3,511	2,366	1,615
Equals: Commercial exports*	13,967	13,203	12,253	7,106	7,371
of which:					
Agricultural†	4,040	3,431	2,843	1,576	1,700§
Non-agricultural† ...	9,774	9,620	9,291	5,458	5,593§

From National City Monthly Letter on Business and Economic Conditions, New York, October 1953

Exports by Selected Groups by Half Years‡
(In Millions of Dollars)

	1952		1953		1954
	1st Half	2nd Half	1st Half	2nd Half	1st Half
Agricultural Exports:					
Cotton	563	299	272	245	429
Fats and oils	106	111	98	154	176
Wheat	602	340	346	243	207
Tobacco	100	146	139	202	98
Non-agricultural Exports:					
Steel mill products	342	280	267	228	243
Petroleum and products	294	278	261	237	218
Coal and products	289	221	159	187	131
Machinery	1,458	1,254	1,449	1,292	1,327
Motor vehicles and parts	588	399	521	442	567
Chemicals	439	362	380	420	468
Textile manufactures ..	356	318	326	313	310
Wood and paper	190	128	127	134	160

* Including the special categories paid for by foreign countries. † Excluding re-exports. ‡Excluding all special categories. §Partly estimated.

Nearly £10 a week

The average Briton's total earnings are now nearly £10 a week, says the Ministry of Labour.

After making their latest half-yearly survey in April this year the Ministry finds that for an average working week of 44 hours and 18 minutes a man earns an average of £9 17s. 8d. This is 8s. 6d. more than when the last survey was taken in October 1953 and when the working week was 47 hours and 54 minutes.

The Ministry's survey covered nearly seven million workers in more than 63,000 places of work in manufacturing and the principal non-manufacturing industries. In their returns firms gave details of full earnings before any tax or insurance deductions had been made. They did not include their office or sales staff.

Average weekly earnings for women in the same survey are £5 5s. 3d., nearly three shillings up on October 1953; for girls £3 5s. 10d., nearly a shilling up; and for boys £4 2s. 0d., three shillings and a penny up.

Among the industries not covered by the survey are coal mining and the docks. But the National Coal Board says that for adult miners average earnings were £12 17s. 9d. in the week ending May 8, 1954, and statistics from the National Dock Labour Board show that in the same pay week the average earnings of all classes of daily workers on the pay-rolls were £10 19s. 2d.

German Competition with the United Kingdom 1952-54

This subject has become of even greater interest since the decision to restore German sovereignty and the approaches made to closer economic co-operation between the Federal Republic and France. Dr Erhard's book, 'Germany's Comeback in the World Market', is one of our Digest Reviews this month.

In 1952 a balance of payments crisis hindered British efforts to expand exports, whereas Germany had little to lose and much to gain from a bold policy. Each country has since made a remarkable economic recovery in different ways, and the process of moving nearer to normality has accentuated some problems and eliminated others. Each has suffered violent fluctuations in some of its markets and has burned its fingers through the inability of some countries to pay immediately for the goods they have bought.

There have been frequent clashes of opinion, with rumour and counter-rumour, on the subject of the credit terms being offered to foreign buyers. There have been official discussions on export subsidies, resulting in an agreement between the two Governments that such practices shall be abandoned. There have also been preliminary discussions towards limited convertibility of currencies. In short, they have been two eventful years.

Expansion

Between 1951 and 1953 German exports increased by D.M. 3,950 million (£336 million) and in the first six months of 1954 they had increased by D.M. 1,646 million (£140 million) over the same period of 1953.

British exports declined by £9 million between 1951 and 1953, but in the first six months of 1954 they had increased by £89 million over the same period of 1953.

Over 75 per cent of the German increase is due to the performance of four industries: between 1951 and 1953, exports of machinery rose by D.M. 1,690 million; electrical equipment by D.M. 583 million; vehicles by D.M. 438 million and ships by D.M. 349 million. Yet even in 1953 these four industrial groups were responsible for only 37 per cent of Germany's total exports.

Before analysing this remarkable achievement in detail, there are a number of general factors to be considered.

First, the question of the British performance in comparison with the German. If judged purely on a statistical basis, it would seem that the U.K. has stood still while Germany has taken the lion's share of the increased volume of world trade. In fact, there have been substantial falls in certain types of British exports, since the peak year of 1951, notably textiles and ships, but this has been offset by increased exports of coal and our newly developed exports of petroleum products. In most other fields, particularly those in which Germany's export industries specialise, we have managed to hold our own or even make slight gains. Whether this is enough is a subject outside the scope of this booklet.

From 'German Competition', a Survey published by the Credit Assurance Association, London

Domestic Demand

Secondly, there is the question of domestic demand. After a long period of post-war austerity, so that resources could be concentrated upon export, the official policy in Britain more recently has been to allow the home market to compete for the available supplies. In consequence, there has been a rising level of domestic consumption, as is shown by the fact that in the first quarter of 1954 industrial production was eight per cent above the 1953 average, whereas exports rose only by five per cent. Furthermore, although output of passenger cars in the first quarter was 40 per cent higher than a year before, for the first time since 1947 the home market has been taking more than half of the total output.

In Germany, on the other hand, internal demand has been kept down deliberately to encourage export trade. We have it on the authority of the annual report of the German Central Bank, the Bank Deutscher Laender, that the big increase in 1953 exports was possible only because internal demand did not keep pace with increased productive capacity, thus obliging industry to seek an outlet in foreign markets.

Defence Load

A third factor—and a highly important one—is that during the years 1950-52 a large part of British industry could not employ an aggressive export policy because available resources of labour and material were tied up in the defence programme. Germany, on the other hand, had no such preoccupations.

Furthermore, there has been greater scope for industrial expansion in Germany. In 1951 there were 14.5 million employed persons there, and by June, 1954, this had risen to 16.5 million; yet in spite of this increase, whereas the monthly average of unemployed in 1951 was 1.43 million, it had fallen only to 1.0 million in June, 1954. In the United Kingdom, on the other hand, during this period the total working population increased only by 246,000.

Shortage of Skilled Labour

The rise in Germany's labour force has been possible in part because of the flow of refugees from Eastern Germany. There were 524,000 such refugees during 1952 and 1953, of whom a high proportion were under 40 years of age. Undoubtedly the Federal Government has shown considerable skill in the rapid deployment of these refugees so that they could be absorbed profitably into the German economy.

Notwithstanding this increase in the labour force, there are fears of a shortage of skilled labour developing in the near future. Three factors which will play a part are the increasing rate at which older members are approaching retirement age, the cumulative effects of heavy losses of manpower during the war, and the fact that each year from now until 1960 there will be a decline in the number of young people of school-leaving age. A German defence contribution will also affect the capacity to expand industrial output.

As a result of these influences,

organised labour in Germany now has a better bargaining position. There is a demand for a higher standard of living and—as the recent strikes have shown—German industry is likely to be faced with higher labour costs.

Verdict

As a final corrective, it is worth noting that Western Germany's share of world exports was only 5.9 per cent in 1953, whereas in 1936 the percentage for the same area was 7.5 per cent. If reckoned per head of population, the volume of exports was 17 per cent greater than in 1938, whereas in Great Britain the volume has increased by 48 per cent, in France by 70 per cent, and in the United States by 96 per cent.

These are factors which help to put the export performances of the two countries in better perspective, but it is not our aim to provide a convenient alibi for British industry.

While the skill of the leading British exporters is probably second to none, we believe that many firms were caught on the wrong foot in 1952 and 1953 when the demand abroad for credit terms became more general. During our investigations for our Survey *Finance for Exports*, we were astonished at the number of British firms which were not fully conscious of this trend and were still insisting upon letter of credit terms. Others recognised what was happening but were reluctant to give even short periods of credit either because they thought it too risky or because of the mistaken idea that such credits could not be financed through the British banking system.

Although there has been a big improvement in recent months, there are still complaints from some countries that many British exporters will not give even 90 days' credit.

Salesmanship

Complaints from abroad about British salesmanship are less frequent than a year or two ago. Nevertheless, the Germans seem to have a distinct advantage over many British exporters. There are criticisms that our sales literature is poor and that many firms are represented by second-rate agents.

We are not in a position to say whether such criticisms are justified, but it is interesting to note that the Germans consider themselves to be in a favourable position. In its annual report the Bank Deutscher Laender makes this comment: 'German industries are the better able to take advantage of their opportunities because they try as far as possible to meet the industrial needs of customers—and the importance of conforming in this way to the special needs of the buyer has greatly increased in the conditions of the buyer's market.'

In the first quarter of 1954 German exports rose by 6.7 per cent in comparison with the monthly average for 1953, whereas British exports rose only by 4.5 per cent. Looked at another way, however, British exports rose by £10 million per month during this period, whereas German exports rose only by £8.8 million.

So far in 1954 German sales of electrical machinery abroad have shown a phenomenal increase. British exports have not shown the same results largely because there has been a falling-off of deliveries within the Commonwealth; on the other hand, we have increased our sales substantially within the O.E.E.C. countries, which are Germany's principal markets.

One must also take political factors into account. Our own exports to such countries as Egypt, Iran and Argentina have been harmed by political difficulties with these countries, whereas Germany has not been so handicapped. On the other hand, Germany has also had difficulties in some markets, although for economic rather than political reasons.

Monetary Policy in Alberta

BY EDWARD HOLLOWAY

The scene is the province of Alberta, in Western Canada, an area of 255,000 square miles [nearly thrice the size of the U.K.] extending from the crest of Rocky Mountains well out on the prairies, but with [so far] only about 1,000,000 inhabitants. The experiment has been in progress since the first provincial Social Credit Government was elected in 1935. But since its nature and outcome have, unfortunately, been sadly misrepresented in the Press, there has been a great deal of misunderstanding about the true position.

BEFORE a clearer understanding can be obtained, it is necessary to realise that the Government of Alberta has been compelled, from the outset, to maintain two distinct approaches to monetary policy. The first is the one they would adopt if constitutionally allowed to do so; the second is the one they have actually followed in order to keep within the terms of the Canadian constitution. It seems clear, however, that the people of Alberta accept this situation as unavoidable—for the present at least—since they returned the Social Credit party to office by substantial majorities in 1940, 1944, 1948, and again as recently as 1952, thus showing that they realise the difficulties and are satisfied with the gains already made. No attempts have been made by legislative action since 1946 to achieve a further advance towards a full Social Credit policy.

Government's Mandate

The mandate under which the first Social Credit Government, under the leadership of the late William Aberhart, was elected in 1936 was to secure for the people of the province all the economic benefits which its great natural resources should make possible. The original proposal was that these benefits should be distributed primarily by what was called a 'basic monthly dividend', payable to every *bona fide* citizen in amounts sufficient to provide the bare necessities in food, clothing, and shelter. In view of Alberta's big reserves of undeveloped

From '*Rural Economy*', *September/October* 1954

wealth, and of the vast stocks then piling up in warehouses, granaries, and stores, this demand was felt to be entirely reasonable and practicable.

Before it could be put into effect, however, it was necessary for the Government, on behalf of the people, to obtain control of the basic right to formulate and administer financial policy. Unhappily, efforts to do so encountered vigorous opposition in many quarters. In consequence, repeated attempts by the Government to acquire the necessary powers were unsuccessful, all enactments to this end being disallowed by the Federal Government or declared *ultra vires* first by the Courts of Canada and then by the Privy Council of Great Britain.

The Alberta Bill of Rights

The last such effort was embodied in the Alberta Bill of Rights, passed by the provincial legislature in March 1946. The terms of this Bill were divided into two parts. Part I was a statutory declaration of the personal rights of every citizen of Alberta, which included a social security pension guaranteeing an annual income of at least $600 (based on the 1945 price-level) to every adult resident. Part II dealt with technical procedure designed to this end.

To forestall the private litigation which it was felt would follow so radical a measure, provision was made for referring the Bill to the Courts for a ruling on its constitutionality. This step was taken within the year, the result being that the Supreme Court of Canada ruled that Part I was valid, but that Part II was not. An appeal to the Privy Council produced a further ruling that, whereas the two parts of the Bill could not be considered separately, and whereas Part II was unconstitutional, the entire Bill was therefore unconstitutional.

Hence the present financial policy of Alberta is in many respects just as 'orthodox' as that of many other communities. But it must not be thought that because of these enforced circumstances Social Credit is a forgotten issue there. The contrary is clearly shown by the following extract from Premier Manning's Budget Speech of March 6, 1953, with reference to the province's lack of power to effect essential changes in monetary policy:

> 'This does not, however, detract in any way from our responsibility within the spheres in which this Legislature is sovereign to do everything in our power to secure for the people we are privileged to represent the effective control of their own credit resources, which is one of the fundamental principles of the Social Credit philosophy to which this Government unreservedly subscribes. We have endeavoured conscientiously to apply those principles, both in the formation and application of government policies relating to the operation and development of our provincial economy.
>
> 'The fact that Alberta has progressed from the verge of bankruptcy to a financial and economic position unequalled by any other Canadian province indicates that those policies have been basically sound.'

Interim Programme; Treasury Branches

A feature of the present policy is the operation, at various points throughout the province, of branches of the provincial Treasury Department. These are increasingly active

and have long been recognised as giving an essential service to the people of Alberta. They were originally part of what was called the Interim Programme, which involved joint operations by the Treasury Department and the Department of Trade and Industry. The purpose was twofold: to increase the purchasing power of the people, and to encourage the growth of local industries by stimulating the demand for their products.

The network of branch offices thus established provided a book-keeping system, kept under popular control through the Government, by which goods and services could be bought and sold with what were called 'trade claims', which were given effect by means of non-negotiable transfer vouchers.

Increase of Consumer Demand

It was soon obvious to all that this part of the Interim Programme was fulfilling its purpose. Its impact on the small manufacturers of the province was very considerable, for the increased consumer demand which it set in motion was further stimulated by a consumers' bonus. This bonus also meant that thousands of those who used the Treasury Branch facilities found themselves with a few extra dollars in their accounts at the end of each month. It was discontinued in April 1945 because high war-time expenditure had rendered it unnecessary. But the non-negotiable vouchers continued to be used extensively until the removal of the stamp on cheques in 1952; even today they are still used to some extent.

The records of the Treasury Branch system show a steadily increasing appreciation by the public of the services it provides. At the end of December 1953, total deposits stood at $40,425,000, as compared with $38,744,000 a year previously, the number of depositors at 60,346, as compared with 58,725, and outstanding loans at $20,706,000, as compared with $17,136,000. Two new branches were opened during 1953, making a total of 47 branches, 15 sub-branches, and 91 agencies in operation at the end of the year.

The Treasury Branches were subsidised for the first few years of their existence, but have long since been self-supporting. They have enjoyed clearing-house facilities from the beginning; but since they do not create or expand credit, they are not banks in the ordinary sense. They accept deposits from individuals, and make short-term loans from the funds entrusted to them.

Provincial Debt

Another aspect of Albertan monetary policy concerns the problem of provincial debt. Within the first few months of the Social Credit administration, acceptable bond issues were falling due without there being any possibility of meeting them. This, of course, was in the 1930's, when produce prices were far below economic levels, farmers and country traders scratching desperately for a living, and economic prospects anything but bright. A proposal was therefore made that the entire provincial debt should be refunded on what was considered to be a more equitable basis. The Federal Government at Ottawa agreed to underwrite such a proposal, but would give further financial assistance only if Alberta would accept supervision by a Dominion Loan Council. This condition was rejected by the Social Credit Government, because it saw in it a direct threat to provincial fiscal autonomy. This action effectively ruled out any hope of obtaining Federal assistance in meeting bonds maturing in the future.

There was, therefore, no alternative but to default. With the greatest reluctance, the Alberta Government was forced to admit that the issue maturing on April 1st 1936 could not be redeemed. Later, interest on all bonds (including those in default) was reduced by 50 per cent. The Act sanctioning this was declared *ultra vires*; but in spite of this ruling, the policy of paying one-half the coupon rate was continued.

Debt Reorganisation Act

This rather unhappy picture remained outwardly unchanged for nine years. But meanwhile every effort was being made, first by Premier Aberhart and then by Premier Manning, to reach an agreement with the bond-holders. At last, in 1945, the Debt Reorganisation Act was placed on the statute book, a triumph of patient and determined effort. Under it, old bonds were exchanged for new issues bearing an average interest rate of 2.82 per cent. Provision was also made for the repayment in full, not later than 1973, of the entire debenture debt of the province.

The new plan became operative when holders of three-fourths of the total debenture debt accepted the provisions of the Act; but the alacrity with which the exchange went forward left little doubt as to the outcome. In three months the required majority was reached; and by March 1946 Premier Manning, in his capacity of Provincial Treasurer, was able to report that 95.28 per cent of the bonds had been exchanged.

Thus the debt problem, one of the most difficult ever faced by a government (and many governments were in financial straits at that period), was solved. The extent of this achievement, as it affects the taxpayers of Alberta, is well brought out by the following figures. *At March* 31, 1936, *the total provincial debt was* $167,027,144, *and its service, as charged to general revenue for the fiscal year then ending, amounted to* $7,338,567, *equivalent to more than half the entire provincial revenue for that period. Under the provisions of the Debt Reorganisation Act, by which, as has been mentioned, all debenture debt will be extinguished in* 20 *years' time, average annual payments of principal and interest together amount to less than* $6,000,000*—a much smaller sum than the former bill for interest alone. By the end of* 1953, *total provincial debt had been reduced to* $94,283,654, *a sum which was more than covered by cash and investments standing in the name of the province and amounting to* $169,160,868.

Oil Revenues

To those who claim that this enviable debt position is due to revenues received from Alberta's big new oilfields, it should be pointed out that all these financial reforms were carried through *before* the discovery of oil at Leduc. This event occurred in February 1947, two years after the debt reorganisation arrangements had been completed.

Oil revenues, however, have made possible a further expansion of Alberta's programme of social services, together with such general benefits as direct and indirect financial assistance to her municipalities. This has totalled $168,872,506 during the past five years, in addition to low-interest loans totalling a further $110,000,000; and there has been further expenditure on much-needed public buildings, hospitals, and sanatoria. Nevertheless, it is the firm intention of the Government not to allow the provincial economy to

become unbalanced by this new source of revenue and prosperity. Agriculture is still regarded as the basic activity, with coal-mining, lumbering, and manufacturing also playing important parts.

No Increase in Taxation

Not the least remarkable feature of the Alberta story is the fact that there has been no increase in provincial tax rates paid by the general public since the Social Credit party took office in 1936. On the contrary, motor licence fees have been sharply reduced, and a social service tax formerly levied by municipalities on the assessed value of all property was dropped many years ago.

The Future

All this makes a formidable total of achievement by the Alberta Government. Some indication of future developments was given in his last Budget Speech by Mr Manning, speaking as Provincial Treasurer. He said:

'It may be that the time is coming when the interests of responsible self-government will be better served by levelling off the measure of provincial financial aid and distributing directly to the individual citizen of each community an equitable share of the revenues accruing from the development of their natural resources in the form of citizens' participation dividends. Such a policy not only would enhance the financial ability of ratepayers to meet the operating costs of autonomous local government but would recognise each citizen's personal stake in the natural resources of the province and his right to an equitable share of the benefits accruing from their orderly development.'

$100,000,000 Surplus Disposal

The United States has launched a one thousand million dollars surplus disposal programme.

President Eisenhower has signed an Act providing £700,000,000 worth of surpluses to be sold abroad for local currencies over the next three years, and £300,000,000 worth of surpluses will be available as gifts in case of disaster or famine. Under the Act, Agriculture Secretary Ezra Taft Benson is given primary responsibility for the sale of the surpluses, while the Foreign Operations Administration will handle the $300,000,000.

President Eisenhower said the local currencies obtained under the scheme will be used in five ways. One will be the development of new markets for U.S. farm products; two, purchase of military equipment, materials and facilities, strategic materials and goods or services for friendly nations; three, promotion of balanced economic development and trade among nations; four, payment of U.S. obligations abroad; and five, promotion of multilateral trade and economic developments.

In addition to the $700,000,000 to be sold under this Act, Congress has required FOA to use at least $350,000,000 of its appropriations for the sale of surpluses for local currencies.

From International Federation of Agricultural Producers

The Colombo Plan: An Indian Critique

The meetings of the Council of the Colombo Plan at Ottawa in October followed the accepted line. There was much mutual congratulation with just that note of concern about the *decline of revenues of some* countries in South-East Asia which has now come to be the accepted pattern at every annual review. There certainly is some cause for satisfaction. The main purpose of the Colombo Plan which was to get economic development in South-East Asia *going* is well under way, and while opinions may differ on what part the contribution of the technical or even capital assistance in the Plan has played in the total results, there is no one who would totally deny this contribution. Nothing, therefore, should be said to imply that the Colombo Plan has failed.

On the other hand, nothing is to be gained by pretending that it is equal to the changed conditions which now exist in the most important country in South-East Asia. The targets in India are hopelessly out of date and so, indeed, is part of its original philosophy. The scope of the Colombo Plan in the altered conditions of India at the present time needs fresh examination. It is at least one large failure of the Ottawa Conference so far as India is concerned that it failed to prevail.

Rise in Agricultural Production

When the Colombo Plan was first conceived, the Indian economy was believed to be static with an obstinate attachment to stationariness both in agricultural and industrial production. It was believed that capital and technical skill were both necessary and sufficient agents to break this stationary obstacle. In point of fact, however, the bottleneck was broken without any major technical assistance and with far *less investment than was believed* possible.

Indian industry, once it recovered from the shortage of raw materials, has advanced steadily since 1950 at a rate measured in the interim index of industrial production of nearly 10 per cent per year. Agricultural production in the last two years has risen by something between 15 to 20 per cent again without any large impact of foreign investment or foreign technical skill. In other words, the dynamic impulse conceived to have come from abroad has not been necessary in the Indian economy, and, as if to underline the capacity of the economy to rise by itself, India has in the last twelve months been a net exporter of capital. Against a deficit of balance of payments in the Plan supposed to run at a level of Rs. 180 to 200 crores, our favourable balance for the year 1953-54 has now been estimated at Rs. 48 crores.* India's spectacular economic progress has therefore been achieved without any foreign capital and, by and large, without any foreign technical skill.

More Technical Aid Wanted

To point out that this result has occurred in the year 1953-54 does not imply that it can go on indefinitely and that all conceptions of the Colombo Plan were fundamentally mistaken even in the special Indian case. For one thing, there has been even as it is some technical assistance from abroad, particularly on the multi-purpose projects. Secondly, as Indian industrial development gets under way, there will be much greater need for technical assistance. The present increases of industrial production have come out of industries like cotton textiles and cement where no new significant know-how was required. On the other hand, in the second Five-Year Plan, certainly conditions will be very different. For new industries know-how is still required. We will need more technical assistance and not less; it may be at the second stage, this know-how will be a condition of advance.

To admit the need of technical assistance, however, is not to admit that the present method of operation of the Colombo Plan is adequate. At the present time national governments are left to prepare projects and then only is the Colombo Plan Technical Bureau in a position to provide technical assistance required. If projects are not prepared for whatever reason, then the Colombo Plan technical assistance mechanism cannot go together. The failure of the Colombo Plan greatly to stimulate the Indian economy arises from this limited character of technical assistance. The bottleneck of India is the preparation of projects. If, as is not the case, projects are short, the Colombo assistance programme is halted at the start.

Too Few Projects

The third progress report of the Indian Plan shows the failure of expenditure to march with targets, but the failure is still not diagnosed for what it is—an inadequacy of the number of projects in the Plan. India's economic problem at the present time is thus the opposite of what the Colombo Plan believed it to be three years ago. Then the emphasis was on resources, financial and technical. India is not in need of foreign capital at least temporarily, and the Finance Minister's statement to the contrary is strangely inconsistent with the report of the progress of the Plan to which, as a member of the Planning Commission, he must have been a signatory. It cannot be repeated too often that the trouble is an insufficiency of projects and, broadly, nothing else. It is obvious, therefore, that if the Colombo Plan is to assist India it must provide us not with technicians in the abstract or even with a panel of technicians on request. It must supply, or aid the rapid supply of, new and detailed projects, which we can set immediately to work, with or without foreign assistance. The emphasis has, therefore, to be taken off capital and technical skill and has to be placed fairly and squarely on project-making with a passion for speed.

Need for Haste

Not merely is project-making our main problem for the short period; it is the only problem of the Indian economy. With the second Five-Year Plan boldly conceived in terms of doubling industrial production in five years and with targets of 10 *million tons of cement* and 6 million tons of steel by 1961, the need for haste should be evident. Almost nothing came out of the Ottawa Conference in these terms. Amidst much professedly critical examination of India's needs, this emphasis on the rapid preparation of whole projects was not even form-

*One crore is 100 lakhs. One lakh is 100,000. —Ed.

From 'The Eastern Economist', October 15, 1954 ulated amongst our major needs.

The course of events in the last few months might be illustrated sufficiently by the problem of technical assistance in steel. One would have thought in this basic field, where the Indian Government's plans were fairly well defined, the Colombo Plan authorities would have been of some assistance in framing a project. As it turned out, no help in the first instance was forthcoming either from the Colombo Plan or the United Kingdom. In the end at short notice an agreement was reached with the Krupp-Demag combine and a German technical outfit outside the range of the Colombo Plan Technical Bureau was pressed into service. Last month the Russians were on the scene with their own proposals and now late in the day a U.K. private enterprise offer has been made.

Even in the last of the three cases the Colombo Plan mechanism has not been the main instrument of the solution of our problems. It is legitimate to note this failure, and to enquire whether the Colombo Plan does not make itself redundant when, in cases such as this, solutions have to be found without its assistance, and indeed, even outside the Commonwealth.

Too Static?

It is true the Colombo Plan was not intended to monopolise technical assistance in India. But it was intended that the Technical Assistance Bureau should be available for a rather wider assistance than the choice of personnel on requests which, so to speak, came to its door. There is no doubt there is a considerable woodenness of approach amongst the Colombo Plan authorities to the larger questions involved in dynamic economic developments. The Colombo Plan was conceived in a static economic framework and it would appear that the whole machine has been affected deeply by the accidents which presided at its birth.

In this respect it is true that the Indian situation is different from that of most countries of South-East Asia and there was much that was discussed in Ottawa which was good or, perhaps, just good enough for other countries in South-East Asia. The essential condition, however, of the success of the Colombo Plan must be its success in India. It is to be remembered that the Indian Plan still consists of four-fifths of the total of the Colombo Plan and it is appropriate to measure its success by its contribution to Indian development. Nobody need contend that that contribution has been very large; but at least now a magnificent opportunity has arisen for the Colombo Plan to prove that it is equal to the challenge of a dynamic society. Like much that is being tried out in the East, the machinery of the Colombo Plan will be tested hard in its concluding years. If the conceptions behind that machinery have no capacity for growth, how can they impart life to the surroundings in which they are set to work?

Economic Warfare

BY HENRY DRUMMOND-WOLFF

(President of the Economic Empire Union)

THE economic and political structure of the United States is one of customs union and federation, and in 1933 the rule of non-discrimination became the cornerstone of American foreign policy. The aim was to achieve a permanent, favourable balance of payments through One World, non-discriminatory, multilateral trade and dollar financing. The system of Imperial Preference and the controlled economies of Germany, Italy, Russia and Japan were obstacles to this policy, for they provided for a balance of payments through bilateral or regional action.

The rule of non-discrimination was written into the agreements under which the United States gave aid to Great Britain and to Western Europe during and after the Second World War. The victory of the United Nations destroyed the controlled economies of Germany, Italy and Japan. Russia and the Soviet system survived and expanded. Proposals for the incorporation of nation-states into customs unions and federations made before, during and after the Second World War involved the liquidation of the British Commonwealth and control of world economy, through the United Nations, by the United States.

The M.F.N. Clause

A typical unconditional clause reads as follows: 'Articles, the growth, produce or manufacture of the territories of either High Contracting Party shall not be subject upon importation into the territories of the other, from whatever place arriving, to other or higher duties or charges of any kind or to any rules or formalities other or more burdensome than those to which the like articles, the growth, produce or manufacture of any other foreign country, are subject.'

The most favoured nation clause provides that any bilateral concession between two countries whose trade treaties embody the clause shall automatically be extended to all other countries with similar treaties, though the latter make no corresponding concession. The enforcement of the clause thus secures for the exports of the principal creditor nation the benefits of all tariff concessions accorded by one debtor nation to another.

The most favoured nation principle and the rule of non-discrimination provide *equality of opportunity and access* to trade and raw materials as a legal international right but cannot establish *equality of treatment* by the actual exchange of trade on equal terms. The material inequality of nations due to disparity in their human and natural resources and in their consuming, producing and purchasing power, compels them to discriminate in order to obtain reciprocity and establish a balance of payments.

The Gold Standard

The underlying theory of the unregulated gold standard is that it provides an automatic correction of economic disequilibrium through the

From 'The Rule of Reciprocity', October 1954. Copies of this booklet may be obtained from the Empire Economic Union, 145 Abbey House, Victoria Street, London, S.W.1 variation of prices and currency values in terms of gold. A country which has a surplus of visible and invisible exports and which imports gold can expand its credit and thus experience a rise in prices. Under a system of unrestricted price competition this has the effect of increasing imports and decreasing exports, thus helping to correct the balance of payments. In the same way, the country whose imports increase relatively to its exports, resulting in an adverse balance of payments, is forced to export gold and to contract its credit structure. This lowers domestic prices, increases exports and decreases imports, thus completing the correction of the disequilibrium.

The most favoured nation principle and the rule of non-discrimination, weapons of economic warfare, are applied against the bilateral and regional use of tariffs for balance of payments purposes. The multilateral and automatic functioning of the gold standard, with international money, is thus theoretically maintained. The gold standard—most favoured nation mechanism causes booms and depressions and leads to controlled economy.

The Balance of Payments

The enforcement of the rule of non-discrimination is intended to impose a multilateral trade and payment system under which the adverse balances of debtor nations and the favourable balances of the principal creditor nation will be permanently maintained by the latter's subsidies, loans, credits and investment. The active pursuit of favourable balances involves a cumulative expansion of international debt that can be repaid only if the principal creditor nation accepts an adverse balance of payments.

A true policy of expansion demands a bilateral or regional balance of payments and the expansion of national and regional economies to provide the indispensable foundation of a multilateral trade and payment system and of an expanding world economy. But the use of protective and preferential tariffs is limited or prevented by international treaty, deflationary pressure is applied and a restrictive world economy is established.

International Federation

The most favoured nation clause in international treaties eliminates the use of *preferential* tariffs and creates an area of non-discrimination. Customs union would eliminate the use of *protective* tariffs and transform an area of non-discrimination into an area of 'free' trade, within which the favourable balances of the principal creditor nation, in effect, would be maintained. Customs union could function only through a central government able to apply a common tariff and to impose a planned economy. The national control of trade, monetary, defence and foreign policies would be transferred to this federal government. The extension of the federal area of 'free' trade, with world government as an objective, would make the voice of the individual and his associations progressively less effective. Debtor nations would be absorbed by the principal creditor nation and migration would be indiscriminate. Problems of administration, distribution and defence would then demand arbitrary decentralisation, controlled economy and one-party government.

Controlled Economy

The primary function of totalitarianism of the Right or of the Left is to maintain or restore sovereignty and to expand national and regional economies. Nationalisation and state trading guarantee the required volume of national production, whose economic character is gauged exclusively in the social and national interest. National *fiat* money is issued, inflation is restrained by control of the internal price level and black markets are eliminated by a special police. National currencies acquire a constant value in terms of gold though this may be varied by government edict.

Capital transfers and foreign exchange transactions are prohibited and expansion is enforced by barter transactions with satellite countries. Barter is followed by bilateral and multilateral clearing and the control of the external price level within selected regions. Absolute reciprocity necessitates planning of production, location of industry, direction of labour and redistribution of population by the direct intervention of the governments concerned. During a period of transition, arms production and the maintenance of armed forces are looked upon as a legitimate solution of unemployment and as a substitute for reciprocity. In certain cases war is regarded as a legitimate instrument of policy for the enforcement of regional organisation, the acquisition of strategic bases and the defeat of inertia and opposition. The establishment of controlled economy and one-party government in every country, becomes the principal aim.

Totalitarian Technique

The totalitarian technique gives forceful recognition to the unitary nature of the world problem. It compounds ideological, political, strategic, economic and propaganda elements into the aggressive, proselytising nation-state. The ideological and propaganda components exploit the debtor-creditor relationship and may if necessary be treated by counter-propaganda based on free enterprise and freedom. The political and strategic components may be opposed by active diplomacy backed by force. The economic component provides the only point at which constructive action can be taken if war is to be avoided.

NATIONALIST CHINESE INCREASE

According to the Provincial Health Department, the population of Formosa has increased remarkably since President Chiang Kai-shek took over nine years ago. It is now given as 8,438,016, which is 2,340,000 more than in 1946.

SOVIET STEEL

According to the Soviet Embassy in London, Soviet Steel production in 1953 was 38m., 'more than the total output of steel in Britain, France and Belgium taken together'.

* * *

Co-operation with Foreign Capital in Under-developed Countries

This article is a digest of an address entitled 'Aspects of Industrialisation' given by Professor W. Arthur Lewis, of the University of Manchester, during the Fiftieth Anniversary Commemoration Lectures, National Bank of Egypt, Cairo, 1953. It is reproduced here with acknowledgments to the Nigeria Trade Journal.

It is theoretically possible for a government to finance industrialisation by borrowing capital abroad. Some capital can be acquired for this purpose from the United Nations International Bank or the United States Export-Import Bank, or by borrowing in the great capital markets, but not much capital is available from these sources. In practice, industrialisation with foreign capital means mostly private foreign enterprise.

Foreign capital is unpopular in all countries which are or have been in colonial status. This is mainly because in such countries the foreigners do not get assimilated into the population. This process of assimilation does not occur when the immigrant differs in race, in religion and in ways of living from the people amongst whom he comes.

Foreigners are often content with smaller profits than domestic capitalists, who are inclined to look mainly for quick returns and to shun investments where one may have to wait a long time to get one's money back. All private capital invested in undeveloped countries expects to make large profits, whether it be domestic or foreign.

From the point of view of economic development, what matters with profits is not how large they are, but how much goes out of the country. There is a presumption that domestic profits rather than foreign profits will be reinvested in the country; and since reinvested profits are the main source of savings in any country, this difference is important. But the difference is not always large. Many foreign capitalists automatically reinvest their profits in the country and indeed there is no reason why they should not do so, if the country continues to offer opportunities for economic expansion.

Secrets Foolishly Guarded

The most serious indictment that can be levied against foreign capitalists, in economic terms, is not that foreign shareholders receive dividends, but that the foreigners are often reluctant to train people in the secrets in their craft.

The foreigner's most useful craft in these days is not scientific information, but managerial experience. Science and technology are taught in schools and the local people can study them in their own or foreign universities. The craft of business management, however, can be learnt only in managing businesses.

If no one will employ the local people above the level of clerks, they cannot learn how to manage industrial businesses for themselves and their economic affairs will always be dominated by foreigners. This is why the foreigners, in those countries where they refuse to be assimilated, are usually most careful to exclude local people from managerial positions. It is also why most colonial countries, as soon as they become independent, take steps to compel foreign firms to open up managerial positions to local people.

Whatever the foreigner's faults may be, the fact remains that undeveloped countries need him more than he needs them. The under-developed countries need foreign capital, not because it is impossible to industrialise without it, but simply because it is very painful to try to do so, especially in economies where agricultural productivity is increasing very slowly.

How to Attract Capital

In the 1930's the creditor countries were treated harshly by several debtors and foreign investment dried up altogether. Recent attempts to revive it are based upon trying to find a compromise: to state the terms on which it is acceptable and at the same time to guarantee it certain rights. Some of the more important issues are: (1) exclusion from certain trades; (2) the demand for partnership; (3) the regulation of employment; (4) the regulation of prices and profits; (5) transfer of capital and profits; (6) discriminatory taxation; and (7) nationalisation.

Foreign firms want to be assured that they will not be nationalised, but this assurance cannot usefully be given. A better assurance is that if they are nationalised, they will receive fair compensation determined by independent arbitrators. Some countries have written into their constitutions a clause prohibiting nationalisation without compensation, e.g. Burma and India. But the constitution usually leaves it to Parliament to decide how the compensation should be determined and this is a loophole which could be closed by laying it down that there must be independent arbitration.

This is essentially a field for fair compromise. The foreign firm must face the fact that it has to run the risk of nationalisation, just as it has to run the same risk at home. The undeveloped country, on the other hand, has to face the fact that it will not get capital unless it guarantees and accords fair treatment. Where interests converge, compromise should not be difficult.

The approach of most governments of undeveloped countries towards foreign capitalists is to ask: what restrictions can we put on them without altogether driving them away? Many governments, however, have already discovered that, in the sphere of manufacturing, it is often more appropriate to ask: what inducements can we offer?

Capital Shortage for Manufacturing

Foreign capital flows fairly willingly into the development of natural resources—into mining or forestry or plantations—and into foreign trade and a restrictive attitude is less harmful here. But foreign capital does not easily go into manufacturing and it will not come without special effort.

Most of the foreign capital in factories is in branches or subsidiaries of firms operating in an industrial country. This is because the capital markets which lend overseas have created special institutions for handling overseas mining or agricultural or public utility companies, but are not able to handle overseas manufacturing companies. Hence capital for manufacturing must filter either through industrial firms established at home or through the great overseas trading companies, which occasionally branch out into running factories. Hence it is often the case that a foreigner who is willing to open a factory in an undeveloped country cannot find all the capital at home and seeks to raise some locally. And, in addition to those who cannot, there are those who will not; who are prepared to manage a factory, and to put some capital into it, but who desire deliberately to restrict their capital commitment in what they may regard as a politically insecure country.

Local Provision of Capital

Foreigners therefore frequently come to the government seeking financial participation and some countries have deliberately created development banks or corporations to meet this need.

One of the most effective ways of contributing capital is to undertake the responsibility for building factories to be leased to industrialists. Many investigations into industrial location have shown that one of the most powerful magnets drawing an industry to set up in one place rather than another is the existence of a good factory building. It has therefore become quite usual to create industrial estates and to build factories upon them for hire, in advance of applications. Whether factories are built before they are wanted or not, a good way to help a prospective industrialist is to build a factory and lease it to him. This involves the development corporation in small risk since, if the firm fails, the factory can be leased to someone else.

Local Enterprise Must Progress

To train up local enterprise must naturally be one of the major objectives of economic policy. The role of the foreigner is that of the tutor: a sometimes likeable but usually tiresome fellow, from dependence on whom one wishes to escape at the earliest possible moment. As in politics, so also in economic life, the test of maturity is that the country can proceed on its own without needing any significant foreign help. That is why foreign businessmen should not be allowed in the country unless they play their part in training local people to do their job; and this is why, in one sense, the crucial test of an industrialisation policy is not how rapidly it increases employment or output, but how rapidly it builds up local enterprise.

In some countries there is a long tradition of local enterprise, but it has usually most experience of merchanting activities and very little of managing undertakings which employ large numbers of people or of managing industrial enterprises in particular. The local enterprise is therefore deficient in managerial capacity and in technical knowledge as well as in capital.

Technical and Managerial Deficiencies

Of these three, the easiest to remedy is the deficiency of technical knowledge. For this can be learnt in technical schools and universities, or by placing local people in foreign firms, at home or overseas, to learn the necessary techniques. Moreover, technique can generally be hired. Foreign technicians are usually welcome even where foriegn capital is excluded.

Lack of managerial capacity is more difficult to remedy. It is a common error, in undeveloped countries, to believe that entrepreneurship requires mainly technical knowledge and capital. The truth is the reverse: if people really have managerial capacity they will in most cases be able to find technical knowledge and capital with which to work. What makes a business successful is the efficiency of its management for, given this, all else will follow.

Management is one of the highest of the arts, because of its simultaneous demands upon character, intelligence and experience. Deficiencies in management are therefore difficult to remedy. Some of the requirements, such as the tricks of factory layout, or of conducting interviews, or of keeping books can be taught in business schools. But much can be learnt only by experience. And those requirements which depend on personality and character can be met only by people whose outlook on life is appropriate.

Foolish Lending

Local enterprise cannot be built up simply by lending local people money. To lend money to entrepreneurs who lack managerial capacity is merely to throw it down the drain. If the development bank lends money, the loan should be made only on condition that the borrower is willing to accept some measure of supervision. When an application for money is received, the development corporation should examine thoroughly the way in which the business is run and the proposals now made for its extension. If dissatisfied in important particulars, it should require the applicant to make whatever alterations it thinks fit (layout, keeping of records, staff policy, or whatever is deficient), as a prior condition to granting the loan. And when the loan is made the corporation should keep in touch with the firm, either by appointing one of its staff to be a part-time director of the firm, or otherwise; the corporation needs an experienced staff who can keep in regular touch with borrowers and give good managerial advice.

It is also undesirable to lend people money to start new businesses in industries of which they have no past experience. The corporation should concentrate almost exclusively upon lending to businesses which are already in existence and which show good prospects.

I make these restrictive remarks because it is the easiest thing in the world to lose a lot of money in trying to set up local enterprise; and one or two of these corporations have already done this, with almost no useful result. The main deficiency of local enterprise is not capital but knowledge and experience and it is in the sphere of bringing knowledge and experience that these corporations can be most useful, rather than simply in lending money.

I think the best ways to develop domestic enterprise are: to send young men abroad to work in industrial firms; to compel foreign firms in the country to train and employ local people in superior positions; to encourage partnerships between foreign and domestic capitalists; and to support an organisation, such as a development bank, which combines lending money with supervision and advice. Merely to supply money is not enough.

Atomic Power for Australia

The use of atomic energy to produce power in Australia was the subject of a two-day symposium held recently at the New South Wales University of Technology, Sydney. More than two hundred scientists and representatives of chemical and engineering industries attended the gathering.

The Universities which the scientists represent are responsible for much of the nuclear and atomic energy research being carried out in Australia, and so far have limited their research to the study of the atom nuclei. Indeed, the Australian National University, which has one of the most powerful particle accelerators in the world, is using it to bombard nuclei with high-energy particles.

At the University of Sydney, Professor H. Messell and a team of scientists are using the cosmic ray particles which shower the earth to bombard nuclei. They are also studying the rays, and are preparing experiments aimed at discovering their origin and physical properties. At the New South Wales University of Technology scientists are working on technological problems allied to the use of atomic energy for power generation, especially in the field of metallurgy, and chemical and mechanical engineering.

Co-operation With U.K.

Professor J. P. Baxter, Director of the New South Wales University of Technology and a member of the Australian Atomic Energy Commission, who is leading this research, returned to Australia recently from the U.K., where he and the head of the Commission, Major General J. E. S. Stevens, conferred with British atomic energy experts. Shortly after their return it was announced in Canberra that Australia had been guaranteed full technical information from Britain, Canada and the United States. This would make possible the eventual construction of a high-powered atomic reactor for industrial uses.

Adaptation to Industry

In a paper, *Atomic Power in Industry*, delivered at the symposium, Professor Baxter outlined some of the problems facing scientists in adapting this power to industry, and pointed out that the main consideration was the need for immense capital investment, and for trained scientists. He emphasised that in order to build a reactor of industrial size it was first necessary to create a chain of industrial establishments to make special materials, and that after the reactor had been built, another line of industrial facilities was needed to process material from the reactor in order that it may be kept in operation. The capital investment in these auxiliary industries might be as great, or greater, than that of the reactor, and their development would present scientific and technical problems as difficult as those associated with the reactor.

Professor Baxter added that another basic consideration was the economic one. At the present time power from atomic reactors could not compete economically with power produced from coal, oil or hydro-electric sources, so long as these are found near centres of industry. Yet ways already could be seen in which power reactors could be simplified and made cheaper, with capital costs reduced and reliability increased.

Disposal of Waste Products

Another problem facing atom scientists in the application of atomic energy to industry is the disposal of radio-active waste products from the reactor, and in this connection Professor T. G. Hunter, Professor of Chemical Engineering, University of Sydney, told delegates that, by A.D. 2000, the world's atomic power plants would produce about three tons a day of highly radio-active fission products, probably in the form of liquid waste. This liquid would amount to about 6,000,000 gallons a day, and to dilute it to safe tolerances would require huge quantities of water.

'Obviously ocean dispersal of waste would be unsatisfactory', Professor Hunter said, 'as the seas of the world would not be big enough to hold the radio-active waste. Therefore the best solution would be to absorb the waste in clays and convert the clay into glass, which could then be stored safely.'

When Australia does convert to atomic power for her huge industries, she will have vast reserves of fuel in the form of uranium for her atomic reactors. An account of the distribution of uranium deposits in Australia was given by Dr H. G. Raggett, Secretary of the Commonwealth of Australia Department of National Development, which has been given the job of surveying likely deposits throughout the continent. Dr Raggett said that surveys so far carried out showed that there were 25,000 sq. miles of possible uranium territory in the Northern Territory alone.

From the Mining Journal, October 22, 1954

The Congo Basin Treaties: An African Anachronism

The first of the Congo Basin Treaties was the Berlin Act drawn up at the Berlin Convention in 1885. This Act, designed to regulate certain matters such as trade, navigation of rivers, the slave trade, religion, etc., within a central African region described as the 'Congo Basin Area' was signed by the United Kingdom, Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands, Portugal, Russia, Spain, Sweden, Norway, Turkey, and the United States, although the last-named failed to ratify it.

As the interior of Africa was practically unknown in 1885, the 'Congo Basin Area' was indicated by lines drawn arbitrarily on a map. These bore no relationship to the ultimately - determined political boundaries of the various African States with the result that the 'Congo Basin Area' not only comprises the Belgian Congo (which occupies the greater portion of the Congo Basin proper) but also the whole of Uganda, Kenya, Tanganyika, and Nyasaland, together with that part of Portuguese East Africa which lies

From a Statement by the Rhodesia Federated Chambers of Commerce, appended to the Report of the 18th Congress of the Federation of Chambers of Commerce of the British Empire north of the Zambesi; the north eastern portion of Northern Rhodesia; the northern part of Portuguese West Africa (Angola); part of French Equatorial Africa; a part of the Sudan; a portion of Italian Somaliland and a narrow strip of Southern Abyssinia.

Apparently the Berlin Act was intended to be a permanent enactment as it makes no provision for termination by notice, and provides for free trade in the area *for all nations*.

The Brussels Act, and—

The second international agreement affecting this region was the Brussels Act of 1890 which was important only for its appended Declaration as to *ad valorem* duties. This Declaration was to remain in force for 15 years, i.e. until 1905, subject to renewal. It was never renewed and, by tacit consent, it is considered to have lapsed.

—Conventions of St Germain-en-Laye

In 1919, following the Treaty of Versailles, the Conventions of St St Germain-en-Laye were signed by Belgium, France, Italy, Japan, Portugal, the United States, the United Kingdom, Canada, Australia, New Zealand, and the Union of South Africa. These Conventions purported to revise the acts of Berlin and Brussels and in this respect their legality is open to question. Of the signatories of the Berlin Act notable absentees were:

(1) Austria, Germany, Russia and Turkey.

(2) Denmark, Spain, the Netherlands, Norway and Sweden.

The 1914-1918 war explains the absence of the first group of countries, but the position of the latter group in relation to the original Treaties remains peculiar, to say the least. An important point is that the Convention of St Germain re-stated the non-differential clause affecting trade but it did not, in fact, specifically refer to the trade of *all* nations, but only to the trade of signatory powers and 'to such states, Members of the League of Nations, which may adhere to this Convention'. Provision was made for review after 10 years, but no steps have ever been taken to this end. It may be noted that the St Germain Conventions made no attempt to alter the arbitrary and artificial boundaries drawn on the map by the Berlin Act of 1885.

Archaic Chaos

As a result of this confused and archaic mass of international undertakings the countries most intimately concerned, viz., those in Central Africa, have no bargaining power in their external trade, while Imperial Preference in those that are British is a dead letter. The position is particularly unsatisfactory for the newly created Central African Federation of Southern Rhodesia, Northern Rhodesia and Nyasaland. While the Federation, like one of its component states (Southern Rhodesia) is completely autonomous in tariff matters and can therefore give and receive trade preferences and benefits, Nyasaland, another of its states, is debarred from such privileges as also is a portion of the third Federal partner Northern Rhodesia, which in consequence is compelled to have a two column-tariff, viz., 'General' and 'Preferential and Congo Basin'.

As regards the internal trade of the Federation, goods imported by the 'free area' from the Commonwealth have to bear the difference between

the preferential and standard rates of duty if moved into, say, Nyasaland. There is a growing feeling in the Rhodesia, and one which is particularly strongly held by organised Commerce, that an internal customs barrier cannot be tolerated, and further, that a quasi-Dominion should not be bound by antiquated treaties designed for another age, the usefulness of which has long been outlived.

Chinese Communist Claims

SPEAKING at the National People's Congress in Peking, Mr Chou En-lai, the Premier, reported on the current level of China's industrial production, the progress of Soviet economic aid and other matters.

He claimed that this year China expects to produce 10,800m. kilowatt hours of electric power, 81.9m. tons of coal, 3m. tons of pig iron, 2.1m. tons of steel, 13,513 metal working machines, 4.7m. tons of cement, 4.6m. bales of cotton yarn and 480,000 tons of paper. (In this connection it is interesting to note that Manchukuo's estimated production in 1944 was 3m. tons of pig iron, 1.5m. tons of steel and 25m. tons of coal.)

Mr Chou's further claims included the following:

China's industrial production has increased an average of 36.9 per cent annually during the restoration period 1949-52.

During the present first 5-year plan which ends in 1957, it is expected that 600 large heavy industrial enterprises will have been built.

Of the 141 industrial plants that the Soviet Union had promised to help build or reconstruct, 17 have been completed or are in partial operation. Thirty-four others are under construction; the remainder are in the blue-print stage.

By the end of 1954 China will have 25,500 kilometres of railway track compared with 21,700 kilometres in 1949.

The total number of non-agricultural workers has reached more than 13,745,000 persons. Unemployment has been substantially reduced.

Flood Havoc

Acknowledging that flood damage has taken its toll of farm output, Mr Chou said that the 1954 agricultural programme might not be fulfilled.

Government and co-operative enterprises now dominate the internal distribution system, accounting for 50 per cent of all retail trade and 80 per cent of wholesale trade. 'However, it still requires a considerably long time to carry out the transformation of private industry and commerce.'

From The China Association, October 20, 1954

The Strasbourg Plan: An Australian View

BY R. L. MATHEWS

(Of the Department of Economics, the University of Adelaide)

SINCE 1945 Australia has derived, on the average, some 25 per cent of her national income from export and other receipts for goods and services, and has spent approximately 20 per cent of her gross national product on import and other payments for goods and services. This significant dependence on overseas trade makes Australia vitally interested in proposals designed to reduce trade barriers or to smooth out commodity price fluctuations. There have always been close economic links between Australia and the United Kingdom, and in recent years complementarity in production patterns has been augmented by the Ottawa Preferential Agreement, by the sterling area relationship, and by bilateral marketing agreements in respect of certain Australian primary commodities. Britain is now providing some 45-50 per cent of Australia's imports, and is taking some 35-40 per cent of her exports. Despite this background of bilateralism, however, Australia has consistently supported measures intended to increase the flow of trade on a multilateral basis.

Disappointing Randall

There have been good reasons for this emphasis on a multilateral approach to world trade problems. After the 1939-45 war, Australia embarked upon an ambitious programme of economic development, and although she negotiated some small loans through the I.M.F. and the I.B.R.D., the dollar shortage imposed severe restrictions on her plans for expansion. Australia may be expected to continue her attempts to widen the area of multilateral trade, and to restore convertibility of sterling at the earliest opportunity. Indeed, if Britain's official policy did not aim in the same direction, it is doubtful whether Australia would continue to accept the limitation of her financial freedom which membership of the sterling area imposes on her.

However, in spite of the progress that has been made in the direction of dollar balance, it now appears that a reversal of American trade policy will be necessary before complete convertibility can be achieved. The Randall Report, with its emphasis on reciprocal concessions, is not an encouraging document, and the question must now be asked whether difficulties in achieving this wider objective should be allowed to impede progress towards more limited goals. In particular, the policy of non-discrimination in tariffs must be re-examined. It is not denied that discriminatory practices result in disadvantages for the deficit countries themselves, by distorting trade and production patterns and by substituting high-cost for low-cost sources of supply. If the dollar gap persists in spite of all efforts to close it, however, nothing is gained by preventing the deficit countries from increasing the flow of trade among themselves. The main justification of discriminatory tariffs is that they permit higher levels of trade among

From 'European Review', October 1954

deficit countries than would otherwise be possible.

Europe-Commonwealth Preferences

The Strasbourg Plan recognises this situation by seeking to establish a new preferential tariff system, composed of member countries of the Council of Europe and overseas countries with which they have constitutional links (e.g. the British Commonwealth). Tariffs would be fixed somewhere between Commonwealth preferential and G.A.T.T. rates. At the same time co-ordinated production, trade and investment policies would be initiated in order to hasten the restoration of overall balance with the dollar area.

In discussing the possibility of Australia's participation in such a scheme two aspects in particular require consideration. The first relates to the investment proposals contained in the Plan. By means of her immigration policy Australia is absorbing a substantial proportion of Western Europe's surplus population, but she also requires overseas capital on a large scale in order to carry out her programme of rapid economic expansion. Given a sufficient flow of funds, capital equipment and labour, Australia's dollar-earning and dollar-saving capacity can be significantly increased. She has the natural resources to produce economically many of the commodities which Western Europe now has to import from the dollar area—commodities such as wheat and other grains, cotton, tobacco, metals and, it is now hoped, oil. Likewise, production of commodities such as wool, meat and uranium (which are already earning dollars) can be expanded in order to take advantage of the fact, noted in the Paley Report, that the U.S. propensity to import them will gradually increase.

Pros and Cons

In so far as participation in the Strasbourg Plan would increase the flow of European capital to Australia, then the plan will be welcomed unreservedly. There will be differences of opinion in Australia, however, on the merits of the trade policy aspects of the Plan. The proposals for the preferential reduction of tariffs will inevitably evoke opposition from manufacturers and others affected by import competition. It is not generally realised, perhaps, just how large the manufacturing sector looms in the Australian economy—recent estimates suggest that Australia has a higher proportion of her work force engaged in manufacturing industry than the United States. Tariffs helped Australia's secondary industries to establish themselves, and vocal and politically powerful manufacturing groups—and trade unions—resist any attempts to weaken the fabric of protection. Australian manufacturers would not be able to take advantage of reciprocal tariff reductions by European countries—either their costs are too high in relation to those of overseas competitors (as in most consumer-goods industries), or they are unable to expand production sufficiently to provide an export surplus (as in the low-cost steel industry).

Balance of Payments

Australia's balance of payments position also suggests difficulties. In 1951/52, reduced exports and increased imports (resulting from inflation at home and improved supplies abroad) combined to produce a payments' deficit of £A587 millions on current account, and drastic import restrictions had to be imposed against both sterling and non-sterling imports. Partly as a result of the restrictions, and partly because export proceeds recovered, a surplus of £A184 millions was achieved in 1952-53, and during 1953-54 restrictions were relaxed to the point where the current account is roughly in balance. Unfortunately, however, the trends in both exports and imports are now unfavourable, and there is danger of further difficulties soon.

This would not be an argument against the Strasbourg Plan if Australia's exports were to increase *pari passu* with imports as a result of the Plan, and there are reasonable grounds for believing that the European demand for Australian export commodities would be fairly responsive to tariff-induced price changes, even though the overall elasticity of demand for these commodities is fairly low.

Need for Reciprocity

It is now becoming clear, in any case, that if Australia wishes to maintain her share of European markets she must make it possible for European manufacturers to sell more goods in Australia. This follows from the striking disequilibrium that has developed in the bilateral balances between Australia and Belgium, France, the Federal Republic of Germany and Italy. Australian exports to, and imports from, these countries during the last two years are listed below (figures in £A m's):—

	1952-3		1953-4 (10 months)	
	Exports	Imports	Exports	Imports
Belgium	32.2	5.5	28.3	5.3
France	76.1	9.2	67.4	10.1
Germany	22.4	13.6	23.1	16.4
Italy	44.7	5.3	47.8	8.9

It follows that difficulties arising out of increased imports from Continental countries should not be allowed to stand in the way of Australia's participation in the Strasbourg Plan.

Ottawa No Objection

Finally, objections to the Plan might come from supporters of the existing Commonwealth preferential system. So far as Australia is concerned, however, these objections cannot be taken seriously. Many of Australia's most important export commodities, including wool and wheat, receive no preference under the Ottawa agreement, and the fixed preferential margins which other commodities were allowed have declined in importance because of inflation. British manufacturers have more to lose because their preferences in the Australian market were fixed on an *ad valorem* basis, but their loss of preference under the Plan (*vis-a-vis* Continental competitors) should be more than offset by their improved position in the European market.

The Australian Prime Minister, Mr R. G. Menzies, announced recently that his Government proposes to review its policy with respect to G.A.T.T. and Empire Preference. It has also been decided that discussions on trade policy will be held by Commonwealth countries prior to the meeting of G.A.T.T. members in October next. It is to be hoped that temporary economic difficulties confronting Australian and other Commonwealth countries will not prevent them from facing up to the issues raised in the Strasbourg proposals. The Australian economy is still convalescing from a sickness induced by the great inflation of 1950 and 1951. This malaise was not a chronic disease, however, but was rather a form of economic indigestion caused by an overdose of prosperity. If Australia is to continue her vigorous economic expansion, and to maintain her share of world trade, she must shun autarky and continue her attempts to create the widest possible market for internationally traded goods.

TRADE WITH EGYPT

According to the National Bank of Egypt, Great Britain has regained her position as Egypt's biggest import-export trader. Following is the value in sterling of trade exchanged in the first six months of 1954:

with Great Britain	£20.2m.
France	£15.9m.
Western Germany	£15.4m.
India	£14.5m.
U.S.A.	£12.8m.

During the corresponding period of last year France came first, the U.S.A. second, Great Britain third, India fourth and Western Germany fifth. India remains Egypt's best market (13.3m. during the six-month period).

Egypt's sterling balances were now £151m.

MORE AND MORE INDIANS

The population of India rose by 4m. to 376.75m. during 1953. It has increased by 14m. since 1951.

U.K.—SCHUMANIA

Great Britain imported no coal from the European Coal and Steel Community in 1952, about half a million tons in 1953 and is to take about 2m. tons this year to increase winter stocks. She sent the Community 3m. tons in 1952 and 5m. tons in 1953.

Of steel, Great Britain took less than 1½m. tons in 1952 and rather less than that in 1953. Her exports of steel to the E.C.S.C. were small—150,000 tons in 1952, 227,000 tons in 1953.

U.S. MERCHANT MARINE

Of 15m. deadweight tons of U.S. prvately-owned ocean-going merchantmen, 7m. deadweight tons are tankers.

30 per cent of U.S. exports and imports are now being carried in American bottoms.

Plus and Minus in E.P.U.

NET ANNUAL SURPLUSES OR DEFICITS OF THE EUROPEAN PAYMENTS UNION COUNTRIES

Million units of accounts

COUNTRY	1950-51	1951-52[1]	1952-53	1953-54	*Net Cumulative Positions*[2] *at 30th June* 1954
Austria	— 104	— 38	+ 42	+ 106	+ 5
B.L.E.U. ...	+ 236	+ 509	— 33	— 55	+ 658
Denmark ...	— 68	+ 46	— 17	— 92	— 132
France	+ 194	— 602	— 417	— 149	— 973
Germany ...	— 281	+ 584	+ 260	+ 518	+ 1,081
Greece	— 140	— 83	— 28	— 40	— 291
Iceland	— 7	— 6	— 4	— 5	— 22
Italy	— 30	+ 194	— 223	— 210	— 268
Netherlands .	— 270	+ 477	+ 139	— 42	+ 304
Norway	— 80	+ 21	— 59	— 61	— 179
Portugal	+ 59	+ 28	— 23	— 19	— 45
Sweden	— 59	+ 284	— 44	— 37	+ 144
Switzerland .	+ 11	+ 158	+ 85	+ 73	+ 326
Turkey	— 64	— 96	— 50	— 94	— 303
U.K.	+ 604	— 1,476	+ 371	+ 107	— 394
TOTAL....	+ 1,104 —	+ 2,301 —	+ 897 —	+ 804 —	+ 2,563 —

1. After deduction of 50 million units of account in the case of the B.L.E.U. and 25 million units of account in the case of France and the United Kingdom for using part of the adjustments made at 1st July, 1952.

2. These are positions which appear before the execution of 'pre-quota' operations.

Digest Reviews

EUROPE, PAST, PRESENT AND FUTURE

(1) For the European-in-the-Street

Dynamic Europe, by G. F. Strong. University of London Press; 16s.

This is of the best order of text-book. It was first published in 1945 and deserves to be still going strong today when Europe appears to have become rather more dynamic once again.

In little more than four hundred pages Mr G. F. Strong, who rightly makes no secret of his belief in the values of Western civilisation, traces their development in European society from Graeco-Roman times to the transformations of Renaissance and Reformation and still more recent centuries. He analyses the spirit of the modern age as made up of nationalism, the sort of principles proclaimed in 1789 and the Industrial Revolution. This 'brought in the Machine Age and . . . changed the whole economic, social and political structure of Europe'.

This is not a book for the specialist but is written so objectively and with such fair-mindedness as to meet the needs both of the upper forms of schools and of the ordinary citizen who may know little history but wants to learn something of the civilisation which is Europe's and has so profoundly changed the world. One drawback, however, is that Mr Strong does not always give economic forces and structures their rightful place as, to take an example, in his treatment of the rise of totalitarian movements.

'STRASBOURGEOIS'

(2) Liberal Renaissance?

Germany's Comeback in the World Market, by Professor Ludwig Erhard, Minister for Economics in the German Federal Republic, with the assistance of Dr von Maltzan. Ed. by Dr Herbert Gross. Tr. (from the German Deutschlands Ruckkehr zum Weltmarkt) by W. H. Johnston, B.A. George Allen & Unwin; 21s.

French recovery after the Franco-Prussian war and German recovery after the Second World War have shown that there are some advantages to be extracted from the misery of defeat and occupation. Modern bombardment makes large-scale reconstruction necessary. The conquered work hard because they must and in order to forget.

The revival of the West German economy, the Federal Republic 'comeback', to quote Dr Erhard's flamboyant title, has impressed the world. Yet it has sometimes been exaggerated. The author himself points out in his Preface to this English edition of his book that 'even in 1952 we were far from having recovered our earlier share in world trade'. The great strikes which occurred after it was published have shown that even in post-war Western Germany the capitalist classes, whose dogged survival is so remarkable, must pay ransom to Labour.

It may be that before long the hardy neo-Liberalism of Dr Erhard may sound a little preposterous. It is usual for statesmen of the Western world to utter the pious incantations of a 'One-World' orthodoxy which is unlikely to correspond to economic realities. The ritual is faithfully observed in this book; nevertheless, realism breaks through.

The unconditional 'most favoured nation' clause receives due obeisance but is also shown to be an obstacle to that closer economic co-operation between the E.P.U. countries and their Sterling and other overseas associates which is so patently to the German advantage and helpful to that integration of Europe which is here advocated and examined. Dr Erhard does well to remind us that it was questions such as this which 'wrecked the endeavours made at Ouchy and Oslo twenty-five years ago to form a customs union'. He does not add that they also had their share of responsibility for miseries which Germany inflicted upon Europe and her own people.

Dr Erhard enunciates certain economic principles, briefly narrates the story of recovery in the Bizone and the Federal Republic and surveys markets and possibilities for German trade and German finance. The general principles put forward are confused by failure to distinguish between reasonable fiscal regulation for the sake of national stability and strength and the excess of nationalist *dirigisme*. Because a certain policy seems to have earned dividends for the Federal Republic in the last few years, it has not therefore earned universal validity. In practice the Liberalism of Dr Erhard has had to be modified to meet actual needs.

The full application of his principles and policy would in fact subvert those national communities which embody the traditions and hopes of the European peoples. Dr Erhard himself hints at this in his acceptance of the present world disequilibrium. He holds that the dollar gap should be covered by capital movements and 'a free-market policy which could cause the dollar gap to finish even though the dollar deficit actually increased'.

Mr Gross's editorial postscript explains that the present work was produced in the Foreign Trade Section of the Federal Ministry of Economics. This sounds forbidding but few economic studies are as well written as this. Thanks are also due to the translator. One example of Dr Erhard's lively and stimulating writing is his mention of 'three stages by which contact is established with foreign countries'. They are: '(1) Trade follows the flag, (2) Trade follows the bureaucrat, (3) Trade follows the engineer'.

Dr Erhard concludes that there may have to be a reversion to (2) for handling trade with the State monopolies of the East. If this means that in order to trade with the Soviet empire we must adopt some of its methods, is Dr Erhard's system one which will really help to erode the Iron Curtain and thaw the Russian ice?

H.Y.D.

(3) Foundations for the Future

Europe. Nine Panel Studies by Experts from Central and Eastern Europe. Free Europe Committee, Inc., 1954.

The purpose of this concise survey is explained in the subtitle, 'An Examination of the Post Liberation Problem of (*sic*) the Position of Central and Eastern European Nations in a free European Community'. The nations included are Albania, Bulgaria, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Poland and Rumania; but the nine panels sat down to work in the conviction that 'the whole of Europe must be integrated'.

It is easy for exiles to be both parochial and out of date. It is easy for Western Europeans and Americans to think of Europe as limited to those territories of the Continent which were not over-run by the Soviet Union. We must never forget the nations and peoples of Central and Eastern Europe. We must also so fashion our political and economic institutions in free Europe as to allow of the future adherence of what are now Soviet satellite states. Western European experience has discovered the weaknesses of the federalism which underlies the institutions or plans described in Chapters 3 and 4 of this little book. The panels did not however commit themselves to purely political systems, 'whether federation, confederation or groups of regional federations'.

Exiles may dream and plan but the decisive forces are those which operate within the homelands they have lost. Liberation will not mean a rapid reversion from a socialist to a free economy. The 're-privatisation' (what a word!) of the land may not be easy. In general the study panels show realism in their discussion of the following economic questions: Power and Energy; Transport and Tele-communications; Finance and Trade; Agricultural Integration; Public Welfare; Labour and Social Security.

The importance to Europe of the overseas under-developed areas is well understood. Preferential tariffs or even customs unions are suggested as a transitional measure for the liberated countries. Much of the ground has already been covered by the preliminary researches and deliberations of the Westminster Conference of the Central and Eastern Commission of the European Movement; but some very useful figures and facts are provided here in brief compass.

JOHN BIGGS-DAVISON

'SHALL HAVE DOMINION'

Canada's Tomorrow, edited by G. P. Gilmour. Macmillan; 18*s.*

'To Canada the next half-century presents a happier prospect of a people greatly blessed with goods and resources, as yet unspoiled by power and riches, with a record of representative governments remarkably free from corruption, and with habits of honesty and decency of inestimable value.'

Thus writes G. P. Gilmour in his introduction to this interesting and stimulating book, which sets out statements made at the 'Canada's Tomorrow' Conference held in Quebec in November 1953. The Conference was sponsored by the Canadian Westinghouse Company, and nearly three hundred Canadians took part. The central theme was 'an attempt at sober prophecy as to what Canada may and should become in the next fifty years'.

The Chairman of the Conference was Mr Gilmour, who edits the book and has contributed the introduction from which the above extract is taken. The text of the various contributions made at the conference are included, together with a digest of discussion which followed. The book is illustrated by Eric Aldwinckle,

'FIT FOR HEROES'

Beveridge and his Plan, by Janet Beveridge. Hodder & Stoughton; 15*s.*

The inscription at the beginning of this book is not without interest. It says: 'All the characters in this book are real people. Scrupulous care has been taken to introduce nothing of a fictional nature.' Certainly the story told is one of great interest, for it is the story of the gradual development of a new relationship of man to the State, and of the State to man. The vital part played by Sir William Beveridge in this revolution of thought is interestingly and capably told by the person best equipped to do so.

The impact of the publication of the Beveridge Report is dramatically brought out; the enormous world-wide interest in the project, and the subsequent failure of the politicians to implement the plan in its entirety are faithfully dealt with for history to judge.

Lady Beveridge sketches in the background of the young William Beveridge, his origins, his schooling and days at Oxford, his work at Toynbee Hall, and as the young Civil Servant. In 1908, his work at the Board of Trade led to the establishment of labour exchanges all over the country, and subsequently during the 1914-18 war he attempted to get unemployment insurance made universal, but in this case with no success. Of this period Lady Beveridge comments: 'It was a strange thing to observe the Ministry of Reconstruction, for example, presumably invented to create a new and better world, busily pigeon-holing the schemes put forward to this end by those whose experience in the war had taught them that they were essential to a good and also safe new Britain'.

There are a number of illustrations, including several cartoons by Low and Vicky which add point to the story.

E.H.

IMPERIAL ECONOMY

The Colonial Sterling Balances, by Ida Greaves. International Finance Section, Department of Economics and Sociology, Princeton University. September 1954.

This is No. 20 in a series of essays in International Finance published from time to time by the International Finance Section of the Department of Economics and Sociology in Princeton University.

The author has lived in several parts of the British Commonwealth, and has recently made an extensive study of colonial monetary conditions, and the conclusion is reached that the colonies' sterling assets are an important factor in their economics as a whole. They have the effect of guaranteeing the stability of the local currency and credit in relation to sterling. Further, the recent expansion of colonial assets is no threat to the international position of sterling, but is, on the contrary, proof that the central core of the sterling area has become richer and stronger.

The Rule of Reciprocity, by Henry Drummond-Wolff. (For private circulation; application for copies may be made to the Empire Economic Union, 145 Abbey House, Victoria Street, London, S.W.1.)

Mr Drummond-Wolff's central thesis is that, when the United States became a creditor nation in 1922, by means of its own interpretation of the 'most favoured nation' clause, and with the help of dollar finance, she imposed on the world a regime of non-discrimination, greatly to the disadvantage of debtor nations, and much to the advantage of the powerful creditor nations. Thus an era of economic warfare was ushered in. Mr Drummond-Wolff recommends that:

'Her Majesty's Government in the United Kingdom should give notice of withdrawal from international treaty obligations that restrict the use of protective and preferential tariffs. It should invite the signatories of the General Agreement on Tariffs and Trade, the Congo Basin Treaties and the bilateral treaties to renegotiate these instruments in accordance with a modified "most favoured nation" clause.'

An intriguing extract from this stimulating and concise booklet is reproduced on another page.

far applied had been insufficient and the dangers besetting the patient had been aggravated by the rigidity of the French economy. '*La rigidité*' must be replaced by '*la fluidité*'. Inflation must be restrained, for one cannot call for increased speed in a vehicle without sound brakes!

For future policy the present Prime Minister of France and his distinguished collaborator make certain interesting proposals. One of these is that nationalised industries should be given a structure comparable to that of private enterprise with a degree of administrative and financial autonomy. But the great significance of this work is the further proof given that France has at the helm one who not only knows that statesmen should condescend to understand economics but has the breadth of vision to make his own extensive knowledge of the subject serve high national purposes.

[*Review of book by Lauré*]

J.B.D.

TOWARDS FRENCH RECOVERY

La Science economique et l'Action, by Pierre Mendès-France and Gabriel Ardant. Editions Julliard.

Examining the inter-war years and the subsequent discontents of the Fourth Republic, Mm. Mendès-France and Ardant diagnose the disease of what has too been easily called 'the Sick Man of Europe' and prescribe some remedies. Those so

Révolution, Dernière Chance de la France, by Maurice Lauré. Presses Universitaries de la France. 10*s.* 6*d.*

This arresting book expresses much of the economic thought associated with M. Mendès-France. Much of France's low productivity is attributed to her having a lower proportion of her population at work than any other European country. But by 1980 the post-war rise in the birthrate will, it is here suggested, have taken effect and then we shall see something.

NEAR EASTERN APPROACHES

Middle East Survey, by S. A. Morrison. S.C.M. Press, 12s. 6d.

The blurb is right! This is indeed 'a sober factual survey of problems confronting the chief countries of the Middle East with special attention to the Arab-Jewish conflict and to the place of the Christian West in the whole situation'.

Where there are partisan feelings, the different points of view are fairly stated, though Mr Morrison cannot forbear to condemn, with all justice, the British evacuation of Palestine in 1947. Agricultural and Industrial Development with their particular relevance to the relief of the Arab refugees, Social Reform and the peculiarities of Israel's precarious economy—'there are now three exchange rates at $2.80, $1.50 and $1.00'—are discussed briefly, clearly and with a minimum of statistics.

But Mr Morrison is a missionary and the claim and message of Christ are his concern. No better book could be offered to the young man or woman called to serve in what used to be known as the Near East whether in a spiritual or secular capacity. These two hundred pages are however a foundation of basic knowledge. The bibliography beckons to further study.

FOR REFERENCE

Items in this Section will be kept for one year at 47 Eaton Place, London, S.W.1 (telephone SLOane 7516). Any of our readers and any member of the Economic Research Council who wishes to refer to any of them is invited to apply to that address, citing the appropriate number or numbers (given in brackets after each item).

The Traffic Problem: *Traffic Quarterly, An Independent Journal for Better Traffic, October* 1954. Another handsome publication of the Eno Foundation for Highway Traffic Control on an important and vexatious problem, written from an American viewpoint and with examples drawn from the United States. (567)

Changing Britain: *The Changing Structure of the British Economy.* An Address by Professor E. A. G. Robinson to the British Association at Oxford on September 3, 1954, and gives grave warnings of dangers ahead which takes us from 1688 to the present day. This important essay is reprinted in *The Economic Journal* of September, 1954. (568)

Underdeveloped Island: *Some Aspects of Problem Rural Areas in Britain, by G. P. Wibberley, University of London, Wye College.* This is Reprint No. 50 (New Series) from *The Geographical Journal* of March, 1954. An excellent introduction to the problems of marginal land and rural development in Great Britain. (569)

I.M.F.: *International Monetary Fund, Annual Report of the Executive Directors for the Fiscal Year ended April* 30, 1954, *Washington, D.C.* (2 copies, 570, 571)

Drink and the Juvenile: *Evidence of Increasing Drunkenness Amongst Persons Aged Under* 21. *Period* 1950-53. The Economic Research Council are to be congratulated on another careful social survey well worth the attention of all who are concerned for moral standards and public behaviour in Great Britain today. (572)