The ECONOMIC DIGEST

Vol. 7

1954

KRAUS REPRINT
Nendeln / Liechtenstein
1970

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KRAUS REPRINT
A Division of
KRAUS-THOMSON ORGANIZATION LIMITED
Nendeln/Liechtenstein
1970

Printed in Germany
Lessingdruckerei Wiesbaden

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ECONOMIC DIGEST

JANUARY, 1954 VOLUME VII NUMBER ONE

Diminishing Wage Differentials

BY H. A. TURNER (*University of Manchester*)

Not only are wage differentials narrowing, so that superior skill is discouraged, but to some extent workers who merit more than others are actually paid less. The present wage-structure thus 'appears illogical to outside observers, and unjust to many directly affected by it'.

THE general adoption of collective methods of regulating wages has imposed a pattern on the upward movement of these incomes. The central strand in this pattern is 'the narrowing of differentials'.

Rates of pay of unskilled workers were fairly stable at about 50 per cent to 65 per cent of those of apprenticed craftsmen over the late nineteenth century and up to 1914. The relation then narrowed sharply to about 75 per cent or 80 per cent up to 1920, and after widening slightly in the inter-war depressions, closed up further from 1938 on. At present a relationship of about 80 per cent is normal: the advantage of the skilled man has in some cases been reduced to as little as 10 per cent or 15 per cent over the unskilled labourer's rate.

The 'narrowing' has also affected supervisory, clerical, and technical, etc., employees of all kinds. One important illustration may suffice: in 1926 the average differential of engineering draughtsmen's earnings over those of skilled timeworkers was 73 per cent: by 1938 it had already fallen to 51 per cent, and in 1952 it was down to 29 per cent.

Trade Unions' Influence

The most important key to the situation is to be found in the policy of trade unions. The growth of union membership and of the coverage of collective agreements presented the unions with a problem: how to formulate—often under some immediate pressure—wage demands in terms which would be acceptable to members of many different grades and in different districts? This problem the unions by-and-large solved by ignoring the existing differences between their members and by demanding wage increases which appeared to apply to all alike. Such increases might take the form either of standard percentage additions to wages, or of uniform cash advances in rates. That unions have so widely chosen the latter, 'flat-rate' form of wage demand, provides the mechanism by which *relative* differentials have been so generally diminished.

This wide preference of unions for flat-rate wage advances arises mainly

From Lecture on 'Is Skill Rewarded? The Effects of the Present Wage Structure', Annual Conference, British Institute of Management, November 1953.

from the direction of trade unionism's modern growth: skilled workers were already strongly attached to their unions: the expanding organisations have therefore tended to adopt the form of wage demand most attractive to the unorganised lower-paid. As union membership among the unskilled increased, so did the latter's influence on union policy; the preference for flat-rate claims was accordingly reinforced.

Some Levelling Down

Three further points need to be made: First, the 'narrowing' of 'differentials' should not be conceived as simply a 'levelling-up'. The general belief that the condition of manual workers has much improved since 1938, for instance, I would confirm by a personal estimate that the average real pay-packet* has increased by nearly 20 per cent. But that *is* an average, and closer inspection shows the increase to be largely accounted for by the improvement of women's and young people's earnings. The average real wage of the adult male has risen by not much more than 5 per cent. The sharp narrowing of skill-differentials thus inevitably means that skilled workers are on the whole little better-off and in not a few instances worse-off than before the war. For salaried employees of all kinds, broad income and employment statistics suggest an average decline of about 15 per cent. This average is probably affected by the considerable increase in the number of lower-paid women employed, but comparison for particular occupations—in teaching and the civil service, in commercial institutions, and in technical and scientific employment in industry—all show sizeable absolute declines in real income for such workers. The raising of the lower-paid, therefore, has been partly achieved by a levelling-*down* among the more skilled and better-paid.

Bars to Advance

Second, this narrowing of pay-differences is a price paid for other forms of privilege. One might indeed say that the contemporary narrowing of differentials partly reflects the extent to which mobility upwards is still restricted in British economic society. Those who find their chance of *individual* advancement limited by such things as craft rules, professional restrictions, or income and social barriers have turned instead to a *collective* assault (which force of numbers and a favourable situation have combined to make successful) on the advantages that once accompanied such restrictions. As a broad proposition, the greater the opportunity of self-improvement, the wider the income differences that will be accepted.

Third, such 'narrowings' have occurred before in history and have subsequently reversed themselves. Professor Phelps-Brown's series of the relative wage-rates of building workers over 500 years, for instance, shows a temporary narrowing of the craftsman's differential in historical periods of inflation. But once these times passed, the unskilled man's rate fell back to its former proportion; the craftsman's superior organisation enabled him to restore and preserve his traditional relativity.

Something of the same sort has happened in the modern era. Skill differentials widened somewhat between the wars because unskilled workers' wages fell faster. But despite the intensity of the inter-war slumps, the intervening growth of unionism and state support for the lower-paid sufficed to prevent a return to the 1914 relativities. The collective organisation of workers has since further extended. And, then, it was a collapse of employment and wages which partially restored the differentials.

If full employment is maintained, and with it (as seems both inevitable and in some respects even desirable) a steady upward trend of money wages, what will prevent the narrowing process going on until all *relative differentials become relatively insignificant?*

Revolts Against Levelling

The last two or three years have witnessed several revolts against 'the narrowing of differentials': the engineering unions' unprecedented adoption of the percentage principle in their 1953 claim was only the most notable of these.

But percentage wage advances offer no stable solution of these questions. They can only *halt* the narrowing by fixing proportionate relativities at the *current* levels: they do not tackle the problem of the latters' adequacy. The forces that produced the narrowing are still in operation, and such swings to the percentage principle may well be temporary. *General* percentage advances, moreover, will fix not only the '*due*' relativities but also the anomalies and reversals of status. While their adoption by particular trades is likely to create further anomalies as against related industries that remain faithful to the flat-rate advance—in the current (1953) engineering and shipbuilding case, for instance, by analogy with the building trades, which employs many men of identical crafts.

A sense that such problems cannot be solved through unco-ordinated action in individual industries has prompted some to demand a 'National Wages Policy'. It is difficult to approve of a policy without knowing what it is, and that has not always been made clear. But the very operation of a policy that would deal with the many detailed issues of 'relativities' raises serious problems. Until industry has evolved a great deal more consistency in its own precept and observance as regards wage-relativities, it is not ready for a 'National Wages Policy'.

The rival extreme position seems to me equally theoretical. Some few would still say that the only measurement of relative values which can be taken as in any sense objective is that established by a free market. But to create the conditions of such 'freedom' in wages would involve reversing a century's development not merely in trade unionism and state policy, but also in the structure of industry itself.

We have to rely, then, on the development of the present system of collective agreement and regulation itself—and particularly on the refinement and the making consistent of those concepts of 'fair wages' and 'fair relativities' it has tended to evolve. So far, these concepts have been mainly related to custom and precedent; the problem is to improve their content of rationality.

Standards of Adjustment

No realistic approach to this question can ignore the fact that the wages-structure is a great complex of overlapping circles of comparison between human beings, each one establishing and testing his own standards by reference to those of

*i.e. earnings including bonuses, overtime, etc., after deduction of income tax and National Insurance, and allowing for the rise in retail prices.

others near to his experience, and by reference again to his and their memory of things past. It is the disruption of such standards that causes trouble. However, they do not seem incapable of modification by general social ideas.

But there are many contradictions between these standards. In practice, the reconciling of these smaller conflicts is a daily task of collective bargaining and conciliation. And where—as in mining recently—such frictions have accumulated to a dangerous extent, the task of revising the industry's wage-structure as a whole has been entrusted to collective negotiation. The post-war experience of the cotton industry at least gives hope that a solution can be reached by this method.

Seeds of Discontent

There are three major difficulties in that process, however. First, those engaged may not become aware of the incidental effects of their settlements until they are expressed in obvious discontent. Secondly, the settlements of particular industries may embody divergent principles, thus accumulating trouble for the future. And finally the process is so slow. This is partly because large systems tend also to harden into rigidity: it arises more because any revision of relativities involves disturbing the current advantage of some group of employers or workers. The latter, I think, largely accounts for the repeated postponement of that reform of the engineering wages-structure which has been so generally said to be necessary; under immediate and general wage-pressure, both sides have on the whole preferred the easy palliative of all-round wage-advances. The danger in such cases is that the adaptation of the agreed wages-structure may fall so far behind the accumulation of anomalies as to end in chaos.

Quite a few individual managements have preferred not to wait upon the slow processes of industry-wide bargaining and have applied 'job evaluation' to the rates of their own workers. This can, I think (with reservations as regards particular systems and applications), be a useful technique—provided those who operate it understand strictly what is involved.

Author's Verdict

I conclude, however, with two broad principles: (1) Attempts to re-arrange wage—and salary—relationships will be most hopeful if they are not embarrassed by that urgent pressure for *general* wage-increases that sharply-rising living costs may bring. But such reforms cannot, by and large, be implemented by re-shuffling individual wages about the ruling average level—by taking from some to give to others. *Intended* changes in relativities can only be readily made in the process of wage-advances. The possibility of combining stable prices with moderate wage-increases depends on things outside the scope of this paper. (2) One cannot expect reforms of the wages-structure to depart too widely from the traditional pattern of relationships. In a non-revolutionary society, at least, people will continue to find their main criteria of 'fairness' in what they have been used to.

Rewards of Increased Productivity

Have U.S. Wage Earners Had Their Share?

BY GEORGE G. HAGEDORN

THE fundamental economic question at issue (between the Congress of Industrial Organisations and the National Association of Manufacturers), is whether labour has received a fair share of the increased output due to higher productivity per man-hour. But it is also important to ask whether those who contribute their property, rather than their labour, have also continued to receive a fair share.

The answer can be given in terms of the percentage share of 'business proceeds' which goes to each of the participants in the productive process. A tabulation of this percentage breakdown, for representative years between 1929 and 1952, appears in the Table. These percentages are computed from the national income accounts published by the U.S. Department of Commerce.

Has labour been squeezed, in the sense that it is getting a smaller relative share of the 'pie' to be divided? The table clearly shows that the answer is *No*. In 1952, 50.8 per

PERCENTAGE DISTRIBUTION OF BUSINESS PROCEEDS

	1929	1932	1935	1939	1941	1942	1949	1950	1951	1952
Compensation of employees ...	46.4	49.6	45.6	47.7	46.9	47.7	49.9	49.3	49.7	50.8
Wages and salaries	45.9	48.8	45.1	45.4	44.9	45.8	47.6	46.7	47.1	48.1
Supplements to wages and salaries	.5	.8	.6	2.3	2.0	1.9	2.3	2.6	2.6	2.6
Income of unincorporated enterprises	14.8	9.9	15.4	14.2	14.8	16.4	14.9	14.4	14.2	13.4
Business and professional ...	8.8	6.5	7.8	8.5	8.6	9.0	9.4	9.2	8.9	8.6
Farm	6.0	3.4	7.6	5.6	6.2	7.5	5.5	5.2	5.3	4.8
Payments for use of property ...	16.8	19.2	13.7	13.2	10.5	9.0	7.9	8.2	7.6	7.6
Interest	4.6	8.9	5.8	4.1	2.7	2.1	1.5	1.5	1.4	1.5
Dividends	6.0	5.2	4.3	4.6	3.9	3.0	3.1	3.4	3.0	2.9
Rental income of persons ...	6.2	5.0	3.6	4.4	3.8	3.8	3.3	3.3	3.1	3.3
Retentions by business—gross	12.4	5.4	10.1	10.7	10.3	9.8	12.9	11.5	11.3	12.0
*Undistributed corporate profits	3.1	-10.1	-1.4	.5	2.0	2.7	4.5	3.1	3.0	3.2
Depreciation and other capital consumption allowances	9.3	15.5	11.5	10.2	8.3	7.1	8.4	8.4	8.3	8.8
Business transfer payments ...	.6	1.4	.9	.6	.4	.4	.3	.3	.3	.3
Business taxes	8.9	14.5	14.3	13.7	17.1	16.7	14.0	16.3	16.9	15.9
Indirect business tax and non-tax liability	7.4	13.7	12.7	11.8	10.1	8.4	9.4	9.2	8.8	9.2
Corporate profits liability ...	1.5	.8	1.6	1.9	7.0	8.3	4.7	7.1	8.1	6.7
Total business proceeds ...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Including inventory valuation adjustment

From Research Memorandum, National Association of Manufacturers, New York, October 1953 cent of the proceeds realised by business from the sale of its product went to compensate employees. This percentage is a record high; it was not exceeded in any year for which these statistics are available, although it was equalled in the year 1947.

Actually, labour's percentage share of business proceeds has remained within a fairly narrow range over the period for which the record is available—the years 1929 through 1952. The lowest level of this figure was 45.6 per cent (in 1935) and the highest was 50.8 per cent (in 1947 and 1952). The near-constancy in labour's share is a striking phenomenon, in view of the numerous and drastic changes in economic conditions which have occurred in the past twenty-three years.

It is those who have provided business with its capital who have been squeezed. Dividends, rents and interest, taken together, have declined from 16.8 per cent of business proceeds in 1929 to 7.6 per cent in 1952. Even in the depressed years of the 1930's the percentage share going for those purposes was about twice as great as at present.

This decline in the proportion paid out to capital-providers has not been due to any increase in the share retained by business. The gross savings of business—reserves and undistributed profits—has remained at about the same percentage of business proceeds throughout most of the period for which statistics are *available. It was 12.4 per cent in 1929 and 12 per cent in 1952.*

Thus those who are studying the pattern of income distribution to discover any distortions which may have occurred will find that it is property income, rather than labour income which has not kept pace. This is a fact of considerable significance.

In so far as purchasing power is the objective, some concern ought to be felt for the decline in the purchasing power of receivers of dividends, interest and rents. If the question at issue is the make-up of prices, then clearly past increases in the price level could not have been the result of management loading an undue return for capital on top of its costs.

Finally, some thought should be given to the effects of this decline in the property share of business proceeds on the incentives to production and on the funds available for capital formation. Our long-term economic growth depends far more on capital formation and the preservation of incentives than on purchasing power.

* * *

The ability of American business to find customers with 'purchasing power' to buy its output (as advocated by C.I.O.) is a matter for legitimate concern. However, a sufficiency of purchasing power is not the only prerequisite for maintaining prosperity. If it were, the solution would be simple since purchasing power can be ground out on the printing presses of the Bureau of Printing and Engraving.

Survey of the facts of the present situation indicates that our chief danger arises not from an insufficiency of purchasing power but from *roadblocks placed in the way of productive enterprise.*

We must beware of easy solutions which would stimulate purchasing power at the expense of further impairing the freedom of enterprise on which we depend for satisfying consumer wants.

France's Plight and Prospects

BY BERTRAND DE JOUVENAL

Four specific ailments are currently quoted abroad as characteristic of the French economy: a low level of wages, a chronic deficit of public finance, a slow rate of economic growth, and a disequilibrium of the balance of external payments. Some light is thrown upon the situation by this exploration of the French economic structure.

THE French economy resembles the British in that it is to no small degree nationalised. (The State owns the railway system, the Paris transport system, the coal mines, the electricity and gas works, the broadcasting system. It also owns the chief air-transport and shipping companies, the whole of the tobacco and match *industries,* the four great deposit banks, the life-insurance companies, the only great news-agency, the great majority of the printing presses, the Renault motor works, as much of the aeronautical and armament factories as existed at the time of the great nationalisation drive, and a number of other items.)

The French economy differs from the British in that it is to a high degree pre-capitalist. As to the first point, we can state that 23.1 per cent of all French wage- and salary-earners are employed by public authorities or State-owned companies. (We must here warn the *reader that French statistics do not discriminate between wage-earners* and salary-earners; we shall therefore use the term 'wage-earners' to include both.) This 23.1 per cent can be analysed into two components: the public authorities employ for administrative and political tasks 9.3 per cent of the wage-earning population of France (this includes regular soldiers but not the conscripted), and besides that they employ in productive tasks another 13.8 per cent of the wage-earning population. In the index of industrial production, the 'public sector' is given a weight of 14.9 per cent.

Social Groups in Conflict

On the second point, we must stress the fact that out of some 21.8 million people at work within the European boundaries of France only some 57 per cent are wage-earners (i.e. wage- and salary-earners). The remaining 43 per cent are 'self-employed' in the sense that they either run their own business or are members of the family at work under the leadership of the head of the family. The French economy is thus characterised by an enormous number of small businesses. These pre*dominate in two economic sectors—agriculture and commerce.*

Thus, France's 'toiling many' fall into two sharply contrasting categories, and an opposition of attitudes results. Almost nine out of twenty French workers think in terms

From Westminster Bank Review, London, November 1953

of profits, not wages.

There is continuous controversy between the two categories; trade-union leaders blame the high cost of living upon the inefficiency of family businesses in agriculture and commerce, and upon excessive profits. There is in fact some evidence that the rate of profit in relation to the volume of business is inordinately high in small business establishments; the profits of the small farmer are, on the other hand, minute.

Trade-union leaders also claim that small businesses under-pay their wage-earners and evade taxation. The self-employed, on the other hand, point to the social benefits in which they do not share; in agriculture, they point to the fact that it takes the work of more members of the family, and longer hours, to achieve a standard lower than that of the industrial worker's family.

Of the adult members of farming families (those over 14 years of age) 85 per cent are at work, as against a corresponding figure of only 67.6 per cent for the families of industrial wage-earners (using the term here in its English sense). In general, 79 per cent of the members of the families of self-employed persons are at work either at home or elsewhere, while only 67 per cent of the members of the families of employees are at work. This would seem to show that life is not easier in general for the self-employed than for the others.

Finally the self-employed complain that they are subject to the standard-rate income tax from which wage-earners are exempted.

There are two kinds of income tax in France. The first is a proportional tax at the rate of 18 per cent, which corresponds in many ways to the standard rate of tax in Britain. Wage-earners are exempted from this tax, their employers paying instead 5 per cent on the wage-bill; but it is payable by the self-employed, The second tax is a progressive surtax starting at the low income-level of 180,000 francs and payable by both wage-earners and the self-employed; there are, however, generous allowances in respect of wives and children.

At present the self-employed carry more political weight than the wage-earners because of the nullification of the large proportion of wage-earners' votes given to the Communists, who take no share in the formation of parliamentary majorities; hence, perhaps, the role played by strikes in the struggle for more pay.

Difficulties of Public Finance

The consolidated expenditures of central and local authorities and of Social Security funds reached in 1952 an approximate total of 5,300 milliard francs; this is, I believe, a slightly higher figure, at the nominal rate of exchange, than the corresponding figure for Britain. How this expenditure is incurred is a point to be taken up later. The present point is the difficulty of raising such vast sums in a country where the working population is dispersed in a very great number of small businesses. It can be roughly estimated that as much as 58 per cent of the French working population are employed in individual businesses, counting the owners, their family auxiliaries, and the wage-earners they employ.

Big companies are convenient tax-collectors. Their well-kept accounts facilitate the taxing of their profits as well as the levying of taxes from their employees. But what are the net profits arising from two-and-a-half million farms, of which 95 per cent are of less than 120 acres? What, again, are the profits arising from 1,032,000 commercial establishments and 797,000 industrial establishments each employing less than six wage-earners? (Indeed as many as 706,000 commercial establishments employ no wage-earners at all, and that is also true of 468,000 industrial establishments.)

The French tax assessors have found it necessary to assign arbitrary (and presumably under-estimated) profits to as many as 1,180,000 non-agricultural taxable business units as well as to all agricultural ones not in the form of companies. They feel little confidence in their assessments of some 270,000 more non-agricultural establishments. The difficulty of ascertaining individual incomes arising from sources so numerous and so small has led to the placing of a particularly heavy burden of taxation upon businesses, which provide in direct taxes 20 per cent, and in indirect taxes as much as 58 per cent of total public revenue (i.e., of central and local authorities), while they also provide, in employers' contributions, as much as 81 per cent of the total expended on Social Security.

Industry, which makes the bulk of these payments, finds itself badly handicapped in international competition; it is estimated that indirect taxes alone constitute 20 per cent of wholesale industrial prices.

Total expenditure (local authorities and Social Security included) runs up to a very high total; but of this, public authorities take, for their own needs, less than half. The discrepancy between public expenditure and public consumption is enormous. Of public expenditure, debt service absorbs one-twentieth; social transfer payments to individuals (veterans' pensions, social benefits) take more than one-fourth; provision of capital to businesses, subsidies, grants and loans, take one-fifth.

The central Government's budget bears the whole of the public deficit.

Cause of Public Deficit

The State finances the reconstruction of war damage, new housing, and industrial equipment of State-owned and private businesses in France proper and overseas. Such expenditures have exceeded the total budgetary deficit ever since 1948; in other terms, it is enough to place them 'below the line' to bring out a surplus 'above the line' ever since 1948. The share borne by the Treasury in the volume of new investment since the war in the franc area and in France proper is enormous (see Table). It has helped to raise the fraction of the gross national product devoted to gross investment to very high levels (as much as 20.2 per cent in the years 1949 and 1951).

The financial difficulties of France since 1948 have been exclusively the difficulties encountered by the Treasury in fulfilling its novel function of provider of capital for others.

Fear of Inflation

The pressure of incomes, enlarged by considerable investment expenditure, upon scanty consumer resources caused a continuous depreciation of the franc in post-war years. This inflationary pressure was relieved by the 14 per cent increase in the availability of consumer goods which occurred within the year 1951.

Even though the granting of unwise increases in Government-controlled prices and in wages gave a final push to the general level of prices, as from the beginning of 1952

Provisions of Capital for Investment by the Treasury since the War

	Proportion of new Investment provided by Treasury		Proportion of Budgetary Expenditure devoted to Investment in France and Overseas
	Franc area *per cent*	*France proper* *per cent*	*per cent*
1947	51.6	53.7	25.4
1948	58.3	59.2	33.2
1949	61.0	64.0	37.7
1950	57.8	60.0	33.7
1951	41.2	40.9	28.0
1952	41.3	40.7	24.5

a declining trend set in. The inflationary pressure has passed away; the fear of it remains with the permanent financial advisers of successive Governments. It has been urged that public expenditure should be cut down, and this led to a successive decline in State-financed investment. It was urged moreover that as long as the Government had to borrow so as to provide for the distribution of capital funds to others, bank credit extended to business should be kept down. This latter idea was enforced by the Bank of France when, in the autumn of 1951, ceilings were put to the amount of short-term credit which the banks might grant. This led to credit stringency at the beginning of 1952, and firms, finding themselves short of money for their current needs, revised their investment programmes downwards. Thus private investment was cut down at the same time as public investment.

It is stressed in official circles that thanks to this policy prices declined (they are down by 10 per cent since January 1952), the price of gold collapsed (down by 26 per cent), saving revived (new deposits up by 37 per cent)—changes which justified the lowering of the discount rate, a move which so surprised British expert opinion. Others, however, feel that the impetus of economic growth has been broken.

It is perhaps insufficiently appreciated how vigorously the French economy has grown in post-war years. The overall industrial index had risen as high as 151 (1938 = 100) in April 1952, while the producers' goods index rose to 171 in May and June 1952—a creditable performance in view of the miserable levels from which it started after the Liberation. The momentum has now been lost; industrial production in the first half of 1953 was some 5 per cent below that of the first half of 1952. A recent sample survey of French industry found as much as 30 per cent of unused capacity.

The question pending for French opinion is whether we should fight last year's war against inflation or this year's against recession.

Position of the Wage-Earners

How much dissatisfaction is there at present among wage-earners? (Here again we use the term in its English sense.) The Communists seem to feel that there is little response to agitation. Such response as there is cannot be due to a worsening of the position of wage-earners; real wages have risen by 14 per cent in the three years to the

beginning of 1953 and are at present pursuing a slower advance.

They are still unsatisfactory. In October 1952 monthly average earnings were, for the lower half of the scale, 23,100 francs in the case of the single worker, 34,800 francs for a father of two, and 56,400 francs for a father of five; in the upper half, they were 31,300 francs for a single man, 43,900 francs for a father of two, 65,500 francs for a father of five. Since then a slight improvement has occurred, more pronounced in the case of the least well paid. Increasing availability of food and other consumer goods makes further increases desirable if and when they can be borne by business.

France's balance of payments troubles are amply discussed. Her import restrictions are sharply criticised; yet France imported in the second quarter of 1953 133 per cent of her 1938 volume of imports. In the same period France exported 192 per cent of her 1938 volume of exports. An overall equilibrium in her balance of trade is upset by the size of her unrequited exports to her overseas territories, a counterpart of the State investment directed to these territories, which exceeds in importance the economic aid received by France from the United States. Total American aid is such that it enables France to meet easily the deficit in her external payments which has been continuously narrowing over the last twenty-one months, and which is almost exclusively a deficit with the sterling area. There is thus no question of France being forced into a devaluation. It is widely felt that there will be no change in this respect until such time as a convertible floating franc can be thought of.

FOREIGN INVESTMENT BY AMERICANS AGGRAVATES DOLLAR SHORTAGE

BY G. E. MAXCY (*University College, Hull*)

THERE is now in the United States an optimistic tendency to expect private American investment to fill the dollar gap and thereby to obviate the unpleasant alternatives of an increase in American imports or a decline in American exports.

Those who harbour such illusions overlook the main purpose of private investment, which is to make money for the investor. Compound interest is the magic device by which, in a surprisingly short time, the income from past investment exceeds any constant amount invested annually. American investors are steadily taking in more dollars than they are handing out; in effect, they are not exporting any capital but merely re-investing some 60 per cent of the remitted income from past foreign investments.

In so far as past experience in Britain and the United States is a guide, no country can sustain an export surplus in the long run by relying merely on foreign investment. Post-war yields of around 16 per cent on U.S. foreign investment are so high that they must eventually aggravate the dollar shortage, and at a fairly constant average rate of somewhat more than 1,000 million dollars, the amount of new capital exported annually shows no tendency to grow in proportion to the expansion in the U.S. national product (G.N.P.).

It seems that in the post-war preoccupation with short-run problems and recurrent balance of payments crises the private American investor has been envisaged in the role which, in fact, should be played by the foreign investor.

In the long run it is not American overseas lending but foreign investment in the United States, with the resulting outward flow of dollar dividends and compound interest payments, which could help to finance an American export surplus. Instead of such productive foreign investment in the United States, however, there has taken place a considerable flight of capital to the United States which, since earnings on these funds are largely retained in the United States, has contributed little to relieving the dollar shortage.

There is strong evidence that over one-fifth of American economic aid was used to finance a flight of capital to the United States instead of for financing the U.S. export surplus.

From Yorkshire Bulletin of Economy and Social Research, August 1953

France's New 4-year Plan

INCREASES of 25 per cent in production and 17 per cent in the standard of living and a 40 per cent expansion of exports are the main targets of France's second four-year plan for 1953-57.

Anxiety for sound finance is noticeable in the report of the Commissariat's finance commission.

It is essential, the report states, to establish a satisfactory equilibrium between the needs of the economy and the defence of the currency—between the country's investment needs and its financial means.

To this end the report proposes:

1. Cuts in non-productive expenditure, whether the expenditure originates in the management of Government services or from unjustified protection enjoyed by the private sectors;
2. The fixing every year—with due regard to the general economic and monetary situation—of the level of possible investment, so as to avoid both inflation and deflation;
3. Apportionment of the available financial means so as to guarantee realisation of the most productive investments.

The Commission considers that the major obstacle to sound economic expansion is excessive public expenditure of an unproductive character, together with the inability of the French economy to adapt itself, insufficient savings and the reluctance of those who save to place their capital in productive investments. Finally it blames insufficient information available to the authorities.

The Commission regrets the continuous rise in public expenditure since 1949—by 15 per cent in real value, as regards civil administration and local government, by 150 per cent in defence credits, and by 20 per cent in subsidies, social welfare and public debt. Consequently, it is pointed out, Budget investment credits have decreased by 30 per cent during the same period.

The report similarly singles out the low productivity of French enterprises, due to structural reasons and the lack of competition resulting from various protective devices.

Tax reforms and the abolition of such protectionist devices as cartels, etc., are suggested as a remedy. The Commission also considers as indispensable the establishment of a yearly 'economic budget'.

The plan's finance commission has already influenced the fixing at sound levels of public investments in 1954, for which its suggestions have been adopted by the Government.

The investment plan for 1954 thus provides for expenditure in the main activities of Frs. 1,805,000m. (£1,841m.)—as compared with Frs. 1,644,000m. in the current year—of which Frs. 675,000m. will be financed by the State.

The Commissariat originally planned for a figure Frs. 275,000m. higher, which was correspondingly reduced.

The Commission based its estimate on a prospective increase in the gross national product, from Frs. 12,920,000m. in 1953, to Frs. 13,650,000m. (£13,922m.) in 1954. It expects an increase in the current deficit of the balance of payments from Frs. 140,000m. to Frs. 240,000m. (£245m.).

From News Release, Paris, December 3, 1953

Conflicting Views on E.P.U.

Germany's conception at variance with Britain's

GERMANY'S attitude toward E.P.U. is essentially the conventional attitude of the creditor country, which sees no immediate prospect of putting her credits to a useful purpose. Like Belgium before her, she wants to 'harden' the E.P.U. credit facilities.

As a first step, the Germans would like to increase the proportion of gold paid to extreme creditors, like themselves, from 50 per cent to 65 per cent, and to increase the gold obligations of the debtor countries correspondingly.

But what differentiates this demand from similar requests made by Belgium in the past is that now it is put forward as part of a new principle which, it is suggested, should govern the future operations of E.P.U. and of international payments generally. The 'hardening' process is to continue, the creditor's gold tranche is progressively to increase, until finally both creditors and debtors are covering their transactions 100 per cent in gold or equivalent hard currency.

This is the currently fashionable doctrine of convertibility by easy stages, and it appears to have found adherents in a number of Continental countries outside Germany.

British View

It has found no support in this country. The British official view is that the E.P.U. machinery has no useful place in a plan for full currency convertibility. That is because under the Commonwealth scheme the conditions envisaged for the establishment of convertible currencies would, once they were fulfilled, make any limited financial arrangement of the E.P.U. type redundant.

The main function of E.P.U. at present is, after all, to bolster the reserves of its member countries, so that they are able to take certain risks in extending their trade with one another. Such risks under a system of full convertibility would be enormously greater, and the support required for the central reserves of any country taking them would be correspondingly increased.

Unless this additional support is forthcoming, the Commonwealth plan simply does not contemplate the possibility of making sterling convertible.

Thus British policy is critical of E.P.U. as a financial device for the long term because it sees the necessity of substituting for it an arrangement which will do the job of bolstering currency reserves on a much larger scale.

Specifically, it believes that if the hard currency resources of the International Monetary Fund are mobilised effectively to support the new convertible currencies, any limited European system will cease to have any value whatsoever.

Now, the German thesis appears to be based on a completely opposite point of view. The Germans want to restrict the credit facilities at present provided by E.P.U., to force nations to accept the disciplines of convertibility by reducing progressively this external backing for their currency reserves.

From Financial Times, London, November 23, 1953

Sizing up the U.K. Surplus

COMPARED with some post-war years, the balance of payments results for the first half of 1953 make good reading. There was a U.K. overall surplus, even apart from Defence Aid; we have thus been in surplus now for eighteen months. Even with the dollar area—and still without counting Defence Aid—we very nearly had a current balance. Including Defence Aid, we had a surplus, whereas in every other year since the war there has been a considerable dollar deficit.

But the surplus must be viewed in perspective.

1. Circumstances have, on the whole, been favourable in this half-year: the terms of trade, for example, and the high level of activity in America. As the Chancellor has recently said, 'It is common prudence to assume that favourable trends will not always persist'. And in any case the surplus we have been earning is not as large as the one we need, over the years, to cover our commitments. Still, comparisons with the first halves of 1951 and 1952 show how far we have come in the past 12 months: in 1951 (first half) the dollar deficit, excluding Defence Aid, was £103 million. In 1952 (first half) it was £199 million. In 1953 (first half) the latest published figures show it was £21 million.

2. Import prices started to fall in the middle of 1951, and have gone on falling every since. Export prices went on rising until early 1953, and since then have not fallen as fast as import prices: indeed since last spring they have not fallen at all. In the first half of this year, it would only have needed the *same* volume of exports as in the first half of 1951 to buy about *one-quarter* more imports. That is the main reason why, with no increase in exports, we have been able to afford to increase imports again.

3. We have been fortunate, too, because both American and Canadian industrial activity has continued fairly steadily at a much higher level than in 1952, and consequently the volume of their imports has been higher, too. This is important to us, not just because of our own exports to these countries. Between them they account for a seventh of world imports; if these imports declined, incomes all over the world would go down, not just our exports to Canada and the United States.

4. It is fortunate for all concerned that, in the first half of 1953, the rest of the sterling area too has had a surplus with the non-sterling world. The U.K.'s own surplus on current account was largely offset by items in the capital account—repayment of debt to the non-sterling world, for example—so that the rest of the sterling area's surplus made a large contribution to the rise in the reserves.

Strength of Competition

But this means that, while the sterling area's reserves have gone up, so have the U.K.'s sterling liabilities. If they can be discharged by U.K. exports the debt is met in sterling; otherwise, and to the extent of the deficiency, a demand may arise for foreign currencies, including dollars, which would reduce the reserves.

But the big argument against any complacency is this: that from 1950 *to* 1952, *while the volume of world exports rose 7 per cent, the volume of our exports fell 5 per cent; and our share in exports of manufactures by the ten main exporting countries fell from* 26 *per cent to* 22 *per cent.*

In machinery, cars and rayon, for example, our share in the trade of the main exporting countries fell from 1950 to 1952. In some other classes—chemicals, for example, and wool fabrics—we held our own.

There are good reasons why this happened. Up to 1950, circumstances were very favourable to us; with Germany and Japan out of the running, we only had the United States to compete with in many lines and, as dollars were short, many countries had to discriminate in our favour. Further, there were large accumulations of sterling in the hands of some of our important customers, in the rest of the sterling area, Western Europe, Latin America and the Middle East.

By 1950, however, the position had begun to change; in Germany and Japan trade and production were recovering; the price-advantage over the U.S.A. given to us by devaluation diminished; and many countries had run their sterling balances down. Nor was that all. While total world exports did increase between 1950 and 1952, world exports of textiles and other consumer goods fell; and textiles and miscellaneous manufactures (mainly consumer goods) accounted in 1951 for nearly 40 per cent of U.K. exports of manufactures, compared with 25 per cent for the United States and 15 per cent for Germany.

The big increase in world exports of manufactures since the war was in engineering products; and, particularly in 1951, we could not take our share of this increase because we could not produce enough steel, and were sharply increasing our rearmament programme. Between 1950 and 1952 the increase in the defence claims on the metal-using industries was equivalent to between one-fifth and one-quarter of the exports of these industries.

One further factor in 1952 affected us more than our competitors: world demand for manufactures fell particularly sharply in sterling area markets, which take about half our exports, but only about a tenth of those of Germany or the United States.

There are good reasons, then, for the fall in our share of world markets from 1950 to 1952. So far the 1953 figures are provisional and are not satisfactory. The volume of U.K. exports in the first half of this year was about the same as the 1952 average. Other countries show increases: U.S.A. +6 per cent, Germany +6 per cent, Japan +5 per cent.

From Bulletin for Industry, H.M. Treasury (Information Division), London, November 1953

FROZEN BREAD

THE American housewife is now being invited to buy frozen bread. Thus bread baked in New York is being sold as far away as Miami, Florida.

The manufacturer bakes and wraps the bread in the normal way at the New York bakery, and then transfers it at once to a warehouse where it is stored at 5 degrees F. It may stay there for weeks, until the order is placed by the shopkeeper. Then the bread is transferred in a refrigeration lorry to the retailer, who again stores it in his own refrigeration warehouse until it is in demand.

The bakers claim that the frozen bread will help cure one of the biggest ills of the bakery business, losses through the return of stale bread.

Also, the company sees frozen bread as the answer to night baking, and the week-end work which has been normal in industry.

From Top Notes, House Magazine of Aire Wool Group, Yorkshire

Changing Pattern of U.K. Exports

BY MARK ABRAMS

Totals of Britain's exports disguise significant changes within the totals, but engineering exports are still predominant.

NOT only did the year 1951 see British exports, under boom conditions, reach a post-war plateau, but also in that year the components of these exports reflected the economy's fundamental adjustment to the post-war world. Compared with 1938 a new pattern of trade—affecting both commodities and destinations—had been established.

In 1951 the United Kingdom was much more dependent on exports or manufactured goods (90 per cent of the total as against 80 per cent in 1938) and metal and engineering products alone accounted for almost one-half of all exports. Exports of coal had practically disappeared from the picture.

At the same time there had been a geographical re-alignment. In 1938 approximately 60 per cent of all exports went to the industrially advanced nations of the world and only 40 per cent to the relatively undeveloped areas, and to the Scandinavian and Low countries. By 1951 this distribution had changed to a 50/50 ratio and only four of the advanced countries—Australia, New Zealand, Canada, and the United States—had grown in relative importance as outlets for British goods. (The strength of the markets in the Antipodes in 1951 was partly caused by the wool boom.)

At first glance the figures for the past three years suggest general stagnation in exports—if not actual decline. This impression, however, would be misleading. The details show that some trades have improved substantially on the 1951 figures, others have remained stationary, while the performance of another group has since declined.

Stagnation in Exports?

In other words, for some export industries 1951 achievements were in part still the ephemeral consequences of post-war shortages, while for others it was merely one stage in an expansion to meet the more lasting demands of the 1950s. It appears that the export trades are still going through a process of adjustment to the post-war world—but largely within the totals reached in 1951.

In each of the three years 1951, 1952 and 1953, food, drink, and tobacco maintained their share of total exports at slightly over 6 per cent—largely through expanding sales of whisky. Exports of raw materials increased slightly as a little more coal became available for oversea customers, but as in earlier years 89 per cent of all exports were in the class 'articles wholly or mainly manufactured'. It was within this class that the more important recent changes have taken place.

In 1952 the volume of all exports of manufactures was down 7 per cent compared with 1951, and for the first nine months of this year, at least, on average no improvement was recorded. During the recession of 1952 exports of metals and engineering products held up remarkably well, but signs of the slight setback then experienced seem to have persisted. The textile and clothing industries experienced the greatest reverses in 1952 and although their exports have since recovered a little oversea sales are still much lower than their 1951 level. Only in the third category—'other manufactures'—is there any indication that the effects of 1952 have been shaken off and that by the end of this year their volume will be higher than the 1951 peak.

These broad trends relate, of course, to substantial volumes of goods and within each category there have been divergent movements. The table shows the values of exports within each of the categories for the first nine months of each of the past three years.

What is immediately noticeable from this table is the uneven contribution of the several export industries to the present precarious balance. In spite of the sharp decline in ships completed for export in 1953 (compared with an abnormally high level in 1951), and in spite of the severe restrictions on vehicle imports into the Dominions, the value of United Kingdom exports has been maintained almost entirely by the metal-making and metal-using industries. The drive of these industries has almost compensated for the dwindling export markets for textiles, and for the contraction in exports of many minor manufactures

Extracts from an article by Mark Abrams which presents four further tables in The Times Review of Industry, London, December 1953

VALUE OF UNITED KINGDOM EXPORTS, 1951-53
(£m.)

Products	1951	1952	1953	1953 as percentage of 1951
	First nine months			
I Non-ferrous metals and manufactures thereof...	53.5	60.6	66.8	125
Iron and steel and manufactures thereof	117.3	138.0	145.5	124
Machinery ...	263.5	316.4	300.6	114
Electrical goods ...	70.2	83.0	77.2	110
Vehicles ...	308.4	342.8	318.9	103
Cutlery, instruments ...	45.9	49.6	42.6	93
Ships ...	38.1	25.6	26.6	70
ALL METALS AND ENGINEERING PRODUCTS	896.9	1,016.0	978.2	109
II Miscellaneous textiles ...	28.9	27.5	22.8	79
Wool yarns and manufactures ...	141.4	91.8	102.6	73
Apparel ...	34.9	24.3	23.9	68
Rayon yarns and manufactures ...	48.6	31.4	33.4	68
Cotton yarns and manufactures ...	158.1	114.8	97.3	61
ALL TEXTILES AND CLOTHING ...	411.9	289.8	280.0	68
III Refined petroleum ...	18.0	36.1	52.9	294
Miscellaneous other manufactures ...	160.6	156.9	156.1	98
Pottery, glass, &c. ...	48.8	53.3	44.3	91
Chemicals, drugs ...	104.3	106.8	94.9	91
Paper, cardboard ...	29.0	31.4	23.7	82
ALL OTHER MANUFACTURES ...	360.7	384.5	371.9	103
All Manufactures ...	**1,669.5**	**1,689.4**	**1,630.1**	**98**

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—mainly consumer goods. Outside the metal group only one commodity has made substantial progress in oversea markets in recent years; exports of refined petroleum have almost trebled as the new domestic refineries have come into production.

The broad position then today is that the metal and engineering trades provide well over half the total exports by value and but for their expanding contribution the balance of trade would have deteriorated seriously since 1951. Never before in peacetime has Britain been so dependent upon the engineers; and, perhaps, never before have the textile trades made so small a relative contribution to exports.

Geographical Pattern

This recent re-alignment of commodities has, of course, coincided with a changed geographical pattern of exports. In 1951 the major Commonwealth markets, Australia, New Zealand, South Africa, India and Pakistan, took almost 30 per cent of all United Kingdom shipments; today that proportion has fallen to 22 per cent. In fact, between 1951 and 1953 the value of goods imported into these countries from Britain was reduced by almost one-quarter and the full consequences for the United Kingdom's economy of this rapid development were only averted by the equally prompt expansion of exports to other markets —notably the United States and Canada, the O.E.E.C. countries, and other parts of the Commonwealth.

How long the present pattern will last is uncertain. The incomes and, therefore, importing powers, of some of the raw material producers of the Commonwealth are still declining; the national income of the United States may decline; the larger Dominions may lift their import restrictions. *But whatever happens, it seems clear that the post-war economy of Britain must rest largely on ever-increasing efficiency in the metal and engineering industries.*

PRODUCTIVITY AND WAGES IN U.K.

From early 1948 to late 1950 average earnings in manufacturing were rising at about the same rate as productivity. Labour costs per unit of output were therefore fairly steady, and this undoubtedly helped to moderate the increase in retail and export prices in those years. Retail prices in fact rose by an average of only 3 per cent a year from October 1948 to October 1950 (despite a rise in import prices after devaluation), which was less than half the rate of increase in either the previous or the succeeding twelve months.

From October 1950, however, earnings followed the rise in prices, set off by the rise in import costs, while output per man did not: labour costs therefore rose, pushing prices up further. By January 1952 prices of exports (nine-tenths of which are manufactured goods) had risen by an average of 22 per cent and retail prices by an average of 15 per cent.

After January 1952, however, prices of manufactured goods benefitted from the fall in costs of imported raw materials, which began in mid-1951. In manufacturing, this reduction was enough, more or less, to outweigh the rise in labour costs which probably continued to the end of 1952: largely for this reason, in March this year retail prices of clothing were lower by an average of 4½ per cent than in January 1952, and prices of durable household goods were down by 2½ per cent. Export prices have been affected by increasing competition in world markets as well as by the movement in costs; in March they were 4 per cent below the peak reached in 1952.

In the six months up to September this year, labour costs have probably been fairly steady because the rise in wage rates was only about one per cent and productivity was going up again. Import prices of raw materials have fallen by an average of a further 7 per cent. These are two of the main reasons why the indices of export and retail prices were almost unchanged from March to September.

From Bulletin for Industry, H.M. Treasury (Information Division), London, November 1953

Verdicts of London and Cambridge Economic Service

ECONOMIC POSITION

At present the volume of our imports is about as high as in 1951, in spite of the high level of stockbuilding in that year, while we are exporting considerably less. A substantial part of the gain from the favourable movement in the terms of trade has thus been used to satisfy internal demands, rather than for improving the balance of payments. This result does not conform to the priority needed for increasing external reserves which our uncertain prospects demand.

BRITISH FINANCIAL POLICY, 1951-53 (F. W. Paish)

Besides the inflationary implications of the Government's financial operations, there are two other serious criticisms which can be levelled against its recent policy. The first of these is that not enough efforts have been made to raise the total of the country's savings. During the current year out of an increase of £600m. or so in real national income something like two-thirds seem to have been used for increasing personal consumption and half of the balance for increased house-building. If, say, £100m. of this could have been diverted to foreign investment, the balance of payments in 1953 would have been that much more favourable. To assume that if the use of resources at home had been £100m. less, the balance of payments would have been £100m. more favourable begs, of course, a number of questions. If no alternative use could have been found for the resources so released, output and employment would have been lower instead of foreign investment being higher. Indeed, it is very probable that some part of the resources so released would have found an alternative use only after some delay, and that output and employment would have been lower than in fact they are. On the other hand, there are strong reasons for believing both that some part of the lower consumption would have been at the expense of imports and that the greater difficulty of selling their products at home would have induced some producers to seek out markets oversea, and therefore that if the last two budgets had been rather less generous to consumers the balance of payments surplus would be larger than it is today and the international position of sterling less precarious. In particular, the taking up of the whole of the increase in the national income for internal purposes has made it difficult to meet any major increase in demand for exports by any country without reducing exports elsewhere. Thus the effect of a substantial increase in exports to Australia might well be at the expense of reduced exports to the dollar area.

The second criticism of the Government's policy is that it makes inadequate provision for a sustained high rate of private industrial fixed investment. There are grounds for believ-

From London and Cambridge Economic Bulletin, The Times Review of Industry, December 1953 ing that this is not only lower than it was four years ago but also not much more than adequate to maintain existing capital intact. At the moment the Government are stimulating such investment by fiscal incentives, but there are grounds for fearing that this, together with the rest of their policy, will produce an excessive strain on our balance of payments; indeed, it is only the fortunate improvement in the terms of trade which has prevented a serious position from arising already. The renewed use of monetary restriction as an instrument for correcting a continual tendency towards an unsatisfactory balance of payments would operate mainly in perpetuating and intensifying the inadequacy of private industrial investment. An ideal policy should aim, by stimulating total saving and avoiding inessential investment in the public sector, to provide an adequate margin of resources both for a sufficiently favourable balance of payments and for an increase of private industrial investment. So far the Government has done neither.

CHANGING FOOD MARKETS (J. R. Raeburn)

For consumers it seems probable that food supplies will be somewhat greater during the first year of freedom from rationing and that, although retail prices of meat, particularly beef, will be substantially higher than the present official maximum prices, retail prices of bacon and eggs will be lower. Prices of vegetables and fruit may also fall. The retail price of milk depends on decisions about subsidies and marketing which have not yet been revealed, but supplies will be more than ample. The proportion of personal income spent on food will probably be increased slightly.

NO SUBSTITUTES FOR COMPETITION

by Rt Hon. Peter Thorneycroft, M.P.

'But, struggle how we will', the President continued, 'the world will remain a hard one for the seller, and that is *your* job. When the last word has been said about man-made obstacles to trade, about the marginal advantages our competitors hold over us—and remember we sometimes hold marginal advantages over them—in the last resort there is only one thing left to do. We must get down to the hard job of competing.

'We have no prerogative right to any market inside or outside the Commonwealth. We won markets because our goods were better at the price than those which other countries provided. We will hold markets in no other way.

'I cannot over-emphasise the fact that governments, whatever their political persuasion, have no trick method of providing prosperity for a nation unwilling or unable to face the facts of its economic situation. Lost markets mean lost jobs, a lower standard of life, a rising cost of living. Moreover, the government which tries to spend its way out of that kind of unemployment problem will plunge us into ever-worsening disaster. The key lies in seeing that we lead the world in price, in quality and in delivery dates, and these must be backed by all the energy and imagination and salesmanship that we can muster.'

From Address to Incorporated Sales Managers' Association, London, November 5, 1953

Full Employment:

The Real Problems

by Sir Andrew McFadyean

In Beveridge's mind full employment meant more vacant jobs at any given moment than unemployed men. Some unemployment was inescapable, if only because of seasonal influences and technological change, and it was estimated that 3 per cent of unemployment, as opposed to the 10 per cent or over which had been tragically common between the wars, would be reasonable and bearable.

Even in 1944 many of us would have preferred a Nuffield College definition of full employment as 'a state of affairs in which the number of unfilled vacancies is not appreciably below the number of unemployed persons, so that unemployment at any time is due to the normal lag between a person losing one job and finding another'.

To put it even more simply, most of us would be content if we could have an assurance that we should never again have mass unemployment or conditions in which individuals not plainly unfit for work are unemployed for extended periods.

In 1953 we are certainly more inclined to question the desirability of more jobs than workers, for we have been through a laboratory test since the war.

We now know by experience what a wage spiral means and why Beveridge made the attainment of full employment as defined by himself dependent, firstly on a higher degree of discipline among workers and the capacity of management to meet new problems, and secondly on the formulation of some collective wage policy which would prevent one body of workers seeking a sectional advantage at the expense of all the others.

If I say anything which indicates that we should be prepared to face a degree of unemployment distinctly above the post-war figure to date, I am not overlooking the fact that the economic advantages of greater flexibility (and most importantly of that greater mobility of labour which is so much to be desired) are liable to be diminished, or even cancelled out, by the deep-rooted, almost atavistic, fear of unemployment; and that fear, which is so untrustworthy a counsellor, is in such circumstances liable to lead to demands for work-spreading which would seriously impair efficiency.

Sacrificing Rentier to Producer

The difficulties of this post-war period of full employment have suggested to some of our thinkers that its maintenance in fact requires repeated doses of mild inflation to prevent prices from falling, to create an illusion of high profits, and to stimulate industrial producers to greater activity.

A slow inflationary movement over long periods of time, the main effect of which is to destroy the value of savings long after the saver has disappeared from the economic scene, may have been a necessary part of the process of building up a modern industrial system. But the open and avowed pursuit of a policy of inflation to maintain full employment is

From Address, Institute of Personnel Management, Harrogate, November 1953 organised cheating and would, I suggest, defeat its own ends. The possibility of saving will be diminished by constantly rising prices; the willingness to save will be weakened by the knowledge that money is likely to lose some of its purchasing power and may be subjected, as the French franc has been, to a series of devaluations; that way lies social instability of the gravest character.

This question of saving is crucial. The maintenance of full employment in a free society on a high standard of living, depends on ability to produce what the consumer wants at a price which he is able and willing to pay.

It means, moreover, production at a profit. In a predominantly industrial country such as ours the ability to make profits and offer stable employment depends in turn on the maintenance and renewal of the fixed capital of industry, its factories and its machinery.

Capital Maintenance Difficulties

Machinery cannot be maintained, still less scrapped and replaced by new equipment—and the progress of invention and discovery is responsible for a very high rate of obsolescence—unless a proportion of the profits earned are regularly set aside for the purpose. Any prudent business amortises every scrap of its equipment well within its presumed lifetime by writing off depreciation and placing the necessary sums to reserve. It must be seriously asked whether we are making the necessary provision when a company pays well over half of its profits to the Exchequer by way of Income Tax and Profits Tax, and when the nominal profits on which it is taxed are to an important extent fictitious because the amount which can be deducted from gross profits and set off as depreciation takes no account of the real replacement cost.

Discouraging Thrift

Can we look to personal savings to provide any part of the capital required for new machinery for existing industries and also for investment in new undertakings? When 40 per cent of the national income is taken from those who produce it for the needs of central and local government the margin left for saving is insignificant. The 60 per cent remaining is so distributed today that the Chancellor of the Exchequer, if he decided that all the excess of individual incomes over £2,000 per annum should be handed over to his minions, would acquire less than an additional £100 millions per annum to play with. The great mass of nett income is in the hands of people who have not been used to saving—largely because in the past they had no opportunity. It would be unduly pessimistic to say that they will never learn to save.

There are, however, two dangers. The Welfare State, providing as it does so much uncovenanted benefit that the need to save has disappeared, obviously does not encourage thrift. And unless we can maintain full employment without inflation and the rise in prices which inflation entails, it will not be possible long to conceal from a reasonably intelligent population that what it saves steadily decreases in value, and that they would do better to consume more and save less. *These reflections suggest that full employment may actually be incompatible with that high standard of living which is connoted for us by the term Welfare State.*

If industry and individuals do not provide the capital required to maintain full employment, partly because they are not allowed to do so and partly because they are unready to take risks which may result at the worst in total loss and in the best at a small nett gain, the State will enforce the saving by taxing sufficiently to provide a budget surplus for investments in the railways, the coal mines and other state enterprises. In so far as the failure to save is due to the weight of taxation the remedy will obviously aggravate the disease, and the process of taxing savings out of existence and then reducing consumption by further taxation might well be what the Germans call cold socialisation. But what is surely clear is that if the State provides the capital the State will decide who is to produce and what is to be produced. That might—I don't think personally that it would—maintain full employment, but it would certainly not be in a free society, and very doubtfully on a high standard of living.

Prices must be competitive

So far I have understated the difficulty of our problem. We must not only produce at a profit what the consumer can and will buy. Since we have to import rather more than half our food and large amounts of raw materials, the consumer we must satisfy with a large part of our production is the foreign consumer. In selling abroad we are exposed to the fierce test of competition, from which for some twenty years we have tried to shelter ourselves. We must, in other words, produce not only what the consumer wants at a price which he can afford to pay; in some lines of production our price must be below the price at which foreigners can supply the market.

A whole series of morals can be drawn from the dire fact that if we are to be fully employed we have to earn by our exports not only what we require to import for our survival, but also what is necessary for the maintenance of our present standard of living.

Unless we take the financial measures which lie within our power to preserve the momentum of full employment we shall in due course be faced with a percentage of unemployment which will represent many less jobs than seekers for work. Even if we pursue the ideal policy there is no guarantee that we can maintain full employment in this country by our own unaided efforts.

Will anyone be able to say again, with sincerity and truth, 'we can conquer unemployment'? I take leave to doubt it.

In any case I am sure that if it reappears we shall not conquer it by the recipes which progressive people advocated in the period between the wars, and that because of one profound change in our circumstances. We were a creditor power and we are now a debtor one. At any time in the twenties or thirties we could have faced the risk involved in the stimulation of demand by careful doses of inflation; if the first effect had been to increase the demand for imports without a corresponding increase in exports we could have met the strain on the exchanges by selling some of our foreign assets—as we did, indeed, after the great depression without conquering unemployment. Today we have no foreign assets on balance to sell, and a relatively mild degree of inflation might lead to a further devaluation, lowering the gold value of our exports and to that extent facilitating them, but requiring us to export a larger quantity to pay for a given volume of imports.

Artificial reduction of imports, apart from the objection that it is an attempt to export unemployment, is in itself an inflationary measure unless there is a steep increase in production, since it diverts demand to the smaller volume of goods available in the home market, tends to drive up prices, further reduces competitive ability and incurs the risk of a wage spiral. It must, if the reduction is severe, within an uncertain time actually increase the volume of unemployment and lower the standard of living of a country so completely dependent on foreign trade as Great Britain.

A World Problem

There is a further and weightier reason why the maintenance of full employment in this country is not our own peculiar headache curable by our own pet prescription. We are constantly being alarmed, or at any rate alerted, by warnings that a relatively small depression, an almost insignificant recession of activity, in the United States has the most serious repercussion on our own industrial activity.

Since the possibility of unemployment arising from that cause undoubtedly exists it is merely prudent to take thought for that kind of a morrow, but I confess that I am extremely sceptical of the value of the policies which are usually advocated to conjure this hypothetical danger or to meet it, and especially of all designs for greater self-sufficiency within the Empire; they might mitigate, they would certainly not cure, unemployment.

It is my firm belief that the maintenance of full employment is a world problem. It is, if you will, primarily an American one, and we can have the satisfaction of commending to the world's great creditor power policies which we could have followed and did not follow when we were in their fortunate position.

Fortunately there are factors at work which make it extremely unlikely that an American depression, with its inevitable extension over the whole world, will be allowed to develop, even if and when the expenditure on arms is radically reduced. No American party, and therefore no American government, dare omit to take all the steps necessary to maintain a high level of activity. The technique of control, without detailed intervention, to stay deflation and check inflation, is nowadays well understood. In a world where half the population lives in or on the margin of poverty there can be no lack of openings for constructive investment if peace is re-established on a firm basis—and if it isn't the problem of transferring effort from swords to ploughshares is not likely to arise.

Distribution of U.S. Public-Services Costs

Between Federal and Local Authorities

BY GUY SIMS FITCH

MANY essential public services in the United States are supported by the governments of the forty-eight States and the thousands of local communities throughout the nation.

Public schools, highways, public housing, public health and sanitation facilities, police and fire protection are among services financed principally by state and local governments.

These state and local services relatively have been playing a more important part in the United States in recent years. Between 1942 and 1952 Federal spending almost doubled, as did the nation's total output of goods and services. But state and local expenditures tripled during this period.

The extent of these state and local expenditures—which are not part of the annual Budget of projected Federal spending—is stressed in a report by the U.S. Department of Commerce.

Two-fifths for Defence

The report shows that public spending in the United States by all levels of Government—Federal, state and local—totalled more than $101,000 million in the fiscal year ended June 30, 1952. This averaged about $646 for each American man, woman and child. About $40,000 million, or two-fifths, of this total went directly for national defence, a function of the Federal Government. The remainder was divided about equally between the Federal Government and the state and local governments.

Education, which cost a total of $9,600 million, was second only to defence in terms of public spending. The largest part of this expenditure—about $6,800 million—was borne by local governments for school construction and such current expenses as payment of teachers and purchasing of supplies.

Direct educational expenditures by the States came to $1,500 million, chiefly for the support of state universities and colleges. The Federal Government spent $1,300 million, primarily for ex-servicemen's educational benefits, and gave another $437 million to help support state and local programmes.

The Highways

Construction and maintenance of the nation's highways accounted for $4,700 million. Virtually this entire expenditure was borne by state and local governments. The Federal Government spent directly on highway programmes less than $100 million. It provided another $415 million to help finance state and local projects.

A total of $2,800 million was spent for public welfare, including such programmes as old age assistance and aid to the blind, disabled, and dependent children. Direct Federal welfare expenditure came to $42 million, although Federal participation through grants to the States provided another $100 million. With the American economy operating in high gear, general relief expenditures—wholly financed by state and local

(concluded opposite)

From U.S. News Service, Washington, November 11, 1953

U.S. PUBLIC-SERVICES COSTS (*continued from opposite page*)

sources—were negligible.

About 70 per cent of the $3,200 million spent for health and hospitals came from state and local governments. Police and fire protection cost the nation $1,700 million, of which $1,100 million came from state and local sources, mainly cities. Sanitation, including provision of sewerage facilities and disposal of rubbish, is almost exclusively a function of local governments. About $1,000 million was spent for this purpose. Local governments also accounted for $800 million of the $900 million spent for public housing and community development.

Rigid Markets Not Stable Markets

But the one condition is often confused with the other—in exchange rates and wage arguments, for instance

Easing demand in some industries has been accompanied by curious patterns of price behaviour in U.S.A.

Not only has there been an unusual mixture of advances and declines as between industries, but even within industries the prices quoted by different manufacturers have shown contradictions. Some prices have risen as sales volume shrank. In others there have been advances while production workers were being laid off. Some price rises have coincided with special sales to work off inventories. There have been increases in manufacturers' list prices along with large discounts in dealers' prices to consumers.

Wage Rigidity

Manufacturers attribute the anomalous price movements to the combination of relaxing demand and a continuing rise in labour costs. This explanation is supported by statistical evidence, which indicates that unit labour costs in manufacturing have risen rather sharply in the last two years, while prices of industrial products have scarcely held their own.

The same explanation may help to account for the peculiar price tendencies that have prevailed for two years or more. In general, prices of raw materials have declined. Wholesale prices of manufactured products have been comparatively stable. Prices to the consumer have continued to rise. In other words, products embodying large elements of labour costs have shown increasing price spreads as compared with commodities at farms, mines and factories—that is, at earlier stages of the productive and distributive process.

If this explanation is correct, the strange behaviour of prices may be a developing symptom of the failure of labour costs to adapt themselves to changes in market conditions. When demand weakens, producers naturally try to cushion the drop in sales volumes by reducing prices. Their ability to do this, however, is limited by their ability to reduce costs. By far the most important of all costs are labour costs. If labour costs remain rigid, needed price adjustments are prevented, and the balance between supply and demand must be restored by adjustments elsewhere.

These considerations raise a question of vital importance: *What will happen to prices, wages and employment in the event of a continued easing of demand? Will equilibrium be re-established by a decline in prices, stimulating demand and limiting supply? Or will adequate price reductions prove impossible, so that the whole burden of readjustment will fall on the supply side?*

To the extent that prices can be reduced and sales volumes maintained, production and employment will be maintained also. To the extent that rigid labour costs inhibit price adjustments, production and employment may have to absorb the impact.

From Guaranty Survey, New York, November 1953

Spokesmen for the Keynes school contend that the 'stabilisation' of wage rates by powerful labour organisations, minimum-wage laws, or any other device sustains purchasing power, thereby mitigating business recession and limiting unemployment.

Anyone with business experience who reads their writings must be struck by their insufficient appreciation of the position of the individual business enterprise, especially the relations among prices, costs and profits. The emphasis is primarily upon wages as a source of purchasing power—which, of course, they are. To the managers who make business decisions and create jobs, however, wages are primarily costs. No amount of purchasing power can give rise to production and employment so long as cost-price relationships make the maintenance or expansion of business operations unprofitable.

Rigidity is not Stability

Viewed in this way, the wage 'stability' extolled by the 'new' economists appears rather as a rigidity of labour costs. Stability implies a natural and unforced evenness of behaviour in free markets, due to absence of need for drastic readjustments. Rigidity denotes an arbitrary immobility enforced by political or strong non-political authority regardless of needed changes. Stability is a normal result of healthy economic conditions. Rigidity is a consequence of artificial controls designed to avoid the inconveniences or hardships of instability. Its effect is to shift the instability, and hence extend the controls, to another economic area.

Instability of wages, for example, obviously causes inconvenience and sometimes hardship to workers. To avoid these, organised labour has, with governmental aid, attained a strength that enables it to exert tremendous resistance to such instability—on the downward side, of course. Reason and experience suggest the possibility that the instability prevented by rigidity of wage rates may be shifted to employment, where the resulting inconvenience and hardship would be much greater. If this possibility should occur on a large scale, the Government would be under pressure to extend controls into new sectors of the economy, as the Roosevelt Administration did during the 1930's in trying to cope with mass unemployment.

Agriculture also Guilty

Labour is not the only field in which rigidities have come into the economy. Agriculture is another. In this case the need for one set of controls to accompany another is obvious to all but the most wishful thinkers. It has long been accepted by those who enact and administer the farm programme. Fixed supports of agricultural prices at high levels would be impracticable, in the long run, without effective control of output. Yet there are those who would abolish the present system and replace it with a simple prohibition of purchases and sales of farm products at less than 90 per cent of parity. The futile search for a device that will avoid the inconveniences and hardships resulting from price fluctuations and also those arising from output restrictions still goes on.

The general price control of wartime was another case in point, although its significance was largely obscured by the almost complete governmental domination of the economy that is characteristic of modern war. The most enlightening experience came after the war ended. Wage regulation was abolished, but price control was continued. As a result, industrial 'reconversion' lagged. Shortages persisted. Paralysing strikes tied up industry after industry. It became more and more difficult to hold prices within bounds. Despite official concessions to the mounting pressure, black markets became general. Finally, more than a year after the war, the hopeless task was given up, and price control ended. The shortages vanished.

Other Niggers in Woodpile

Rent control remained, however, and the housing shortage continued. Private enterprise was not interested in risking capital in dwellings affected by rent controls. So the Government went into the housing business on a large scale.

Artificially easy money during and after the war was another instance of rigidity. Higher interest rates would have been costly to the Federal Treasury. To avoid this inconvenience, rates were held down. The result is the fifty-cent dollar, which is immeasurably more costly to the Treasury, as well as to many private citizens who can ill afford it, than the higher interest rates would have been.

A type of rigidity that is still being practised in the name of stability is the attempt to hold exchange rates at artificial levels. The resulting disequilibrium in international payments has led countries to resort to a maze of trade and exchange restrictions. Eight years after the war, international trade is still in a strait-jacket, and full currency convertibility appears to be a distant prospect.

The common fault in these various forms of price fixing lies in the fact that rigidity is not stability and is not a substitute for it. Free markets have their disadvantages, but they also have their uses, and these uses are indispensable in free-enterprise economies. Enforcing rigidity upon a market does not avoid the inconveniences and hardships of instability. Instead, it causes the instability to break out elsewhere, usually at a more sensitive spot and in a more troublesome form. *Rigidity begets instability, and controls beget more controls. Enterprise cannot remain free unless markets are kept free.*

INDUSTRY'S SPLIT PERSONALITY *(continued from opposite page)*

finally to convince the workers that, whatever might be believed in theory, the motives actually driving industrial activity had not been harmonious with the interests of society as a whole. From that moment virtually every worker recognised in traditionally organised industry the very principle which had divided society in two: and longing to share in a common good, he resolved to make industry the very vessel in which society should be made whole.

I do not think the worker has yet been able to discover what he thinks are the goals, or should be the goals, of industrial enterprise. Only, I think, he feels that all the old concepts must be re-examined: the meaning and value of work, the significance of competition, the proper use of the machine, the value of mass production, the status of labour, the nature of contract, and so on.

Plato's view that human evils would never cease till kings were philosophers seems unpractical to many. Unpractical or not, our industrial ills will not cease, I think, until our managers are philosophers. And many of them are.

Industry's Split Personality

BY CHRISTOPHER SALMON

I HAVE become convinced that British industry is suffering from a split personality. The two partners in industry inhibit each other and feel frustrated.

What divides them is a fundamental difference of outlook and intention. Each approaches industry with a different view of it and a different view of its function in society. The result is a slight partial paralysis of the industrial body.

The workers' position has enormously changed. As a contracting party they are no longer without power. Behind them they have strong unions and government inspectors. No government will ever be allowed to let their wages fall below a decent minimum, or themselves to be asked to work in dangerous or inhuman conditions.

I do not mean that men and managers will not ever have other local issues to settle, and other frictions to polish away in the business of production. But I do mean that if it should happen, on any date, in any factory or plant, that all these should have been temporarily settled, this would be no guarantee that the fundamental rift had been healed, and that full-co-operation obtained between them.

This implies, first, that it would be unlikely that the split could be healed locally without its being healed at the same time throughout British industry, and, secondly, that it could not be healed anywhere by technically good management and technically good labour relations alone. I can think of no policy of wages, or bonus, or welfare, or amenities, or of nationalisation, or profit-sharing, or participation in management, which could heal the rift, though any or all of them might be very useful if they were recognised as a sign of an open mind.

Ideals at Variance

It seems to me that only one factor in the relation between men and managers is now immediately relevant to industry's psychosis, and this is the development between them of a belief in each other's readiness to inquire rationally into industry's social nature and function. The inquiry will have to be dispassionate. All sorts of loyalty and heartfelt bias underlie both the men's and the managers' attitudes. They have come from vastly different social backgrounds, and each, naturally, has wanted to apply to industry the values they learnt at home. The differences between the homes they have lived in and the society they have kept outside, have counted for far more than the ground they have shared during working hours in the factory. As so often, when differences are stubborn, it has been ideals much more than selfishness which has kept the two sides apart.

Need for Discussion

I do not know whether, before the depression of the 'thirties, it would still have been possible for the partners in British industry to bridge their differences gradually. The effect of mass unemployment was *(concluded on opposite page)*

 B.B.C. Third Programme, The Listener, London, November 26, 1953

Trade Union Facts (U.K. and U.S.A.)

THE following Table shows the total numbers of trade unions and their aggregate memberships at the end of each of the past 15 years:

Year	Number of Unions at end of Year	Membership at end of Year Total 000's
1938	1,024	6,053
1939	1,019	6,298
1940	1,004	6,613
1941	996	7,165
1942	991	7,867
1943	987	8,174
1944	963	8,087
1945	781*	7,875
1946	757	8,803
1947	734	9,145
1948	733	9,319
1949	724	9,274
1950	713	9,243
1951	709	9,481
1952	690	9,524

*The reduction in the number of unions at the end of 1945, as compared with 1944, was due partly to the amalgamation of the majority of the coal mining unions into the National Union of Mineworkers, while a large proportion of the remainder was due to constitutional changes in a group of associated organisations in the Civil Service, as a result of which they ceased to function independently of the parent organisation.

In the next Table the unions are grouped according to their total membership at the end of 1952:

Number of Members	Number of Unions	Total Membership
Under 100	131	7,000
100 and under 500	190	49,000
500 „ „ 1,000	70	51,000
1,000 „ „ 2,500	92	149,000
2,500 „ „ 5,000	76	268,000
5,000 „ „ 10,000	40	271,000
10,000 „ „ 15,000	20	241,000
15,000 „ „ 25,000	21	388,000
25,000 „ „ 50,000	17	606,000
50,000 „ „ 100,000	16	1,123,000
100,000 or more	17	6,371,000
Totals	690	9,524,000

In 1892 (the earliest year for which statistics are available) the total membership of trade unions was a little over 1½ million, and by 1910 it had reached a total of only 2½ million. The total increased, year by year, with a few exceptions, until 1920, when it reached nearly 8,350,000. Subsequently the total declined almost continuously until 1933, when it was just under 4,400,000. It began to rise again in 1934 and has continued to rise in most years since.

DETAILS OF UNIONS IN U.S.A.
(January 1952)

Number of Members	Number of Unions
Under 1,000	23
1,000 to 5,000	31
5,000 „ 10,000	23
10,000 „ 25,000	31
25,000 „ 50,000	32
50,000 „ 100,000	36
100,000 „ 200,000	17
200,000 „ 300,000	7
300,000 „ 400,000	7
400,000 „ 500,000	1
500,000 „ 1,000,000	4
1,000,000 „ 1,200,000	3
Totals	215

From Ministry of Labour Gazette, London, November 1953

Price Insurance for Farmers Won't Work

A CRITICISM OF COLIN CLARK'S PROPOSALS

BY G. R. ALLEN

MR COLIN CLARK's proposal, in the last *Westminster Bank Review* (*Economic Digest*, October 1953), that a scheme of price insurance might be adopted as the effective way of guaranteeing farm prices in, presumably, a free market economy, seems to me misconceived, for four reasons.

(1) The principles relating premiums to benefits in other forms of insurance could not be applied to price insurance. (2) The scheme as suggested does not pay sufficient regard to the problem of full employment. (3) The economic calculations which would have to replace the actuarial assessments of ordinary insurance would not provide a sufficiently accurate basis for price forecasting. (4) If price insurance were introduced, these weaknesses would necessitate Government underwriting and, because this is so, farm price fixing could not be removed from politics in the way suggested.

Two Essential Conditions

There are, presumably, two essential prerequisites for a successful insurance scheme: (1) the payments of benefits should be regular over time and fairly constant in amount; and (2) the fees necessary to give the desired cover should over the period for which insurance is desired be only a small part of the total capital sum involved.

The first condition would clearly not apply with price insurance, since the reason for major short-term variation in agricultural prices is a change in the general state of trade, influencing the demand for all primary produce simultaneously. This means, not only that a scheme which is to be self-financing would have to be favoured at the outset with a run of good years, but that the operators would have to feel confident that the time between any two successive payment periods would be sufficient for it to build up its funds. The example given later shows the financial implications of these needs.

It seems certain that, to meet these requirements in a way which would give confidence to farmers, reinsurance would be necessary, and the only agency large enough to provide the cover would be the Government.

The failure of the other prerequisite could strike still more seriously at the foundations. Anyone insuring his house against fire knows that, even if he continues to insure it for as much as fifty years, the total of the contributions will be small in relation to the capital value of the house. But in a price-insurance scheme the farmer would have to put into the kitty just as much as he expected to take out, because if payment became due to him it would also be due at the same time to all farmers who had taken out similar policies.

Some relief might come from farmers who chose to insure against price falls so great as are never likely to occur. Their contributions could be used to help keep down the premiums on the policies covering smaller price changes; but such

From Westminster Bank Review, London, November 1953 relief would not be substantial. The example given later suggests that not many farmers would subsidise the scheme in this way. Premiums would have to be so great for the moderate risk that they would deter farmers from insuring the extreme risks in addition.

For Example

A fair illustration of the cost involved could be based on the following assumptions, which are at least as reasonable as any others. Assume that in five years out of seven full employment and its associated price levels are maintained, but that, in the other two, prices (and so, the gross value of farm sales) are 10 per cent below the full-employment level. In the farming year 1952-53 the value of farm gross sales in Great Britain was some £1,200 million. Taking this as a measure of the full-employment gross value, each farmer requiring protection against a 10 per cent price fall would have to contribute on the average over £160 a year in the five good years. (There are about 290,000 farmers.)

Mr. Clark might say I have greatly exaggerated the difficulty since his proposal was to offer insurance against prices falling below an agreed minimum. Here the minimum suggested is the level of prices which operates at full employment, whereas Mr. Clark clearly has a lower level in mind. He would further contend that even if the ceiling prices are taken as the norm, only insurance against an excessive (undefined) fall in prices is required. But it is doubtful whether the farmer only wants protection against large price falls. (This is the fundamental assumption of Mr. Clark's proposals.) Since most of his costs, including rent today, are very inflexible and have to be incurred well ahead of his sales, even a small price fall can deflate his net income considerably.

With costs incurred on the average some twelve months before receipts, an average price fall of 5 per cent during the year would mean, on the basis of present expenses and revenues, a fall in farmers' net incomes before tax of almost 20 per cent. If no guarantee is given against these (presumably) less excessive price changes, it is unlikely that the farmer would grin and bear it. The ways in which a British farmer reacts to price uncertainty in a free market have never been set out in detail, but the general consequences seem clear enough, such as diversification pushed to an uneconomic degree, an unwillingness to undertake long-term investment, and a preference for quickly maturing investment (a bird in the hand!), and generally an undesirable degree of dog and stick methods. All of which tends to keep up the price of food more than necessary in the long run.

Employment policy requirements support the present interpretation of the price guarantees needed. Perhaps the chief reason why economists advocate the support of primary produce prices is to help in maintaining purchasing power. The tendency to instability is real enough and it is therefore desirable to have all possible means of controlling the chain reaction of collapsing purchasing power made familiar to us through the Keynesian economics. Mr. Clark's proposals would, apparently, leave a margin within which prices, and so farmers' purchasing power, could fall without there being any compensating pump priming. In addition, the *full* effect of *any* collapse in purchasing power would be transmitted by those farmers who were not in the scheme.

No Actuarial Basis

The next objection is that the scheme as suggested gives insufficient emphasis to the very shaky foundations of any assessment concerning the future of agricultural markets. The actuarial assessment of life, fire, or even ship, insurance would be an infinitely easier task than deciding the most likely level of prices, for periods as short as two or three years or as great as twenty. (The proposal is that there should be policies available covering up to twenty years.)

The evidence and the methods of handling it do not exist to give sufficient confidence in the reliability of the estimates to be used. The actuary would have to become a crystal-gazer and in the misty depths of his glass orb he will find few auspicious estimates from the economist.

Bringing the problem more within agricultural boundaries, the first difficulty is that there does not exist any well developed or widely accepted theory of the working of a free price system within agriculture, so that statistical information cannot be tempered with the power of interpretation which only good theory can give. Thus, it is by no means certain whether agricultural production tends to expand gradually or whether it is subject to sudden spurts—longish periods of gestation, as it were, followed by sudden and substantial fruition.

Further, statistical analysis will probably be as shaky as the interpretation of it. Agriculture in this and most other countries has been subject to physical controls for so long, and in the meantime technical changes have been so many, that there would be real difficulty in determining likely relationships between price changes and consequent supply changes.

Similar arguments would apply, although not so damagingly, on the demand side. One might add here that the American Bureau of Agriculture has been able to devote many resources to price forecasting, including highly trained specialist workers (the technology of agricultural price analysis being very much more developed in United States universities than over here), yet a recent study has shown that its forecasts have often been wrong, sometimes very wrong.

The thought of the committee of a farmers' co-op, and the management it would employ, dealing with all these fascinating uncertainties can be left with the reader.

In search of a final example, one turns to the experience of the Canadian co-operative grain pools of the 1920's. The extent of their failure was undoubtedly the result of the co-ops' inability to foresee the future or to face the unpleasant conclusions of their analysis if they did. As in their case, Government intervention seems a *sine qua non* of the insurance scheme.

Real Issue in Agriculture

The real issue of agricultural policy today is not economic. There is no doubt that in the long run short-term price stability will provide a more efficient home agriculture than would otherwise be the case. The issue is at what level should this price steadying be done—at most probable long-term world prices, or somewhere above this? Price insurance proposals do not avoid this clash of interest.

Once it is settled, there seem to be perfectly satisfactory existing methods of stabilising farm prices (buffer stocks and minimum support prices) which would technically be on much safer ground than price insurance. Thus, the possible objection to the recently announced deficiency payment for cereals is not the technique of support, but whether the support price per cwt should be as high as 30s. 9d. for wheat, 25s. 6d. for barley and 24s. for oats.

FARM MECHANISATION

(1) In Sweden

According to recent statistics released by the Swedish Farmers' Union it is estimated that machinery has now supplanted the work performed by 125,000 farm employees who have left that occupation for other trades since 1939.

A sum of Kr. 300 million ($60 million) is invested annually in agricultural machinery. The quality and yield of the produce have also increased considerably. In fifty years the yield of milk per animal has doubled, and an average cow now gives 3,000 quarts per annum.

Of the 200,000 dairy farms, about 62 per cent are equipped with milking machinery. Swedish milking machinery is also exported on a large scale. This aid to farm work is important because the farmer's worst difficulty nowadays is finding female help.

Sweden is entirely self-supporting in agricultural produce, and has 12.5 million acres for grazing and tillage, producing 10 million tons of goods worth Kr. 4,000 million ($800 million) annually.

From Swedish Press Bureau, Stockholm, November 14, 1953

(2) In Germany

The speed with which the rehabilitation of industry has been carried out in Western Germany has had its counterpart in the marked extension of the mechanisation of agriculture in the past few years. The number of farm tractors has risen by 60,000-70,000 units annually since 1950 to reach the present figure of about 300,000. Most of the tractors are diesel-engined, and mostly designed for use on the small and medium-sized holdings which now prevail in Western Germany.

On an average, there is now one tractor in use for every 67 acres of arable land in Western Germany. In the U.K., which has the most highly mechanised agriculture in the world, there were last year 367,000 tractors in use, or about one for every 50 acres. On this basis, Germany would seem to be approaching the U.K. standard, but tractors in the U.K., on average, have more horse-power.

Virtually all farm tractors used in Western Germany are locally produced. With an output of nearly 100,000 units last year and about 90,000 this year, Western Germany now takes third place among the free world's tractor producing countries, ranking after the U.S.A. and the U.K. Though export of tractors is still relatively small, she is now exporting at a rate of about 20,000 units a year, chiefly to Western European countries and to Argentina.

The authorities of the Soviet Zone claim that in their part of Germany the number of farm tractors has increased from 12,000 in 1951 to 21,500 today. The latter figure means that there is one unit for every 600 acres of arable land, and the density of tractors (numbers in relation to the land) is therefore now only about one-tenth of what it is in the Federal Republic.

From Petroleum Press Service, London, November 1953

Trend towards larger Farm Units in U.S.A.

BY J. H. CARMICHAL

The traditional family-type farm is disappearing rapidly and is being replaced by large-scale and highly mechanised projects.

In the last twenty years, an estimated 1,000,000 farm units have disappeared and the farm population has shrunk by nearly 6,000,000 or roughly 20 per cent.

Farms containing 1,000 acres or more have increased about 80 per cent and those from 500 to 1,000 about 40 per cent.

As a result of the absorption of smaller farms, the large-scale operators, many of them owned by corporations, now produce the bulk of the nation's farm commodities. *Virtually assured of a profit because of Government price-supports, many actually are producing for Government loans instead of for the market.*

Census Data

The 1950 census gave a rather realistic picture of the industry. In 1949, there were 5,379,250 farm units in the United States. Of these 3,706,412 were listed as commercial farms or farms which derived their income from the sale of crops.

The total value of products sold that year from all farms amounted to $22,279 million, or an average of $4,440 from each farm. Sales by commercial farms amounted to $21,713 million, or an average of $5,853 a farm.

After deduction of expenses from the gross, the average left was pretty low for the bulk of the small operators, constituting only a bare living in what was termed a 'good farming year'. However, when you look at the income of those in the large-scale operating group, the picture is entirely different.

In 1949, among those averaging $25,000 or more, over-all sales were $5,707 million, or 26 per cent of sales that year from all farms. There were 103,231 farms in the group, or only 1.9 per cent of all farms. Their gross sales were $56,058 for each farm.

The next group, $10,000 to $24,999, sold products having a value of $5,517 million, or 24.8 per cent of the total. In that group there were 381,151 farms, or 7.1 per cent of total farm units. Gross sales for each farm in the group averaged $14,475.

In the four years since 1949, this trend to large-scale farming has continued. However, in 1949, 484,432 farms produced 50.8 per cent of the value of all products sold from the nation's farms. In other words, 9 per cent of American farms realised more from their farm crops than the entire remaining 91 per cent.

From New York Times, November 15, 1953

OVER $3,500 MILLION SUNK IN U.S. FARM PRICE SUPPORTS

The United States has more than three and a half thousand million dollars invested in the U.S. farm price support programme.

The Department of Agriculture says the net realised loss under the price support programme for the year ending June 30 was $61,146,000.

Of the total investment, the Commodity Credit Corporation reports it has loans outstanding valued at nearly $1,200 million, and inventories acquired under loan, purchase agreements and direct purchase operations valued at about $2,375 million.

From World Farm News, Washington, November 1953

Motor Vehicles in American Life

THE motor vehicle has attained in the U.S.A. a social and economic importance far beyond that which it has reached anywhere else.

With about 55 million civilian vehicles registered, the U.S.A. has about three-quarters of the world's cars and nearly half the world's commercial vehicles, an average of one vehicle for every three persons, and one car for every four persons. For Western Europe as a whole, the figure is 1 vehicle for every 25 persons.

In the U.S.A. the average size of motor cars is much larger than elsewhere and the consumption of gasoline and lubricants per mile is correspondingly higher. On average, a motor vehicle in the U.S.A. consumes about 780 U.S. gallons of gasoline a year, or over two U.S. gallons daily. Gasoline and lubricants represent by far the largest item of car expenditure by car owners, accounting for over 50 per cent of total running expenses. U.S. gasoline consumption represents about 75 per cent of the whole of the free world's gasoline demands.

But the motor vehicle is also a dominant item in U.S. economic life as a whole. It is estimated that 9.5 million people—one out of seven employed in the U.S.A.—earn their living in connection with the motor vehicle—as drivers, garage men, motor industry workers, road workers, etc. According to the U.S. Department of Commerce, Americans last year spent about $19,000 million on the purchase and operation of private cars, being 8.7 per cent of total expenditure incurred on all forms of personal consumption ($218,130 million).

Personal expenditure on all other forms of transport inside the U.S.A. is computed at $3,550 million. The figure of expenditure on cars is higher than expenditure on clothing, four times the total spent on household utilities—gas, water and electricity—60 per cent more than is spent on all forms of recreation and entertainment. It is equivalent to about $4,400 per vehicle, and is made up as follows:

	Total $ *million*	*Average per Vehicle* $
Purchase of cars ...	8,342	1,910
Gasoline and oil ...	5,887	1,360
Tyres, tubes, parts and accessories	2,072	480
Repair, greasing, washing, parking, storage and rental	1,770	410
Insurance	788	182
Road tolls, etc.	100	23
	18,959	4,365

According to *Automobile Facts and Figures*, recently published by the U.S. Automobile Manufacturers' Association, 3.6 million new cars were sold in 1952, and as many as 7.9 million old cars changed hands. (Both these figures exclude sales to businesses and public bodies.)

Credit Purchase

Purchases of both new and second-hand cars are greatly facilitated by the availability of credit, chiefly through commercial banks and sales finance companies. In 1952, 57 per cent of all purchases of new passenger cars, and 65 per cent of the purchases of second-hand cars were financed in this way, and the total amount of automobile instalment credit outstanding reached $8,110 million at the end of 1952 and is likely to be now over $10,000 million.

From Petroleum Press Service, London, November 1953

THE FANTASTIC STORY OF
U.K. Housing Subsidies

BY F. J. OSBORN

(Chairman of Executive Town and Country Planning Association)

OUR housing subsidy scales are so arranged that they give most encouragement to just the sort of dwellings people want least, and just the sort that cost most, in just the places that are naturally most disadvantageous.

They incite, almost compel, the house-providing agencies to prefer situations and types that give the least value in floor-space and curtilage-space for the money.

The importance of this for planning is that, while it is accepted national policy to thin out crowded urban places, the subsidy scales actually tend to counteract the spontaneous tendencies of city centres to thin themselves out in a crude and ruthless way, instead of easing and humanising those tendencies.

When a city grows very large and its centre therefore becomes congested, people and firms find the centre unpleasant and inconvenient. They seek more open places, and by so doing tend to create depressed and even derelict central districts, which process, if it went on, would reduce land values to a point where in time it might be economically possible to rebuild, at lower density, lettable or saleable properties. There are reasons why (as we see dramatically in American cities) this doesn't happen quickly enough or pleasantly enough to satisfy anybody.

Therefore, planning and public housing have to take a hand. But surely housing subsidy policy, as well as planning policy, ought to support rather than weaken any economic forces making for a desirable thinning out of congested centres. It is indefensible to pour in money from the taxes to keep up densities that blind economic forces are tending to reduce, and artificially to maintain values that would otherwise inevitably fall.

It seems to me that that is exactly what the flats subsidy and the expensive-site scales are doing.

The whole economic justification for high and close building, everywhere in the world, has hitherto been that high land values compelled it, and over-rode its social undesirability and business inconvenience.

London Anomalies

But consider the actual situation in a city like London today. A site is acquired at public cost at a price of say £12,000 an acre. If the public authority just keeps the site without building on it, the cost over a period of sixty years will be, in round figures, £550 a year. That is a dead loss. If you build ten houses on the land, the loss is increased (at obtainable rents) to about £900 a year per acre. If you build twenty, it goes up further to £1,250 a year. But if you build forty flats on it, the dead loss is increased to about £4,430 a year per acre. Capitalised, the loss is now £80,000 instead of £12,000. The more building on the site, the greater is the loss.

What the 'natural' market value is

From Address, T. and C. Planning Association, London, November 1953 for housing purposes of a city site, when the loss in using it rises with the amount of building you place on it, would be an interesting subject for research. On the face of it the value should be a minus quantity if public authorities backed by subsidies were not in the market.

But I do not produce this argument to deprive honest owners of the value they have come to expect and may have paid to former owners. Let us, if you like, go on buying land at what is regarded as its 'market' price. What I wish to point out is the complete insanity of throwing into the sump further vast losses in order to comply with a theory of the relationship of land cost to building cost that, in respect of subsidised housing, is extinct.

Expensive-Site Subsidy

The expensive-sites subsidy, as it is now framed, is socially and economically regressive. It has developed through a long-continued absence of mind on the part of Ministries, the Exchequer, and the municipal corporations from a small and plausible beginning in 1936 to the fantastic absurdity of the 1952 scale.

I do not know if there is validity in the land prices now customary for city housing. If there is, the expensive-site element in the 1952 scale must be retained, to make building in cities possible at all. I can see no justification, however, for the additional element in the scale that differentiates between subsidies on flats as such and on houses as such—to the extent of £1,000 a dwelling. The same subsidy should be available for either. The choice could then be made on the merits of dwelling types in relation to their building cost. It would be more economical, for the state and local authorities, to build dwellings in cities at twenty an acre than at forty or sixty an acre, and a socially decent planning and housing policy would be possible.

Cost per Person Housed

The second great defect in our subsidy scales is that the subsidy is related to the housing unit, and not to the accommodation the house provides. This also is regressive, and is an appreciable factor in the present pressure to lower the floor area of dwellings.

The cost per person housed (at one person a habitable room) rises as the number of rooms is reduced. A representative figure for current costs of two-storey houses is £400 a person for a three-bedroom non-parlour house, £450 a person for a two-bedroom house and £560 a person for a one-bedroom flat in a two-storey terrace. (These figures vary for different towns, but the shape of the curve is always the same.)

It is not so well known that the standard subsidy (capitalised at £769) rises even more steeply, per person housed, as the accommodation is reduced. For a three-bedroom house with four persons it is £192 a person, for a two-bedroom house (three persons) £256 a person, and for one bedroom (two persons) £384 a person.

In a representative case, the net (subsidised) rent, as a percentage of total capital cost, falls from about 3.63 per cent for a three-bedroom house to 2.93 per cent for the one bedroom dwelling in a two-storey terrace.

Still more startling anomalies appear when you compare the subsidy per person housed in two-room lift flats with the cost in four-room houses. For two persons in a two-room flat the subsidy may be over

£1,000 a head, as against £192 a head in a four-roomed house.

This particular defect in the scales did not matter so much from a planning point of view while the authorities were manfully trying to maintain the standards of floor-space recommended in the Dudley Report as a result of inter-war experience. It is becoming seriously damaging to our housing and planning standards, and giving us worse and worse value for money, now that it is a set policy to maximise the number of housing units and to reduce average floor-space per unit. Whatever the merits of that policy, it ought to be accompanied by a revision of the subsidy scales to avoid a grave distortion of our constructional effort and an increasingly uneconomic use of money derived from taxes and rates.

SCALE OF HOUSING SUBSIDIES
England and Wales, Housing Act 1952
(*as at September* 1953)

Houses, urban:	State £26 14 0	Local Authority £8 18 0 *p.a.*
	Capitalised value	£769(A)
Houses, agricultural:	State £35 14 0	Local Authority £5 0 0 *p.a.*
	Capitalised value	£879
Flats with lifts on land at		
£1,500-4,000 an acre:	State £63 6 0	Local Authority £22 17 0 *p.a.*
	Capitalised value	£1860
£10,000-12,000:	State £71 8 0	Local Authority £25 11 0 *p.a.*
	Capitalised value	£2094 (B)
£28,000-30,000:	State £88 19 0	Local Authority £31 8 0 *p.a.*
	Capitalised value	£2600

NOTES ON THE SUBSIDIES

For London Region and County it is fair to contrast (A) and (B). Extra *site* cost of flat as against house is about £75 (houses at 12 and flats at 35 an acre). Extra *building* cost of flat of four rooms probably about £1,100. Extra capitalised subsidy is (£2,094 minus £769) £1,325. (Part of excess subsidy is to cover running cost of lifts.)

The Flats Subsidy is graduated for different prices of land so as to equate the site cost at 35 flats an acre. Where flats are built in excess of forty an acre the subsidy is proportionately reduced.

A four-roomed house in a new town costs to build about £1,500, including fees, plus site and development £250. Rents of flats and houses are much the same, though flats are commonly of smaller floor areas than houses. To account for the subsidy scale, flats must cost about £2,600 (£1,100 more than houses).

Every 10,000 dwellings built in multi-storey flats on £10-12,000 land will cost in subsidies £13,250,000 *more* than 10,000 normal houses in new towns and expanded towns. About 35,000 people would be housed in either case.

It is possible that in some cases the unremunerative capital expenditure in establishing a new town may run into £2 or £3 millions, to provide homes and work places for 40,000 to 80,000 people. This alarms public opinion, but it is far less than the subsidy loss on multi-storey flats.

Impacts on Social Structure of Planned Development

BY BERT F. HOSELITZ

AN IMPORTANT problem in the theory of economic growth is to determine the mechanisms by which the social structure of an underdeveloped country becomes altered and takes on the features which characterise an economically advanced country.

The developments of capitalist economies in western Europe were unplanned autonomous movements, whereas the current efforts to induce economic growth are consciously initiated and, as far as possible, carefully planned, at least in their economic aspects.

The fundamental difference in developing a theory for past and for present economic growth is that the former process is an overall social process in which, *a priori* no causal primacy can be assigned to any one, or any one set, of variables. As concerns present instances of economic development, it is quite proper to regard such factors as accumulation of (or mobilisation of accumulated) capital, planned introduction of new skills and new work techniques as the primary variables, and to regard adjustments in the social structure as positive, negative or neutral 'responses' to these 'stimuli'.

In other words, the governments of underdeveloped countries are resolved to plan for economic development and to carry out these plans to the extent of their abilities. The impact of social and cultural factors consists thus in determining how easily and smoothly the objectives of a development plan can be attained, and at what costs.

An example of the operation of the principle of self-orientation with regard to economic values will make this perhaps clearer. To the extent to which an *élite* in an underdeveloped country operates under the impact of this principle it will distort a developmental plan for its own economic ends. Thus, in a country which is dependent in its international accounts on the exportation of one or two key commodities, instead of greater diversification of production, technological improvement of the traditional cash crops will be envisaged as the main objective of the plan.

In the short run this procedure may lead to a maximisation of average gross income, but in the long run it may frustrate a genuine process of autonomous growth. Instead of a loosening of social barriers and an increase of social mobility, we may witness a hardening of the social structure.

The economic history of the Roman Empire from the early third century on is an example of how the mutual strengthening of these principles led, in the course of a little over two centuries, to a stagnating economy which became the easy prey of the invading barbarians.

Thus, apart from the case of autonomous, unplanned economic growth exemplified by western European capitalism, in which cultural and social-structural variables may be assumed to have created the conditions for economic change, whenever economic change is planned, the social structure and the culture impose modifications of and sometimes barriers to the process of economic change.

Condensed from Social Structure and Economic Growth, Economia Internazionale, Genoa, August 1953

Inescapable Changes

A full theory of economic growth, as it applies to the transition of 'underdeveloped' countries to a stage of 'advancement', must therefore include propositions regarding the mechanisms affecting change in the pattern variables. Some indications of this process and the institutions primarily affected have been suggested by Marion Levy.* Professor Levy stresses three variables, two of which are clearly non-economic, which undergo change when a society passes from a traditional, or relatively non-industralised, stage to one of high industrialisation. He singles out, as a minimum, changes in the patterns of family organisation, of production units, and of location of authority and responsibility.

Change in the pattern of production units means simply that owing to technological changes or to alterations in the form and quantity of capital employed in the production process, a trend towards economic growth has become possible. It does not mean that such a trend is a necessary result, since noticeable changes in the production functions of one or several branches of production may take place without influencing significantly total output.

A change in the pattern of family organisation accompanies all really far-reaching economic growths. Its presence in the transition from a non-industrialised to an industrialised society is obvious. It may even be argued that the abolition of certain aspects of the traditional joint family is necessary, because with them the demands of the new economic order could not be adequately met.

However, a change in the pattern of family organisation, though necessary, is by itself not a sufficient factor to stimulate economic growth. The dissolution of traditional patterns of family organisation may result simply in deep-going social disorganisation, the creation of non-productive 'marginal' individuals who cannot make a creative adjustment, but suffer frustration or become criminals, gangsters or mentally maladjusted.

Thus, of Professor Levy's three changing variables, the pattern of production units is a necessary technical aspect of economic change in any form (and hence not an independent variable but rather a concept describing a system of functionally related economic variables affecting the level of output). And the pattern of family organisation is clearly a dependent variable which changes as a consequence of alterations in the economic structure of a society.

Shifts of Power

It is different with changes in the allocation of authority and responsibility. But stipulating changes in the pattern of authority and responsibility is only another way of saying that in order to have economic development we must have a change in the relative preponderance of different social classes. This change has occurred historically in western Europe and the theorists of capitalism agree that with the rise of capitalist production a new class or group of men—call them bourgeois,

*See Marion J. Levy, *Some Sources of the Vulnerability of the Structures of Relatively Non-Industrialised Societies to those of Highly Industrialised Societies*, in Bert F. Hoselitz, ed., *The Progress of Underdeveloped Countries*, pp. 114-125. Chicago: 1952.

or entrepreneurs, or business men—first attained positions of leadership in the economy and later also in the political and other *élites*.

The following hypothetical propositions may be made for countries which are now in the most crucial phase of their economic development.

The major impetus to alter the structural pattern variables is likely to come from the plans for economic advancement already drawn up and partially in action. The very needs of economic advancement must bring about a gradual replacement of ascription as a standard by achievement, and associated with this a replacement of functional diffuseness by functional specificity and particularism by universalism. The gradual dissolution of the caste system in Indian factories is an examples of this process.

Lessons from U.S.S.R.

A more elaborate example is provided by experience of plans for economic development in the Soviet Union. Beginning with the period of five-year plans, a process involving rapid economic growth was initiated. The magnitude of the task called for swift adjustment in personal behaviour of large masses of men to new standards, and hence threatened to cause serious social disorganisation.

Rather than abandon the plan, the Soviet leaders attempted to cope with socially disruptive processes by the introduction of an increasingly severe system of authoritarian controls, and, at the same time increased emphasis on achievement as a ladder of ascent and approval. The most extreme forms of wage incentive systems, *stakhanovism*, and other forms of 'Socialist competition' were adopted.

Those who could not or did not want to conform were purged or coerced; to those who were ready to conform, high rewards for achievement were held out. Moreover the considerable differences in remuneration arising from the various forms of implementing 'socialist competition' as well as the means of enforcement, gave a strong inducement to the development and increasingly sharp categorisation of functionally specific roles. This in turn favoured the strengthening of universalism as a principle for the recruitment of personnel, although the principle applied only to those who conformed, or at least were neutral.

* * *

Since there seems to be plenty of empirical evidence that, in presently underdeveloped countries, economic leadership is concentrated among a group of people who also control political power, a reallocation of patterns of responsibility and authority demands a shift of political power from the present political *élite*, so as to provide the new economic leadership with social influence and power. Always it is likely that the members of the new *élite* will have occupied positions of ethnic, linguistic, or social marginality in the old society.

Partial confirmation for these two hypotheses must again be sought in history, as well as contemporary events. The social convulsion accompanying the transition from pre-capitalist to capitalist economic organisation would, if studied in detail, provide evidence. The economic development of Japan, the Soviet Union, or Turkey, as well as the meaning of present-day social instability in many parts of Asia and Latin America, might yield further evidence.

Rapid Population Growth—

'The Bete-Noire of Economic Development'

BY S. W. ANDERSON (*U.S. Department of Commerce*)

GROWTH of population is the *bête noire* of economic development, the tide against which all efforts for progress must swim.

India's rate of annual growth of 1.2 per cent is much lower than in many countries, but it nevertheless represents over five million new mouths every year. To maintain the present per capita consumption of food grains (and the calory consumption per capita is only just over half that of the United States), an extra 7.2 million tons of grain must be available by 1956 and of course much more if the diet is to be improved.

India's Capital Needs

In the United States $4,000 to $5,000 of capital investment is needed to provide the requisite goods and services for one new consumer at the present per capita level of consumption; this figure would be much lower for India but still substantial, say $300. At the present rate of population growth India would need $1,500 million of capital investment per annum on this basis. The five-year plan provides for the annual investment of only $860 million; the Planning Commission estimate that in 1950 total capital generation excluding outside assistance was only $900 million. This suggests that India may be unable even to hold her own against the tide, unless a very considerable part of the projected increase in national income is saved in the form of new capital. Furthermore, if progress is made, the necessary capital investment per new consumer needed to maintain the prevailing standard is likely to rise quite sharply.

True capital is only born out of the diversion of goods and services from consumption to investment. In many parts of the world where the urge for development is particularly strong, governments have yielded to the temptation to use credit as a substitute for capital; this has invariably caused inflationary spirals, an involuntary form of taxation falling most heavily on the masses and leading to deteriorating living conditions which invite the desperate remedy of communism.

Imported capital is an alternative source of finance for development. If it is in the form of capital goods for installation of facilities designed to raise the level of production, and succeeds in its object, it may save imports or increase exports and will not be inflationary; but if it is converted into local currency and spent on labour and local materials, even for worthwhile projects, there may be a tendency to initiate an inflationary trend.

Cost of Importing Capital

In any case, capital imports have an inevitable effect on the future demands for foreign exchange to render service on the loans or on the equity investments: these forces must be calculated with care, if the international credit standing of the country is not to be seriously impaired. For countries which have

From Foreign Commerce Weekly, Washington, October 12, 1953

only recently embarked on programmes of economic development the capacity to attract foreign capital, public or private, is clearly limited and considerably below their needs, even if the dangers can be avoided. It would be unreasonable to expect grants-in-aid, a form of capital import which imposes no burden for the future, to continue indefinitely, and they are satisfactory to neither the giver nor the receiver; furthermore, it must be recognised that capital is short everywhere.

If, then, most of the capital required must be generated at home, considerable restraint and austerity, a careful selection of projects and some measure of direction will be necessary. The speedier introduction of schemes to encourage and mobilise local capital generation—modern-type savings banks, life insurance companies, government savings bond schemes, and the creation of an open capital market—is much more important than is generally realised; spectacular successes have been achieved in this field in Brazil and El Salvador.

Will the strength of the tide abate? Experience tells us that the rate of population increase declines as standards of living rise, once a certain point has been passed, but it seems unlikely that this point will be reached for a long time in any Far Eastern country, with the exception of Japan. On the basis of Western experience, India faces a period of very rapid growth.

Luckily most of the governments of the Far East are becoming increasingly aware of the impact of potential population increases on their development plans; this applies in particular to India where vigorous research is being made into ways out of the Malthusian dilemma.

INDIA'S ALARMING CENSUS FIGURES

THE Indian Government's report on the 1951 census calls for every possible step to encourage limiting families to three children.

At present between 40 and 45 per cent of recorded births are to couples who already have three or more offspring. At this rate, according to the Census Commissioner's findings, India's valiant efforts to feed herself will be bound to acknowledge failure by 1969, when the population will have reached about 450 million. At present it is approximately 357 million.

The Census Commissioner calculates that limits on the capacity of the land will hold agricultural productivity to a maximum increase of one-third over the present level, whereas an increase by one-half would be needed to cope with population growth.

He dismisses the possibility that industrialisation might provide an answer by enabling India to purchase abroad. Accepting the questionable premise that India might ever achieve such a high degree of industrial development, he thinks it fallacious to suppose that the food-exporting countries can increase productivity at a rate faster than that of their own population growth and still match increasing deficits elsewhere.

He proposes stepping up the present rural development programme to aim at an annual output of 94 million tons of all agricultural produce in fifteen years, against about 70 million tons today. He advocates population control aimed at reducing the incidence of births in excess of three per family to something under 5 per cent in the same period.

In the last decade India's birth-rate has dropped six points to 27.2 per thousand and the death rate from 23 per thousand to 19.4. Life expectancy at birth has risen from 26 years and 11 months to 32 years and 5 months. The population continues to gain despite appalling infant mortality figures—nearly half of all recorded deaths are estimated to strike children under 5.

From New Delhi, November 12, 1953

Many A Mickle . . .

Surprising Cost of Marginal Overweights in Large-Scale Trade

BY D. J. DESMOND

ERRORS in measurement are well known to those engaged in large-scale trade.

It is usual to give a definite amount of 'overweight' to avoid the possibility of underweight which would be an offence if it occurred in any single instance. The amount of overweight is usually determined subjectively, and it is in the objective estimation of the minimum overweight that the industrial statistician can make his contribution. Some examples will be given to illustrate this aspect.

Screws in Cartons

The simplest example relates to the packing of a number of similar articles in cartons. Screws are usually packed in cartons each of which contains one gross. This was done automatically by weighing and it was believed that nearly every carton contained 144 and that, on rare occasions, a carton would contain 145. Check counts were made on a number of samples from a few factories and the distribution of numbers was computed. This showed that the average number was 146.2 and that more than 10 per cent of all cartons contained less than 144. The annual value of all the screws from all the factories which packed them in this manner is about £4 million so that, if this result is typical, the annual waste (from the firm's point of view) amounted to £60,000. Even this unnecessary expense would not ensure that all customers would always receive the declared number. The extent of the excess cost justified the investigation of alternative methods of packing, and now an electronic counter had been installed which has reduced the overweight to less than 0.1 screw per box with a very high probability that all cartons will contain the desired quantity.

Pre-Packed Butter

The second example is concerned with the pre-packing of butter. The present ration is 4 oz. per week and a large proportion of this is supplied in factory-prepared half-pound packets. Altogether about 20 million such packets are required each week. The butter is extruded through a die and cut off automatically to a predetermined length and wrapped in paper. Twenty extruding machines are able to cope with the entire production with a negligible labour force.

Variations from packet to packet will occur owing to changes in the density of the material and of the cross-section passing through the die; both of these will be sensitive to changes in temperature. In addition, there will be random fluctuations in the length cut off, so it is necessary for the average weight to exceed 8.000 oz. to ensure that every packet complies with the law. The machines must be adjusted so that the actual amount of average overweight will satisfy the worst conditions and, if the variability of the production process is not controlled, the average

From The Statistical Approach to Weights and Measures, The Incorporated Statistician, London, October 1953 overweight is likely to be at least 0.05 oz. Some consideration of the process suggests that this figure could be halved with very little risk providing that the variability has been estimated from a series of systematic check weighings and that all future manufacture is subjected to Quality Control sampling to confirm that the average and variability do not change. The loss under controlled conditions therefore amounts to 15 tons per week or £240,000 per annum. The actual loss may be more than twice as large as this.

Cost of Not Packing

It is interesting to consider what the cost would be if the butter were made up in the grocers' shops by weighing out on to scales. A time study engineer has estimated that it would take a skilled man, working at the incentive rate, about 15 seconds to weigh out and wrap a single half-pound packet. This is equivalent to 80,000 man hours per week, so that 1,800 would be required to supply the nation's needs at a cost of about £600,000 per annum. If all the customers insisted on their rights to see every packet weighed, the time would certainly be increased by 50 per cent with a corresponding increase in cost. Weights and Measures Law tacitly assumes that there would not then be any overweight nor underweight, but it is the usual practice for the customer to expect 'the turn of the scale'. It is easily seen that the pre-packing is more economical even when it is used in a very crude manner.

Oh! Listen to the Band

President Eisenhower, eager to have a programme ready for Congress when it returns in January, has put a small battalion of 'brain trust' commissions to work helping him find the answers.

The commission members were recruited from the worlds of finance, law, industry, agriculture and housing to join Federal officials in helping frame policies.

Following are the names of the various Presidential study groups and what they are supposed to do:

National Agricultural Advisory Commission;

Commission on Foreign Economic Policy;

Commission on Government Operations;

Commission on Inter Governmental Relations (to study overlapping Federal-State functions, particularly in taxation);

Labour Advisory Committee (to amend the Taft-Hartley labour relations Act);

Government Contract Committee (Fair Employment Practices);

Committee on Government Housing Policies and Programmes;

Advisory Committee on Weather Control (no members designated yet);

Advisory Board on Economic Growth and Stability (standby plans to combat a depression if and when one comes);

Commission on Congressional and Judicial Salaries;

Rubber Producing Facilities Disposal Commission; (to arrange the sale of twenty-eight Government synthetic rubber plants representing an original investment of more than $500,000,000).

Washington, December 1, 1953

New Books Reviewed

A Textbook of Economics, by J. L. Hansen, Macdonald and Evans Ltd., London, 18/6.

All students for professional qualifications will find this a valuable textbook. It also provides a solid groundwork for those taking university degrees. The author not only gives adequate consideration to the main elements of economic theory: he also deals with a number of current problems of applied economics. Many chapters end with recommendations for further reading, and a selection of examination questions.

The Empire and Commonwealth Year Book, 1953-4, *edited by R. S. Russell,* M.P., *published for Empire Economic Union by Rolls House Publishing Co. Ltd., London,* 45/-.

This is a thoroughly good reference book. Essential information is given on such matters as population, language, religion, constitution, finance, imports and exports, production and economic development, of over eighty Commonwealth countries. A chapter on the Sterling Area in relation to the British Commonwealth of Nations would have been valuable, and ought perhaps to have been included in the present edition.

The Livelihood of Man, by Honor Croome and Gordon King, Christophers, London, 10/-.

Those who have read with profit, and enjoyed, Honor Croome's *Approach to Economics* will welcome this book. Those who have not now have two attractive books awaiting their attention. The authors' secondary title is *Economics in Theory and Practice,* and they hope that the book will fill the gap that exists in the literature of economics devoted to theory or practice. They have achieved their aim. Essential facts of Britain's economy are the background to a clear statement of the principles that govern its working. Monetary theory and international economics get their due share of attention. There is a short glossary and useful suggestions are made for further reading.

The Reform of Social Security, by B. Abel-Smith, Fabian Research Series No. 161, *Fabian Society, London,* 2/-.

This pamphlet is timely because of the first quinquennial review of social security, due in 1954. What should be the rates of benefit? Should there be a needs test? Is the insurance principle to be abandoned? These and other problems are squarely faced. Many will support the idea of a social-security tax. Whether benefits should go up and down with the appropriate cost-of-living index is more difficult. The pamphlet is addressed primarily to the Labour Party, but its able and constructive approach and the manifest importance of its subject should win for it a wider appeal.

Report of a National Advisory Committee on the Employment of Older Men and Women, Cmd. 8983. *H.M. Stationery Office,* 2/-.

This is a painstaking report. The basic facts are carefully presented and the arguments carefully marshalled, but there is little new in either the facts or the arguments. Probably there is not much new to be said. So far as the problem is tractable, time is needed for the remedies to work, for they call for adjustments of traditions and practice. It would be helpful if the next report looked at the problem through the eyes of the typical worker who, at pensionable age, finds the difference between the taxed salary he can continue to earn and the taxed pension he is entitled to receive so small that it certainly is not worth working for.

Yearbook of International Trade Statistics, 1952, *United Nations (published October,* 1953), *H.M.S.O., London,* 30/-.

This has become an indispensable work of reference. In its third year of issue there are many significant improvements. Seventy countries are now covered, against fifty-two in the second issue, covering 97 per cent of the trade of the free world. The initial difficulty of securing comparability of the statistics of trade-by-commodity is now to some extent overcome by the use of the U.N. 'Standard international trade classification' in relation to twenty-five countries which, between them, cover about 65 per cent of world trade.

Schrifttum zum Marshall plan und zur wirtschaftlichen Integration Europas. Bundesministerium fur den Marshallplan, Bad Godenberg, 1953.

It may be of value to somebody to know that this bibliography exists. It runs to no fewer than 4,946 items, impartially listing the significant (which gives the compilation its value) and the transient and insignificant (which merely waste space and do not get in one's way).

FOR REFERENCE

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

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Canadian Bank Lending: *The Post-War Growth in Bank Lending,* Monthly Review, Bank of Nova Scotia, October 1953. (439)

Canada's Oil: *Milestone in Canada's Growth,* Petroleum Press Service, London, November 1953. Statistical and other facts concerning the newly-opened Trans-Mountain Pipeline with an ultimate capacity of 300,000 barrels per day and destined mainly for exports to the U.S. West Coast; and taking into the survey a second pipeline which will soon be in service with an equal potential. (440)

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