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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CONTENTS

ECONOMIC DIGEST

JUNE, 1954 VOLUME VII NUMBER SIX

U.K. Monetary Policy in Perspective

BY WILFRED KING (*Editor of The Banker*)

IT is now nearly two-and-a-half years since Britain's monetary policy was rescued from the inertia forced upon it through the long phase of cheap money and arbitrarily stabilised short-term interest rates. During the early months of tighter and dearer money, the objective of the monetary authorities was sufficiently clear-cut to be apparent to all who saw the need for a general disinflation as the means of extricating Britain from its crisis of external insolvency. But the phase of noisy brandishing of the refurbished monetary weapons did not last for long. Since then the weapons have been used much more quietly, and some would say that they have hardly been used at all. The aims of the monetary authorities have therefore become more much difficult to discern and interpret.

Divergent Views

There are those, first, who are still worried about the credit trend in Britain, or are pre-occupied with the 'paradox' that the revival of orthodox monetary techniques has been accompanied by a substantial growth in the total volume of money. Secondly, there is the much wider body of opinion that takes virtually the opposite view, and constantly appeals for a softening of policy. According to this school of thought, the Bank Rate was held much too long at its 'crisis' rate of 4 per cent; the eventual 'adjustment' to 3½ per cent was not the clear-cut reduction that it should have been; and, in any case, a further reduction to 3 per cent is now well overdue. Thirdly, there is a more sophisticated group that believes the revival of orthodox policy to have been a mere aberration from the modern trend; since the first brandishing, it is argued, both policy and technique have been slipping back into the old inertia—a supposed relapse that is welcomed by some but keenly regretted by others.

Each of these lines of comment, it can safely be said, does less than justice to the aims of the monetary authorities; but since these are the kinds of comment most frequently heard, an examination of them may be the most helpful way of indicating what the actual aims appear to be.

There is no doubt, first, about the seeming paradox of recent credit trends. In 1951, the last year of the long atrophy of monetary policy, the volume of money—as measured by the 'net' deposits of the clearing banks—achieved its first annual contraction since before the war. It was, admittedly, only a fractional decline, by £65m., or 1 per cent. But in 1952, despite a more than seasonal contraction during the first five months, net deposits rose on balance by £119m. And in the calendar year 1953 the expansion accelerated to

From Financial Times Banking and Insurance Supplement, London, April, 1954 its fastest since 1948; net deposits rose by £216m. to the new peak of £6,370m. Only in the latest three months, the tax-gathering quarter of 1954, has there been any sign of a change in this rising trend; in those three months net deposits dropped more than seasonally, by £360m., compared with £313m. in 1953, £352m. in 1952 and £292m. in 1951.

First Objective

It is easy to see why so marked an expansion should be widely regarded as in conflict with the aims of monetary policy—given the discipline imposed upon the banking system in the early phase of the new policy and the official emphasis on the need for continued restraint subsequently. But this simple contrast does not really afford any dependable basis for judgment. The aims and achievements of monetary policy cannot be considered in isolation; they have to be related to the aims of economic policy as a whole and to the trend of the national economy as a whole. Nor can the impact of monetary policy upon the economy be fairly gauged simply by examining the behaviour of the total volume of credit; it is necessary to consider also the changes that may be taking place in the principal components of this total. In particular, if public-sector demands are rising (or falling) as fast as private-sector demands are falling (or rising), the total volume of credit will obviously be unchanged; but this will not necessarily mean either that monetary policy has been playing a passive role or that its influence has been neutral. Its performance can be judged only in relation to the surrounding economic circumstances.

In the opening phase of the 'new' monetary policy the aim of economic policy as a whole was to restore Britain to solvency by cutting down the overload of demand upon the economy by inducing a measure of general disinflation. And since the impetus to credit expansion had been coming from the private sector and the nationalised public utilities, the role assigned to monetary policy was mainly that of arresting the growth of bank advances. Within a very few months of the beginning of the new discipline, this first aim had been achieved; the momentum of expansion of advances had been checked, and thereafter the whole movement was reversed. In the initial phase, indeed, the behaviour of the whole volume of credit fitted the simple test of the success of monetary restraint: bank deposits fell more than seasonally. In the second phase, however, when bank advances and portfolios of commercial bills were falling rapidly, the Central Government became a voracious borrower from the banking system—to such an extent that the total volume of credit rose strongly. At this stage many commentators felt that the wider aims of policy, including the specific aim of monetary restraint, were being defeated by the excesses of Government borrowing—even though a major source of the Government's need for finance was the spectacular swing of the balance of payments from large deficit into surplus, which deprived the Government of finance formerly secured from overseas. The Treasury, it was argued, ought to have met a substantial part of its needs by borrowings on the market instead of from the banks, in order to maintain the pressure of credit stringency.

These arguments, however, assumed that the Government had originally aimed at a really substantial measure of disinflation; and for a time they also under-rated the amount of disinflation that was being injected into the economy through non-monetary channels—through the decline in demand for British exports in consequence of import restrictions overseas, and through the exhaustion of consumers after their post-Korean buying spree. For these reasons the degree of disinflation, mild though it was in its pressure on the economy as a whole (as distinct from particular industries), threatened to be larger than the Government was prepared to countenance; and only the creation of credit through the concentration of Government borrowings upon the banks kept it more or less within the intended bounds. The Government, it soon became clear, had never intended to force the economy into a hair-shirt, or even to keep it uncomfortable for longer than was absolutely necessary. It was well content with the results achieved—in terms both of the balance of payments and of domestic flexibility—from a modest degree of 'slack', as measured by the 1952 fall in production and rise in unemployment. Monetary policy had played an important part in bringing about this fruitful slack, both directly and indirectly; and it had also helped to keep the slack within bounds. Judged by these standards, it had succeeded triumphantly—even though a falling trend of deposits had given place ('paradoxically') to a rising one.

Such was the situation at the end of 1952, when the total volume of credit began to expand more sharply, and when business activity in general was beginning to pick up. But the credit trends of 1953, though ostensibly simply continuing the trend of the second half of 1952, have to be judged by quite different standards. The aim in 1952 had first been to curtail demand and then to limit its fall; the aim in 1953 was quite frankly to expand demand.

Watchdog for the Budget

Whereas in 1952 the work of curtailment had been mostly assigned to monetary policy, in 1953 the work of stimulation was reserved for the Budget, the deliberately 'reflationary' Budget. And since a stimulus was being applied by means of tax relief, it was important that it should not be reinforced by a deliberate easing of monetary policy. The task of the monetary authorities was not to enforce a further contraction of demand, but to keep themselves in instant readiness to check any excessive revival. And the very fact that the 'new' monetary policy could be trusted thus to play the role of watchdog was the Government's most important justification for running the risks of a reflationary Budget.

The credit expansion of 1953 ought therefore to be regarded as consequential upon wider policy rather than as providing a parallel source of deliberate monetary stimulus. The nature of the expansion was admittedly very different from that of 1952. The borrowings of the public sector, though still large, were much less than in 1952. But these borrowings were no longer being offset by heavy repayments by the private sector.

The change in the private sector was, therefore, the specific cause of the faster rise in the total volume of credit in 1953. But, if seasonal fluctuations are disregarded, it was not until the very end of the year that advances to trade and industry began to rise at all considerably. In the twelve months to last November, the quarterly analysis of bank advances showed a steady decline in lendings to the big personal and professional category, while loans to private business and institutional borrowers other than the nationalised utilities were virtually unchanged on balance—at £1,338m., compared with £1,341m. in November, 1952, and £1,486m. in November, 1951.

This was a very different experience from what most bankers had expected, given the recovery of business activity and the pace of the return of commodities to private trade. Had an aggressive expansion developed, there is no doubt that the authorities would have intervened; and the ever-present possibility of sudden revival of pressure of demand justified the long retention of the 4 per cent Bank Rate and the requests to the banks to exercise due restraint in their lendings. Indeed, the increase in the risks to which the national economy might be exposed as a result of the lifting of restrictions on the granting of overseas credits, the reopening of commodity markets and the easing of import restrictions—not to mention the uncertainties of the business trend in the United States—made it more than ever important that monetary policy should be vigilant and technically efficient. This technical need, and not any desire to give a further fillip to the economy, explained the Bank Rate 'adjustment' of last September—a move that was accompanied by a reiteration of the request for restraint.

It may still be asked, however, how the maintenance of this relatively firm front by the authorities could be reconciled with a Government borrowing policy that was associated with the fastest rise in bank deposits for five years. The explanation seems to be that the policy of restraint was regarded as indispensable on the grounds of general prudence already described; but if this policy had been combined with an effort to arrest the rise in bank deposits the degree of restraint would have been sharply tightened. The Government was already borrowing much less from the banking system than it had done in 1952; but if deposits were to be stabilised in 1953 it would have had to switch some £200m. of borrowing from the banks to the market, in aggressive funding operations.

Drastic Action Not Needed

The market's capacity to absorb stock was rising, but it could hardly have swallowed so large an additional meal without getting acute indigestion. The official view plainly was that, though vigilance and caution were necessary in banking policy to guard against future contingencies, there was nothing in the current economic trends to justify any such drastic action in the gilt-edged market. After all, the private capital market was already taking up a large slice of the burden formally carried by the Government—notably through the big switchings of the local authorities away from the Public Works Loan Board. And, thanks to the sluggishness of the recovery of private-sector demands on the banks, the year's rise in deposits was still proportionately less than the rise in the nation's output.

In these judgments the monetary authorities, as such, were probably right. It is true that the rising wage pressure of recent months gives real grounds for concern; that too much of the year's additional output has gone to consumers; and that a tougher policy might have improved the export performance. But monetary policy as such cannot diverge from the course the Government intends in its economic policies as a whole; and the Government, plainly, either did not think that a firmer policy would have been helpful or was deliberately running the risks of a lenient policy. The City authorities, one suspects, have had to work within the limits set by politics; but, within those limits, it is apparent that they have taken a very full share in the work of strengthening and freeing the economy—in succeeding in maintaining a due restraint in monetary policy, and yet in driving strongly for relaxations in exchange control and in the commodity markets. The relaxations, indeed, could hardly have been risked without the safeguard of monetary vigilance.

Greater Flexibility

When the cross-currents of these past two years are analysed on any such lines as these, it should be apparent that the 'new' monetary policy has neither abandoned its first objectives nor meekly assented to a renewed credit expansion. So far from relapsing into inertia, it has been continuously in action, and the technical means at its disposal have steadily improved. Last September's 'adjustment' of Bank Rate and the changes that flowed from it struck away three arbitrary devices used in the early phase to cushion the shocks of transition from inertia to effective flexibility. The privileged rate for 'penal' loans from the Bank against Treasury bills has disappeared, and so has the officially maintained margin between the Treasury bill rate and the rate for commercial paper; and the authorities have dropped the objectionable technique of controlling bank liquidity by compulsory fundings of Treasury bills—last autumn's highly successful funding was achieved without pressure of any kind.

These much-needed changes have induced a greater flexibility in the Treasury bill rate and have removed a major anomaly from the commercial bill rate. Though the commercial banks may be slow to turn from rate agreements to true flexibility, there is still no doubt that the whole system has become much more sensitive to the actions of the central bank, discreet and mild though those actions have lately been. The 'new' weapons are not less ready or less sharp because they are now only rarely seen—as the banking system will quickly discover when the need for forthright action again arises.

INTERNATIONAL BANK TRANSACTIONS

In the last nine months alone—that is, since the beginning of our fiscal year on July 1st—the Bank has made 24 loans in thirteen countries amounting to over $302 million. This represents a significant increase in the pace of its lending activities. Altogether, it has now made 102 loans in 33 countries, totalling over $1,892 million.

The rate of disbursements to its borrowers is also accelerating. In the last calendar year its disbursements amounted to the equivalent of $240 million, bringing the Bank's total disbursements to about $1,250 million at the end of 1953.

It is significant, that the Bank has been able increasingly to use currencies other than dollars in making disbursements. Of the funds disbursed last year, about 30 per cent was in currencies other than U.S. dollars. Moreover, while in the early years of the Bank's operations, most of the funds loaned by the Bank were utilised for purchases in the United States, now, as productive capacity elsewhere has grown, more and more of the loans proceeds are being expended outside the United States. During 1953, about $97 million, or 40 per cent of all our disbursements, was expended in countries other than the U.S.

From International Bank for Reconstruction and Development, New York, April, 1954

Death Control Poses New Problems

MODERN history has reflected the immense stresses and opportunities created by the gradual discovery and application of methods of death control in a number of Western countries and their dependencies during roughly the past 250 years.

Death Control

While application of death control continues to affect these countries in many ways the effects are gradual and corresponding reductions in birthrates have kept the repercussions within bounds.

Death control is now making its impact felt much more rapidly on the much larger non-European populations which are expanding on an enormous scale. At present rates it is possible that the world *increase* during 1950-80 may about equal the entire world population in 1900. The current net increase of over 70,000 per day is still tending to rise, and the magnitude of the economic, social, and political problems which are being generated has hardly begun to be appreciated, even by informed opinion.

Most pressing of these problems is that of finding food, materials, fuel, and power to take care of this vast increase and at the same time to enable reasonable improvements to be made in the standards of life of the large numbers at present below a decent minimum level, and to allow some of the existing expectations for rising standards of life in more advanced countries to be realised.

Examination of the present position shows that growth of world food supplies holds a precarious and narrow lead over the growth of world population.

Many of the worst-fed countries show faster than average rates of population increase and average or below-average rates of expansion of food supply. These countries are also faced by exceedingly difficult economic problems, especially in regard to provision of necessary capital and development of industry and public services.

Analysis of the highest rates of increase in food production yet attained in the most favourable circumstances, and of foreseeable technical improvements, discloses no sound basis for the widely held view that production will more or less automatically keep pace with the needs of growing population. When account is taken of the new possibilities of further population expansion opened by death control in the less developed countries it is obvious that this is most unlikely to happen in the absence of a much more rapid reduction in birth-rates than is at present in sight.

Although the long-term outlook for supplies of raw materials, fuel and power is also far from reassuring there seems less reason to fear that unmanageable difficulties will occur in these fields in the fairly near future.

Some Governments, notably the Government of India, have shown a lively awareness of their own problems of matching resources with population. The immediate urgency is to secure searching, informed and dispassionate discussion of the facts in all countries and among all shades of opinion, with a view to agreeing on a diagnosis.

From World Population and Resources, P.E.P. (Political and Economic Planning), London, April, 1954. No. 362 of Vol XX of Planning, price 2s.

Welfare State's Inherent Dangers

Contradiction Between Ends and Means

BY DR PER JACOBSSON

THERE are at least *two specific dangers* which must be guarded against in connection with the welfare state:

(i) One very real danger is that the welfare state may be interpreted as meaning 'all-round protection'. If, for the sake of maintaining a high level of employment, it came to be regarded as inadmissible that any enterprise should be allowed to fail, this attitude would lead to the establishment of a system of 'featherbedding' under which lines of production and individual enterprises already in existence would be maintained even though their inability to pay their way would impose a burden on the rest of the economy.

The cost of such a system would not be measurable solely by the actual direct and indirect subsidies which it would necessitate, for account would also have to be taken of its dislocating effect on the whole cost and price structure, which has such an essential part to play in maintaining economic equilibrium. The putting-out-of-action of the price system often leads to an accumulation of stocks and to other developments resulting in a complete distortion of the price structure, so that measures which may have appeared perfectly harmless at the time when they were introduced may well in the end produce disastrous results.

(ii) Another danger is that the resulting fiscal and social charges will prove to be too heavy. In some countries the social charges falling on the employers already represent an addition of 20 to 30 per cent to the actual money wage. An addition of this size constitutes an important element in industry's costs of production. Moreover, the high rate of government expenditure can easily absorb too much of a country's productive power, and the resultant heavy taxation leaves too little in the hands of the public for the necessary flow of current savings to be maintained.

Lessons From Past

These dangers may not have been so evident in the years immediately after the war, when there were obviously tasks of reconstruction to be carried out and resources could still be mobilised by methods of inflationary financing—but such methods will soon be found to defeat their own ends once more normal conditions have been re-established.

The welfare state must not become a cause of economic stagnation. It would be well to heed some important lessons of the past: historians seem to be more and more agreed, in considering one of the greatest debacles of all time, that it was the growth of bureaucracy and taxation which, more than anything else, sapped the strength of the Roman Empire, stultifying local efforts and stifling private initiative and enterprise.

While one cannot as yet tell what course present-day developments will take, there seems to be an increased

From Review, Skandinaviska Banken, Stockholm, April, 1954 awareness of the dangers inherent in systems entailing detailed administrative control and excessive taxation. This does not mean that the policies so far followed will be completely reversed, but *some way must be found of making the welfare state compatible with the functioning of the price system of a free economy and with sound financial practice.* Controls are now being relaxed again. Rationing was originally a reflex of exceptional wartime shortages, and as soon as supplies become available again on a peacetime scale there is no longer any point in continuing it. Since exchange control is nothing but the rationing of foreign currencies considered to be in short supply, a return to peacetime conditions should make rationing superfluous in this field too—which means the establishment of currency convertibility. There are few measures which could be more effective than convertibility in restoring a spirit of free competition, enforcing the application of proper financial principles and thus providing the basis for a smoothly-working international monetary system.

It would not be difficult to give examples of changes which, while relieving the burden falling on the at present overloaded economies, would at the same time leave unimpaired the essential features of social security.

Subsidies and Controls

May it perhaps just be mentioned in this connection that the granting of subsidies in order to keep down prices appears to be a particularly uneconomic way of increasing social welfare, since the benefits accrue not only to those who need them but also to a great number of people who do not need them. Subsidies keep taxation high without conferring commensurate benefits. Controls have an unpleasant way of impeding progress. As far as quotas are concerned, it is generally found that, in practice, the necessary permits are almost invariably granted to *existing* firms on the basis of their purchases of a particular commodity or their overall turnover *in a certain year or during some other specific period of time in the past.* It is difficult to imagine a system better calculated to produce a rigid economy, for it makes it almost impossible for new firms to get a good start and fresh ventures to be successfully undertaken.

On the continent of Europe controls are fortunately associated with the working of totalitarian systems and are therefore looked upon as something rather obnoxious, which has made it easier to get rid of them. But in Sweden, for instance, the wartime controls were on the whole fairly administered and a generation has grown up which has known little else; there have even been some people who have almost taken the view that controls are necessary in order to prevent chaos. One of the important consequences of the great economic progress achieved in western Germany and in some other countries, all of which have made use of measures of monetary policy and other means of action which, instead of applying only to specific branches of activity or commodities, are general in their effect, is precisely the fact that it provides a further illustration of the advantages resulting from the functioning of a free price system and from sound financial practice.

With these examples still fresh in people's minds, it may well be argued that the essential features of the welfare state can best be realised in an economy which does not allow itself to become enmeshed in an entangling host of control measures. Systems which lead to a stultifying uniformity or exclude the energising influence of healthy competition are likely to lag behind in both spiritual and material progress. One is tempted to quote once again the well-known words used by Benjamin Constant in his pamphlet of 1813 against the Napoleonic regime: 'L'uniformité, c'est la mort; la variété, c'est la vie.'

With regard to the question of what combination of competition, mutual aid and opportunity for variation will eventually be found to be most desirable, it can confidently be predicted that the nations will not wish to return to the laissez-faire systems of the days before 1914. A belief in the advantages of a free market economy does not necessarily mean a conviction that all will be well if things are simply left to look after themselves. Not only can money not be expected to manage itself, but state intervention will also have a role to play in keeping economies free from monopolies, etc. But care should be taken not to disturb the proper working of the price system and not to try to shape everything in the same mould.

In the day-to-day conduct of affairs it will naturally not always be easy to find the right solutions—but since such great stress is laid nowadays on the need for mutual aid it seems truly necessary to redress the balance somewhat by insisting that competition should be allowed to play its part and that room should be left for variation; for competition and variety are also important factors in the process of evolution.

Built-in Stabilisers—A U.S. View

BY ALAN H. TEMPLE

THE ECONOMIC DIGEST *for May published a sceptical view of the value and effectiveness of certain post-war developments as a means of combatting future depressions. Here is a different view expressed by a New York banker upon certain aspects of the American economy which have a bearing upon its general health.*

IT is doubtful whether the stabilising influences in the American economy are fully comprehended even in our own country. Some of them come into play automatically. In any downward movement spending power drops less than production. Personal incomes are maintained by unemployment compensation, by pension payments, government aids, farm price supports and similar devices. Moreover, part of the decline in income is offset by a drop in the government's tax take. This occurs automatically, and the automatic effects are re-enforced by voluntary tax reduction such as has been made recently. The effect is that personal incomes are maintained relatively better than employment, and that disposable income is maintained relatively better than total personal income. These

From Address by Mr Alan H. Temple, Executive Vice-President, National City Bank of New York, London, April 1, 1954

influences set up resistance to a cumulative downward spiral. They are at work now.

A second stabilising factor is the volume of accumulated savings, which bolsters spending power. The United States economy is not only a wealthy economy but a liquid economy. Our Federal Reserve Board estimates that individuals own well over $200,000 millions of liquid assets, consisting of cash and such immediate cash equivalents as savings bonds and other government securities. I would not of course suggest that people will pour these accumulated savings, or any considerable part of them, suddenly into the markets. But they constitute a reserve which assuredly supports the ability and the willingness of people to withstand adversity and to satisfy their wants. Our corporations also are in a liquid position despite their immense capital expenditures, and our lending institutions are exceedingly liquid. The liquidity of our financial structure stands as a bulwark against any turn to forced liquidation of assets. It explains the orderliness of our adjustment.

A National Attitude

The third stabilising factor is what I should describe as a nationa attitude. It is the acceptance of the fact that when a cumulative downward spiral looms as a possibility, the full influence of both government and of private economy must be exerted against it. It is an attitude which will accept government measures for the amelioration of unemployment and for the support of the unemployed if they cannot find jobs. It is an attitude which in such circumstances will tolerate a government deficit, whether it arises from an automatic decline in tax receipts or from voluntary tax reduction. This attitude demands deliberate easy money policies by the Federal Reserve system, and it condones short-term financing by the Treasury placed with the banks rather than with savers.

Business Education

Fourth and finally, among the stabilising factors, I mention the growth of business education in our country. Forty years ago, professional education in business and economics scarcely existed. In more recent years, however, there has been a vast amount of study of business cycles, of principles of business administration and management, and widespread dissemination of whatever knowledge has been gained. In recent years business and economics has become the largest single field of college study. Education also has moved into the office and factory, into working management.

I would not wish to over-stress this point, but it would be surprising indeed if this advancement in learning—to say nothing of practical experience with effects of wars and depressions—did not help business cope with the problems of economic instability. One of the reasons why post-war activity has held up so strongly is that our business management has been good, that it has been able to draw practical lessons from experience, and that it has avoided in considerable degree the mistakes of over-confidence and over-speculation which might reasonably have been expected to appear, and which unquestionably would have had costly results.

Prospects for Exchange Convertibility

THE adequacy of monetary reserves for convertibility and ways for supplementing them are discussed in a staff paper presented to the U.S. Commission on Foreign Economic Policy.

After the progress already made towards relaxing discriminatory import restrictions and, to some extent, towards the convertibility of other currencies into U.S. dollars is discussed, the question is raised whether the U.S. Government would be prepared to grant special stabilisation credits to the United Kingdom and perhaps a few other Western European countries. The basic purpose of such credits would be not to finance dollar deficits (except perhaps those that might temporarily be associated with the introduction of convertibility itself), but to strengthen confidence in the convertible currencies, and to discourage speculative pressures at subsequent periods of temporary balance of payments setbacks and thereby to minimise the possibilities of a breakdown of convertibility or of a tightening of import restrictions.

The concept of adequacy of reserves can have meaning only within a framework where there are occasional temporary fluctuations of a self-reversing character in the balance of payments of a country which is in a fundamentally 'strong' or balanced payments position. Every country has a certain 'rock-bottom' level below which it will not normally allow its reserves to fall; but after allowance for 'rock-bottom' needs, reserves to be adequate must be sufficient not only to finance the current deficits that might periodically arise, but also to maintain confidence in the currency and thus discourage speculative pressures.

No simple statistical criteria can be laid down for determining the adequacy of reserves in any given case. If U.S. private imports of goods and services were to fall 10 per cent below the 1953 level, it might be expected on the basis of past experience that U.S. imports from the sterling area would fall by about 15 per cent, and imports from Continental Western Europe by about 10 per cent. This would mean a decline in the dollar earnings of the sterling area by about $350 million in one year, and in those of Continental Western Europe by less than $300 million. The drain on reserves in one year would amount to about 9 per cent of the present gold and dollar holdings of the sterling area, and 3 per cent of the reserves of Continental Western European countries as a whole.

At the same time, speculation would probably accentuate the drâin on reserves, as it did in 1949, by expediting payments for imports and retarding receipts from exports. It may be assumed that this drain would be no greater than that due directly to the decline in U.S. imports. If there were no other pressures on reserves, their present levels in the sterling area and in Western Europe appear to be adequate to finance temporary deficits associated with moderate and short-lived declines in U.S. imports without the need for tightening import restrictions. If the setbacks were more severe or prolonged, however, present reserves, especially those of the

From International Monetary Fund Staff Papers, Washington, D.C., March, 1954 sterling area, would be inadequate.

The uncertainties of the 'impact effects' of a sudden establishment of convertibility, which would give foreign earners of a currency the privilege of spending it in the United States if they so desired, are particularly pertinent to the United Kingdom. The sterling area's imports of goods and services from the rest of the world are more than $12,000 million per annum. Exporters who receive about three-quarters of this total are, for the most part, permitted at present to spend their proceeds only in non-dollar countries. If convertibility were established, it is not an extreme assumption to suppose that 10 per cent of their earnings would be converted into dollars in the first year of convertibility, which would involve a drain upon the central reserves of the sterling area of more than one third. It therefore appears that sterling area reserves are not now adequate to underwrite the risks of sterling convertibility. It may be presumed that no Western European country would make its currency fully convertible into dollars unless sterling were convertible. Probably their reserves are relatively more adequate for this purpose than those of the sterling area; yet in many cases the degree of adequacy may not be enough.

'Stand-by Credits'

The system of 'stand-by credits', recently inaugurated by the International Monetary Fund, is described as 'highly suited for assistance to members contemplating a significant movement toward convertibility'. These arrangements, if of sufficient magnitude, could help underwrite the uncertain demands on the convertible currency. Their very existence would tend to encourage confidence and discourage speculative movements against the newly convertible currency. It is conceivable that the Fund might be prepared to set aside as much as one third to one half of its present gold and convertible currency holdings, i.e., $1,000 million to $1,500 million, as a stand-by credit to the United Kingdom. This would require a waiver of the condition which limits drawings during any one year to 25 per cent of a member's quota.

Supplementary financial support for convertibility might be obtained by increasing the resources of the Fund, which would involve additional contributions by the United States and other member countries, by U.S. Government stabilisation credits granted through the Treasury or the Foreign Operations Administration, or by stabilisation credits to foreign central banks from the Federal Reserve System. The requirements for credit backing for some of the Western European currencies which might arise if a concerted move for convertibility were to be undertaken without the E.P.U. might be satisfied by making available the Fund's holdings of European currencies, including sterling, which amount to the equivalent of about $2,800 million.

If Europe's Exports to U.S. Fall

Analysis shows Britain Least Vulnerable

Many people have assumed that any set-back to American prosperity would quickly prove disastrous for those British manufacturers who depended on American markets; imports of consumer goods from Western Europe would be drastically reduced and in the sharpened struggle for this smaller market British exporters would be hard pushed by their European competitors—especially the Germans.

At least until the beginning of 1954 the facts failed to conform with the prophecies. Admittedly for the first two months of this year exports of British goods to the United States were approximately 10 per cent below those for the same two months of 1953, but this decrease was largely attributable to reduced deliveries of whisky and bicycles, and the bulk of British exports was not seriously affected. In any case the rate of decline corresponded to the reduction in American business activity and was not, as the pessimists feared, a multiple of it.

The first signs of an American 'adjustment' began to appear in mid 1953. Between July and the end of the year the United States index of industrial production declined by over 7 per cent; meanwhile, although total imports fell, those from Western Europe as a whole and from Britain actually showed a 5 per cent gain.

The probable explanation of this paradox is that for at least the first six months the American set-back in business activity was primarily a process of inventory adjustment which did not affect imports from Europe. Throughout 1952 and the beginning of 1953 dealers' stocks of the sort of goods imported from Europe were already at minimal levels. A secondary explanation is to

TABLE I
Imports into the United States 1951-53 by Country of Origin
(monthly averages in millions of dollars)

	1951	1952	1953 1st half	1953 2nd half
From:				
United Kingdom	38.1	40.5	44.5	47.0
Belgium	17.8	16.1	20.6	19.5
France	21.6	14.1	15.6	15.7
Holland	10.0	13.1	15.3	17.2
Italy	11.4	13.1	12.4	13.9
Sweden	8.7	7.5	9.4	8.3
Switzerland	10.9	11.9	12.1	14.5
West Germany	17.8	17.6	22.6	23.7
Total above	136.3	133.9	152.5	159.8
Rest of World	764.8	761.5	775.5	710.9
Total	901.1	895.4	928.0	870.7

From The Times Review of Industry, London, April, 1954 be found in the fact that the United States personal incomes outside the farming areas and a few highly concentrated working class communities held up remarkably well into the beginning of 1954. In short, there were no large stocks of European imports on hand, and the urban middle class consumers who normally bought these imports were hardly affected in 1953 by the recession. There are, in fact, good grounds for believing that if the United States index of industrial production holds to at least 90 per cent of the July, 1953, peak, there will be no appreciable decline in the value of American imports from Western Europe.

It is arguable, however, that within this total stability the share of imports from Britain may decline in the near future since some of her neighbours, particularly West Germany, Holland and Belgium, have recently shown much greater enterprise in expanding their American markets. Except for one or two commodities these fears seem to be poorly grounded. The truth is that British exports to the United States are concentrated on a comparatively small range of goods, that the United States has consistently drawn the bulk of all its imports of these goods from Britain, and that the commodities supplied by Britain rarely compete with those provided by its European neighbours.

It will be seen from Table 2 that in each of the last three years 15 commodity groups have accounted for approximately 75 per cent of all United States imports from Britain, that year by year the values of many of these imports have been remarkably stable in spite of the growth in the American national income, and that much of the total increase since 1951 is accounted for by the machinery and vehicle groups. Indeed, without their expanded exports to the United States, Britain's dollar earnings from its basic United States markets would have been much the same in 1953 as in 1951.

TABLE II

Annual Imports into the U.S.A. from the U.K., 1951-2-3 by Commodities

(in millions of dollars)

Commodities*	1951	1952	1953†
Leather, leather manufactures	13.8	11.6	13.5
Beverages	62.5	51.6	61.8
Cotton manufactures	10.1	8.4	8.6
Flax, flax manufactures	24.3	18.4	20.6
Wool, semi-manufactures	16.7	17.5	16.5
Wool, manufactures	48.7	49.2	51.5
Clay, clay products	11.9	10.7	10.3
Precious, semi-precious stones, industrial diamonds	59.2	66.5	57.6
Precious metals, jewelry	4.1	8.2	15.4
Electrical machinery and apparatus	4.1	5.4	9.4
Other machinery, excluding agricultural ...	13.8	20.2	24.0
Vehicles	37.2	58.3	58.6
Chemicals, drugs, fertilisers	34.6	27.7	33.9
Books, pictures	6.5	7.7	7.7
Art works, antiques	5.6	6.4	5.7
All others	104.1	118.5	154.9
Total	457.2	486.3	550.0

* These classifications are from the United States Department of Commerce Reports.
† Based on 11 months

In each of the three last years British goods have accounted for a high proportion of all imports into the United States in the 15 categories listed in Table 2. In many of them—whisky, linen, woollen cloth, books, diamonds and stones, cars and bicycles—British supplies dominated the import market.

In 1953, as compared with 1952, British exporters to the United States lost ground relatively (but only slightly) to other exporters in the following United States markets: leather and leather manufactures; cotton manufactures; wool manufactures; clay products; and diamonds. In all other trades they at least held their own. Belgium, Sweden, Holland and West Germany appreciably increased their exports to the United States during 1953, but there is no evidence that these gains seriously hurt British manufacturers. Since 1952 the biggest relative increases have been those of Germany and Belgium, and an examination of their accounts illustrates the essentially non-competitive nature of their efforts *vis-à-vis* British goods in the United States market.

In the fifteen United States import markets dominated by British goods the worst that can be said is that in 1953 Germany made significant relative gains in only leather goods, vehicles and chemicals—but only in leather goods did Britain's share in the total suffer. Belgium's advances were mainly in the textile markets—but again no substantial set-back was experienced by British textile exporters to the United States.

These fifteen commodity groups do not play a decisive part in the exports to the United States of Britain's European neighbours. In 1953 they accounted together for just over 30 per cent of Belgium's exports to the United States and 40 per cent of Germany's. West Germany, Belgium, France and Italy, were in 1952 and 1953 peculiarly dependent for their dollar export trade on their steel mill exports. One might conclude that Britain is least vulnerable in an American recession.

TABLE III

British Shares in Certain Imports into the United States

(in percentages of total imports)

Commodities	1951	1952	1953
	%	%	%
Leather, leather manufactures	30	31	28
Beverages	49	39	40
Cotton manufactures	15	14	12
Flax, flax manufactures	54	58	57
Wool, semi-manufactures	28	23	38
Wool, manufactures	53	55	52
Clay, clay products	29	24	22
Precious, semi-precious stones, industrial diamonds	34	38	32
Precious metals, jewelry	8	20	27
Electrical machinery and apparatus	23	20	22
Other machinery, excluding agricultural ...	21	16	19
Vehicles	65	57	57
Chemicals, drugs, fertilisers	12	11	11
Books, pictures	32	41	41
Art works, antiques	26	27	27
All commodities	4	4½	5

Sterling Exports and Dollar Markets

This article discusses the dependence of the main sterling area countries on the dollar market, the composition of their dollar exports, and recent changes in the price and volume of those exports.

TABLE I

Dollar Exports as Percentage of Total Exports in 1952 and 1953

Gold Coast	31
India	23
Malaya	20
Ceylon	15
U.K.	14
New Zealand	13
Nigeria	11
Australia	10
Union of South Africa	9
Pakistan	6
Average for Sterling Area except U.K.	13

Dependence on Dollar Trade

TABLE I indicates how far some of the main sterling area countries depended on dollar markets for their exports during 1952 and 1953. The Gold Coast heads the list, with 31 per cent of her exports at present earning dollars, and cocoa and manganese ore making up most of the total. India comes second with 23 per cent; she exports to dollar countries (in order of importance) jute goods, manganese ore, pepper, tea, fruit and vegetables, castor oil, mica, shellac, wool, and goatskins. Malaya and Singapore come third with 20 per cent. These percentages differ in the main from the pre-war ones: in 1937 Malaya and Singapore, for instance, depended much more than at present on the dollar market.

The dependence of the wool-growing Dominions has fluctuated with wool prices. In 1951 as much al 19 per cent of Australia's woos exports went to the dollar area; in 1953 the proportion was 8 per cent, about the same as pre-war. Both New Zealand and South Africa have latterly been more dependent on dollar sales.

Finally the dollar area took 15 per cent of U.K. exports and re-exports in 1953 compared with 13 per cent in 1937/38.

Composition of Dollar Trade

For the overseas sterling area the United States constitutes the great bulk of the dollar market: over the period 1948-52, 85 per cent of their dollar exports went to the United States and 12 per cent to Canada. The exports of the overseas sterling area are mainly primary products.

TABLE II

Share of Principal Commodities in the Overseas Sterling Area's Exports to the Dollar Area

Average 1952-53

	%		%
Rubber	13	Wool	13
Cocoa	7	Tin	5
Manganese Ore	4	Tea	4
Sugar	4	Copper	3
Jute	1	All the Rest	46

Nine main commodities—rubber, wool, cocoa, jute and manufactures, tin, tea, manganese, copper, sugar—make up rather more than half the value of overseas sterling area exports to the dollar area. The rest are spread over a large number of minor foods (such as spices, meat, fish and bananas) and raw materials (especially hides and skins, diamonds, lead, and sisal). Table II gives the average shares for 1952/53. (It is based on Board of Trade figures and shows raw jute only; the percentage of jute and manufactures would be considerably higher.) The percentages have varied a good deal from year to year, for dollar purchases have not been steady and prices have fluctuated wildly. Tin, for instance, earned less than one-third as many dollars in 1951 as in 1950.

The United Kingdom's dollar exports are less concentrated. Only 43 per cent of her dollar exports during the period 1948-52 went to the United States, 17 per cent to the other American Account countries (mainly dollar Latin America and Liberia), and 40 per cent to Canada. U.K. dollar exports are primarily manufactures.

Last year the U.K. provided just under a third of the sterling area's exports to the U.S., and just on half the area's total dollar exports. The United States was our second largest single market. Whisky, raw materials, cars, and wool goods are all a larger percentage of our exports to the U.S. than of our exports to the world as a whole. Machinery, the metals-engineering-vehicles group in general, and cotton goods, each take a smaller percentage; but the share of machinery in our U.S. exports has increased from 5 per cent in 1948 to 7 per cent in 1953.

Canada provides us with an export market only slightly smaller than the U.S., but it is constituted rather differently. Last year we earned from Canada only one-eighth as much with whisky as from the U.S., 10 per cent less with cars, nearly twice as much with wool goods, more than twice as much with agricultural tractors. Electrical machinery and machine tools were also more important, linen fabrics and knitted clothing much less. To the dollar Latin American countries our most important exports are cars, machinery and textiles; and to Liberia, ships.

Recent Changes

By far the most important factor in the dollar-earning of the sterling area is the course of United States demand for sterling imports. Total U.S. imports have been falling since April 1953, and in January were nearly a tenth lower than a year before. U.K. exports and re-exports to the U.S. in January were also about 10 per cent lower than a year before. Comparing the monthly average for October-January with the previous nine months, cars and wool fabrics were down quite considerably; so were some of the raw materials—aluminium, benzol, and tin—which for a short period provided an appreciable percentage of our U.S. dollar earnings. The total percentage fall would have been much greater had it not been for increases in exports of tractors, linen fabrics, and tobacco- and cigarette-making machinery. For the last in this list Britain provides a large part of the world's supply, and has recently been exporting to the U.S. considerable quantities of adapting machinery to make filter-tip cigarettes, demand for which is rapidly growing in America.

Over the same period U.K. exports and re-exports to Canada dropped by 8 per cent: exports of cars were down 77 per cent, agricultural and track-laying tractors 46 per cent; and in contrast to our exports to the U.S., machinery sales were also generally lower (textile machinery by 50 per cent, metal-working machine tools by 26 per cent). On the other hand, wool yarns and fabrics and china and earthenware were only slightly down: 8 per

From Bulletin for Industry, Information Division of H.M. Treasury, London, April, 1954

cent and 10 per cent respectively. The other American Account countries present a different picture: a rise during the period of more than one third; a very large rise in the export of ships, and a smaller one in machinery, more than offset reductions in car and wool goods exports to these countries.

The picture for the rest of the sterling area is not so up-to-date as that for the United Kingdom, and is complicated by price, volume, and seasonal fluctuations in the sales of the different commodities.

The value of the rest of the sterling area's exports to the dollar area has been falling since early 1951. From 1951 to 1952, it was mainly a fall in raw material prices that brought the value down; the volume of exports went up a little. But from 1952 to 1953 sterling area raw material prices dropped, on average, much less. Between December 1952 and December 1953, prices of cocoa, tea and wool rose; these were almost sufficient to offset the falls in tin, copper and rubber prices. It has been mainly a fall in the volume of exports to the United States which has caused the continued drop; prices have, on the whole, not continued to fall, probably because demand elsewhere in the world, particularly in Europe, has stayed fairly high.

The Reserves

It is certainly surprising that, over two years when the volume of the sterling area's dollar exports was falling, the sterling area's dollar balance and the state of the reserves improved. There are two main explanations: first, there has been a substantial improvement in the position of the sterling area *vis-à-vis* non-dollar areas, especially O.E.E.C. countries; and secondly, dollar imports into the sterling area (especially from the U.S.A.) have fallen faster than dollar exports. Our own imports of machinery, steel and base metals from the U.S. are much lower now than in 1952; from Canada we are now taking much less wood and paper-pulp. The rest of the sterling area imported from the United States only about one-tenth as much raw cotton in 1953 as in 1950-52; imports of U.S. steel mill products and textiles have also been reduced considerably since 1951. Total dollar imports of the rest of the sterling area in the first three quarters of 1953 were almost 40 per cent below the same period in 1952. So the sterling area has decreased its dependence on dollar imports. Comparing the first three quarters of 1952 and 1953, the percentage of dollar imports in the total has dropped from 20 to 16.6. Further, and more important, sterling area raw material prices did not fall sharply in 1953. These have been two important factors in enabling the sterling area to increase its gold and dollar reserves in a period when imports by the U.S. and Canada were falling.

Poverty and Progress—A Challenge

BY EUGENE R. BLACK

I HAVE seen pervading evidences of dynamic, curative forces at work—at work and gaining momentum:

1. The driving energy of Asia's new nations, sparked by pride in the dignity of independence and fed by a consuming urge to demonstrate that that independence can contribute to a fuller and a better life.
2. The growing recognition by many powerful interests in Latin America that static economics may be explosive politics, and that in the long run the course of conservatism is to push on with the expansion of production and with ever-wider distribution of its benefits.
3. The awakening perception of the peoples of Africa, unfortunately sometimes displayed in such extreme and violent form as to be self-defeating, that their position of economic backwardness is not pre-ordained and that the resources of their land can be made to produce a better life within, as well as beyond, the borders of their continent.

These are some of the many forces which are today at work throughout what we have come to call the underdeveloped world. The current which these forces have created is not yet swift, but I am convinced that it is deep and strong. It will be a major test of international statesmanship whether, as the current gains speed, it remains within productive channels or spills over in riotous and destructive flood.

To meet this test successfully will require, I believe, a high degree of realism and of political far-sightedness from both underdeveloped and industrialised countries alike.

Capital not only need

On the part of the underdeveloped countries, there has sometimes been an unfortunate tendency to overemphasise the financial aspects of development—to urge that it is the low level of income, and therefore of savings, that is the one great obstacle to progress and that therefore the one real solution is for the advanced countries to make available large amounts of capital for development purposes. This analysis is one of those half-truths that obscure more than they reveal. If I judge correctly, it is the character and initiative of the people, the confidence they have in themselves and in the future of their country, the honesty and efficiency of the government administration, the nature of the country's social institutions—it is these and many similar factors, quite as much as capital, which determine the rate of economic growth. With individual or communal initiative, properly directed, small funds can work miracles. Without initiative or direction, no amount of investment is likely to prove very effective.

Let me not be misunderstood. I do not minimise the importance of capital, nor am I unaware of the immense investment which will be required if the development objectives of the democratic world are to

From Address by Eugene R. Black, President of International Bank for Reconstruction and Development, U.N. Headquarters, New York, April, 1954 be achieved. Certainly the rate of investment that is flowing at present will not suffice to achieve those objectives, at least not in many of the poorer countries of Asia and the Middle East. But I insist that constantly reiterated emphasis on what the advanced countries *should* do for those less advanced distorts the true nature of the problem and may sometimes even be used as an excuse for failing to act on those matters which only the underdeveloped countries themselves can control.

National Self-Interest

Moreover, an approach to international problems based on what one group of countries 'should' or 'should not' do for another is always beset with difficulties. In this nationalistic world in which we live, national policy based on real or assumed moral obligation to advance the welfare of others, however sound and enlightened that policy may be, is not likely long to endure; over any considerable period national policy must be based, and must be known to be based, on national self-interest.

For the industrialised countries, then, the issue is not the extent of the poverty or need elsewhere, but rather the extent to which it is in their own long-run interest to aid in the economic growth of areas whose productivity is still unduly low. This issue I believe the advanced nations are not facing squarely. Too often they appear to regard development simply as a slogan to be trotted out at international gatherings, or as a matter of social improvement to be worried around by the well-meaning. The time has come for the industrialised countries to call a halt to this kind of lip-service and to come to grips with the fundamentals of the problem.

Those fundamentals, as I see them, are both economic and political. On the economic side, the question is simply whether the industrialised areas are satisfied with the prospect of a gradual expansion of trade within the existing structure of trading relationships, or wish, as a long-term matter, to enjoy the much wider markets which would become available through an increase of productivity, and therefore of consumption levels, throughout the under-developed world.

On the political side, the question is equally clear. It is whether the advanced countries really believe their oft-stated creed that the best long-term hope for peace lies in the spread of democratic institutions. For surely democracy needs for its vitality an economic climate characterised by hope and not despair. It is only in an atmosphere of economic growth and opportunity that we can realistically expect development of the kind of community which values the rights of the individual above the powers of the State. Economic stagnation and political democracy are not easy companions.

A Long-Term View Needed

The importance of these questions to the industrialised countries is often obscured by the insistent pressure of their immediate domestic problems. As a consequence, the necessary firm long-term decisions have not been made and there has been too much of improvisation and too little of consistency about their development efforts. I suggest that the advanced nations need urgently to re-examine and restate their development objectives, and then to join in the formulation of a long-term programme of action adequate to achieve those objectives.

East-West Trade in Europe

ACCORDING to data published in the April issue of the *United Nations Monthly Bulletin of Statistics*, which has just been issued, the volume of total exports of 14 Western European countries to the U.S.S.R. and Eastern Europe in 1953 was only 50 per cent of the 1938 volume. The corresponding percentage for imports was 38 per cent.

If exports from the 14 Western European countries to the U.S.S.R. and Eastern Europe had increased since 1938 in the same proportion as the exports from these countries to other destinations, the value of this trade in 1953 would have been about 1,450 million United States dollars, whereas in fact it was only about 478 million dollars.

Had trade in the opposite direction from East to West Europe increased as fast as the imports of West Europe from other destinations the value of the trade would have been about 2,000 million dollars instead of the 574 million dollars it actually achieved.

The exports in 1953 of Denmark and Norway to the U.S.S.R. and the countries of Eastern Europe were chiefly dairy products, fish and whaling products and transport equipment.

The pattern of Finland's trade completely changed between 1938 and 1953: in 1938 3 per cent of her exports and 9 per cent of her imports were in trade with the U.S.S.R. and the countries of Eastern Europe. By 1953 the ratios were 29 per cent and 32 per cent respectively.

Trade of Individual Countries with the U.S.S.R. and Eastern Europe
(in millions of U.S. dollars at 1953 prices)

Countries	Exports to U.S.S.R. and Eastern European countries		Imports from U.S.S.R. and Eastern European countries	
	1938	1953	1938	1953
Denmark	14	30	32	26
France	93	46	121	44
Italy	78	46	125	40
Norway	18	24	40	28
United Kingdom	310	73	564	203
Finland	14	166	46	167
Yugoslavia	37	nil	40	1

From United Nations Information Centre, London, April, 1954

Comparative National Expenditures and Prices

in the United Kingdom, United States and Continental Europe

BY MILTON GILBERT (*Director of Statistics and National Accounts, Organization for European Economic Co-operation*)

IN analysing international economic problems, and even in appraising the economic situation of a particular country, it is often essential to have information for several countries on the quantities of goods and services purchased, expressed in common units. It was this need which led the O.E.E.C. to undertake the study recently published under the title 'An International Comparison of National Products and the Purchasing Power of Currencies'. It covers the United States, the United Kingdom, France, Germany and Italy; work is proceeding to include other continental countries. As the study shows the relative expenditure levels for a fairly detailed breakdown of the national product and gives comparative price ratios for these groups of goods or services, we believe it will be useful also to business firms for assessing market potentials and competitive conditions in these countries.

Snags of Financial Approach

Such comparisons of total national production or the major categories of consumption have in the past generally been obtained by a financial approach. For example, the estimated expenditures in local currencies have been converted by existing or adjusted exchange rates into a common currency, usually the dollar. A moment's reflection will indicate the shortcomings of this type of calculation. An alteration of exchange rates will for instance clearly affect the result of such calculations even if the physical quantities produced or consumed remain unchanged. Nor is there any reason why exchange rates should be an accurate guide to the purchasing power *inside* the various countries, when international trade is subject to tariffs, varying shipping costs, and other types of restrictions. Furthermore, there is no reason why exchange rates should provide a correct guide to the purchasing power of currencies over articles like houses or services which, in fact, do not move into international trade, but which form a large part of a nation's total production.

Physical Consumption Compared

The rather laborious method of using detailed physical quantities as the basis for comparisons avoids these difficulties and the results are, in fact, strikingly different from those produced by more rough-and-ready methods. It should be realised, however, that even so, there is not necessarily a single answer to the question 'What is the level of consumption in country A relative to that of country B?' For each comparison there are two answers, according to whether the *pattern* of prices of the first country or the second country is taken to weight the various items in arriving at the aggregates. This difficulty is ignored here for convenience, but is dealt with in the report where both alternatives are shown. It may also be mentioned here that although the base period used was 1950 with adjustments up to 1952, the broad results are not such as to change significantly from year to year as they are founded primarily on the habits, institutions, climate, relative levels of income and other factors which change only slowly.

In the table below, comparative volumes of consumption of the individual product groups are given on

From Board of Trade Journal, London, April 24, 1954

Real Consumption Per Head in the United States, France, Germany and Italy as a Percentage of the United Kingdom, 1950
(*quantity weighted by U.S. prices*)

	United Kingdom	United States	France	Germany	Italy
Total consumption	100	152	80	64	47
Food	100	118	93	79	62
(a) Cereal and cereal products	100	76	105	81	108
(b) Meats, poultry and fish ...	100	114	93	58	33
(c) Dairy products	100	128	69	76	49
(d) Fats and oils	100	84	66	92	38
(e) Vegetables	100	217	154	124	169
(f) Potatoes	100	51	115	174	30
(g) Non-alcoholic beverages ...	100	125	56	25	14
(h) Sugar and sugar products	100	115	44	82	43
Alcoholic beverages	100	114	377	67	199
Tobacco	100	156	48	55	28
Clothing and household textiles	100	189	70	60	45
(a) Footwear	100	143	54	46	27
(b) Clothing and household textiles	100	200	74	64	48
Housing	100	118	59	53	29
Fuel, light and water	100	159	38	21	11
Household goods	100	294	59	56	6
Household and personal services	100	118	75	66	58
(a) Domestic services	100	137	134	149	130
(b) Laundry, dry cleaning, etc.	100	105	12	17	3
(c) Barber, beauty shops, etc.	100	133	229	93	129
Transportation equipment and services	100	256	54	41	31
(a) Purchases of transportation equipment	100	2000	140	60	40
(b) Operation of transportation equipment	100	1111	100	22	22
(c) Public transport services ...	100	46	43	42	30
Communication services ...	100	345	38	17	21
Recreation and entertainment ...	100	88	55	55	27
(a) Entertainment	100	65	35	99	34
(b) Hotels, restaurants and cafés	100	87	74	42	33
(c) Books, newspapers and magazines	100	149	76	46	15
(d) Other recreation	100	86	21	38	9
Health	100	147	82	82	15
Education	100	164	108	69	93
Miscellaneous	100	435	43	9	52

the basis of United Kingdom consumption per head as 100. Overall consumption per head in the United States is shown to be some 50 per cent above the level in the United Kingdom—a straight comparison using money values and exchange rates would, incidentally, show United States consumption per head to be well over twice the United Kingdom level. It may come as a surprise just how much larger the market per head for certain groups of products is in the United States than in the United Kingdom—twenty times as large for automobiles. For certain other groups, recreation and entertainment for example, it is significantly *less* than in the United Kingdom. So far as the other European countries are concerned, only alcoholic beverages, vegetables, domestic services and personal services like barbers and beauty shops are consumed in greater quantities than in the United Kingdom. For clothing and household textiles, the proportion is anything from a half to three-quarters of the United Kingdom level.

Purchasing Power

On prices, or looking at it the other way, the purchasing power of the currencies, the report shows that, overall, one dollar exchanged into pounds sterling at the normal rate and spent in the United Kingdom on the same pattern as expenditure in the United States would have bought about 25 per cent more in the United Kingdom than in the United States. This generally higher value of the £ in terms of real purchasing power than the exchange rates value, however, conceals some wide divergencies for individual groups of products. Without going into the details here, it may be mentioned that for personal consumption as a whole the $ converted into £s and spent in the United Kingdom would have bought about 20 per cent more than if spent directly in the United States, while for Government expenditures, it would have bought about two-thirds more.

The results with respect to investment also differ considerably from those calculated on expenditures divided by exchange rates. In 1952, and weighting the quantities of investment goods on the basis of United States prices, investment per head in the United States was more than two-and-a-half times that of the United Kingdom; in Germany it was about 50 per cent above the United Kingdom and in Italy only about two-thirds of the United Kingdom level. In connection with the lower level of sales of equipment in the United Kingdom, it is pertinent that prices of equipment are shown to be considerably higher in the United Kingdom relative to other goods, than is the case in the United States.

Finally, to give an impression of the overall results and their relation to output per worker, the data below show the gross national production per head for the five countries and per head of the employed labour force.

Although not nearly so much larger than would be indicated by the value-exchange rate method, the gross national product of the United States per head is seen to be substantially higher than in the European countries. On the other hand, there is proportionately greater difference between Italy and the United Kingdom than between the United Kingdom and the United States. When account is taken of the different size of population, it can be readily calculated that the total United States national product was 75 per cent above that of the four European countries combined, even though their combined population was some 30 millions higher than that of the United States. The approximate calculation of national products per employed worker does not significantly change the relation among the European countries. On the other hand it emphasises the large lead of the United States in productivity.

Relative Real Gross National Product Per Head and Per Employed Worker, 1952
(quantities weighted by U.S. prices)

	Population (millions)	National Product per head	National Product per employed worker
United Kingdom	50.7	100	100
United States	157.0	169	185
France	42.6	86	80
Germany	48.5	81	85
Italy	46.9	51	N.A.

Western Germany's Post-War Trade

The rapid expansion of Western Germany's exports since 1950 is not surprising. It began from a very low level and the revival of Germany's export trade came later than did that of the other chief trading countries of Western Europe. In relation to the pre-war years and when compared with the trend of exports in other Member countries, the increase in German exports in 1953 does not seem large. During the first half of 1953, German exports per head at constant (1950) prices were 13 per cent higher than before the war, as compared with increases of 72 per cent for France, 43 per cent for the United Kingdom and 39 per cent for the Netherlands. Similarly, German exports as a percentage of the gross national product (at 1950 prices) were no higher in 1953 than before the war, as compared with increases of 20 per cent in the Netherlands and the United Kingdom and 45 per cent in France. Doubtless, the United Kingdom and France, which before the war had large trade deficits covered by income from investments abroad, were obliged after the war to devote far more of their resources to exports. The fact remains, however, that Germany's share in total exports from Western Europe is lower than before the war and that, in a more general sense, Germany had not in 1953 recovered her pre-war footing in foreign markets. This applies in particular to markets in the E.P.U. area.

Factors Affecting Imports

Since the war there has been a considerable increase in the volume of imports into the territories forming the Federal Republic; indeed, it has proceeded at a faster rate than the growth of the population, so that in 1953 the volume of imports per head was about 17 per cent higher than before the war. The increase in imports has, however, remained much the same as that of the gross national product at constant prices. This shows that, though Germany

From Report by Economic Committee of O.E.E.C., Paris, April, 1954 maintained a policy of strict import controls in 1936, and though in 1953 the Federal Republic is one of the European countries which have liberalised the highest percentage of imports on private account, the ratio of imports to gross national product has not risen. Furthermore, the 1936 figures make no allowance for imports from the Eastern provinces, so that in actual fact the ratio of imports to gross national product in 1953 is lower than before the war.

This is all the more remarkable because the ratio hardly exceeds 10 per cent, whereas much higher figures are recorded, not only in the countries where the population is lower but also in the United Kingdom, whose economy in many respects resembles that of Germany. It is even slightly higher in France which, as is well-known, is largely self-sufficient.

The considerable difference between the United Kingdom and the Federal Republic reflects a different historical development: foreign trade plays a much more important part in the economy of the United Kingdom than in that of Germany.

Clearly a relatively low propensity to import does not necessarily produce a balance of payments surplus (in France, it was recently accompanied by a deficit) and it is unlikely that, in the short run, this percentage will rise considerably, as this would assume a change in Germany's economic structure. But the co-existence in Germany of a low propensity to import compared with the gross national product and a balance of payments surplus seems to indicate at least that a larger share of imports in the total resources used by the German economy would be a normal development.

Imports as a Percentage of Gross National Product at Constant Prices

1950 prices

	1938*	1950	1951	1952	1953
United Kingdom	33	23	25	23	24
France	13	11	11	13	14
Germany	12	12	10	11	12

* 1936 for Germany.

THREE-FOURTHS OF BRITAIN'S GOODS CARRIED BY ROAD

Some interesting facts about the structure and operation of the road transport industry in Britain emerge from a paper read before the Royal Statistical Society on April 28 by Mr K. F. Glover and Mr D. N. Miller.

On the basis of a sample inquiry conducted by the Ministry of Transport in September, 1952, the authors estimate that the volume of goods carried by roads is about three times the volume carried by rail. In terms of net ton mileage, however, road and rail each account for about the same amount of traffic. The authors estimate that road goods vehicles carried 900 million tons in 1952, against 300 million tons by the railways, 10 million tons by inland waterways, and 40 million tons by coastal shipping; in other words, nearly 75 per cent of Britain's freight went by road. The net mileage performed by road vehicles was 19,000 million, or nearly as much as the 22,000 million for rail transport. Unfortunately, no comparative figures for earlier years are given; presumably the necessary data to measure the growth of road transport relatively to rail in recent years is not available.

Europe's Currency Tangle

Britain in Difficulties on Five Fronts

If, as now seems certain, the European Payments Union is extended for a year beyond its present expiry date on 30 June, it will mean that a compromise has been reached in a bitter controversy between Britain and Scandinavia on the one hand, and Germany, Switzerland, Belgium and Holland on the other.

Dangers to E.P.U.

There have always been two contingencies which might upset the system. Firstly, members tending to be chronically in surplus with their European colleagues might tire of granting credits to those chronically in deficit. During the negotiations for the renewal of E.P.U. the four major creditors—Germany, Switzerland, Belgium and Holland—are showing just such weariness and have submitted three propositions. The first is that deficit countries should meet a larger proportion of their currently accruing deficits in gold. Britain and Scandinavia strongly oppose this; creditors, they say, should not be given an inducement to amass large surpluses. The second is that debtors should meet some of their longest-established past accumulations of debt in gold. About this, Britain is now willing to accept a compromise: she has agreed to pay out £30m. in gold to the four major creditors straight away, subject to satisfactory settlement arrangements for the remaining £160m. of her debt. The third is that countries which have yet to free 75 per cent of their intra-European imports should be urged to honour their obligation. France is the only major country affected here, and she has now agreed to liberate 65 per cent by the year end.

Britain's stand against the German-Swiss-Belgian-Dutch demarches is well founded, but circumstances have made it seem hypocritical. This is mainly because of the widespread belief in Europe that, no matter what happens to the sterling area's general balance of payments this year, its deficit with E.P.U. is bound to increase. For this there are several reasons. Firstly, Britain's E.P.U. deficit does not depend wholly on the sterling area's own balance of payments; about £50m. of sterling a year also gets into E.P.U. clearings as a result of 'transferable sterling' payments from outside (these are the sterling payments made to European central banks by Iron Curtain, Latin American and other countries), and the recent extension of the transferable sterling system is expected to swell this amount. Secondly, the prices of the sterling area raw materials most commonly bought by the continent are lower than a year ago. And thirdly, British engineering exports to Europe are badly flagging. Yet the continent's view is unfair. Britain has two sensible reasons for wishing to maintain E.P.U. Firstly, European trade and employment can best be kept afloat on a sea of easy credits should the U.S. recession deepen (belief in the approach of a U.S. slump is why the Swedes, though not current debtors in E.P.U., wish to maintain the system). And secondly,

From The Economist, London, April 17, 1954

Britain wants any eventual advance towards general currency convertibility to be made from a point where members have already removed import licences as far as is politically feasible—and E.P.U. induces creditors and exhorts debtors to do just that.

Sterling Convertibility

The latter attitude leads to the second factor which might disrupt E.P.U.—the threat of sterling convertibility. Since, under such convertibility, any foreigner could turn all his sterling earnings into gold or dollars, none would be brought into the E.P.U. clearings (where only part would be convertible) and E.P.U. would end. The continental countries believe Britain may in fact attempt convertibility towards the end of 1954 or at the beginning of 1955, but to some extent the wish is father to their thought. A year ago most European countries were opposed to such a move, for they feared that it might be achieved only with the aid of more restrictions on U.K. imports. But now the four big European creditors would welcome it since it would end their worries about excessive sterling credits. Perhaps this is why the Germans, Dutch and Belgians have recently been making noises to suggest that they themselves are about to beat Britain to the plunge. The only kind of convertibility towards which these countries may conceivably soon advance, however, is that enjoyed by the Swiss franc—whereby Swiss citizens are more or less free to invest their capital in the dollar area and Swiss import restrictions on dollar area goods are no sterner than those on imports from elsewhere. Such a system (which is appropriate only for a currency held almost wholly by its own nationals) carries no threat to E.P.U. since foreign banks still have an inducement to hand their Swiss francs into the E.P.U. clearings and get part payment in gold, but if Holland, Germany and Belgium advanced precipitately towards Swiss-style convertibility (as they could at almost any moment), then Britain might suffer for three reasons. Firstly, if these three countries ceased to discriminate against dollar imports, their markets might start to re-sell dollar products to other European countries, thereby increasing their E.P.U. surpluses. Secondly, if Dutch, German and Belgian nationals could transfer their capital to the dollar area, a loophole might be created through which some sterling might also be transferred into dollars. And thirdly, to call four major European currencies 'convertible'—if only in this misleading sense—might mean greater pressure on sterling to become really convertible.

Britain is right to stand by the principal tenet of her present policy: that E.P.U. should be maintained unless or until the non-dollar world is earning so many dollars that an advance towards a wider international system of freer payments and trade is possible.

Tension in European Payments Union

Importance of Pressure Group of Big Creditors

It has been a fortunate coincidence for the European Payments Union in the past year that the main debtor country within the system, France, also happens to have some very large dollar credits outside it. U.S. dollar aid to France has, in fact, been the chief financial prop of E.P.U. during a period when it has been subjected to tremendous pressure from Germany's successful export drive, which has put all Europe in her debt. Without this French source of dollars it is hard to see how the system could have continued to function at all in its present form. E.P.U. may indeed be regarded as another indirect beneficiary of the French military effort in Indo-China.

Gold Payments

Since the beginning of 1953 France has paid close on \$250m. worth of gold to E.P.U. and has managed in spite of that to increase her own gold reserves. Germany's receipts of gold from the Union over the same period have amounted to about \$300m. These two developments, the spectacular growth of Germany's credits and France's peculiar position as a chronic debtor with a dollar surplus, have been the outstanding features of E.P.U. since the beginning of 1953. A third factor of considerable importance in the long run, though it has not had the same immediate effect on the finances of the Union, is the sharp change-round in Italy's position during this period. Indeed, Italy's total payments deficit with the rest of Western Europe since the beginning of 1953 is as large as the French.

France's Position

The difference is that whereas France started from an extreme debtor position, where monthly deficits had to be met with a 100 per cent gold payment, Italy was at the beginning of 1953 still one of the Union's chief creditors. After repaying the gold that she had previously drawn from the Union, she has been able to make use of the normal credit facilities to cover steadily increasing deficits. The result is that the Italian gold loss over the 14 months to the end of February, 1954, amounts to about \$100m.—less than half the sum that France has had to pay to meet a deficit of roughly the same size.

However, with three-quarters of her E.P.U. quota now used up, Italy faces the prospect of a rapidly increasing gold drain, without the special resources which France has had at her disposal over the past year to meet the emergency. After the problem of Germany's constantly increasing surplus, Italy's deficit seems likely to rank next among the major preoccupations of the Managing Board of E.P.U. during the remainder of 1954.

By way of compensation for this new problem, the difficulty presented by Belgium's balance of payments surplus, which has caused the Union so much trouble in the past, has for the moment at least been brought under control. Indeed since the beginning of 1953 Belgium has on

From Financial Times Banking and Insurance Supplement, 1954, *London, April,* 1954 balance been a net payer of gold to the Union. The total amount involved is admittedly small, and the movement may be reversed in the future; but no one appears to be worried any longer about the possibility of Belgium's re-emergence as a 'structural creditor' to menace the very survival of E.P.U. with her unmanageable surpluses, as she did in the earlier stages of the history of the organisation.

Belgium is, of course, still one of the biggest creditors of the Union; her cumulative surplus remains well in excess of the quota fixed for her under the E.P.U. agreement. The other countries which have joined her in this position since the beginning of 1953 are Germany, Switzerland and Austria; and Holland is rapidly approaching it. Here, indeed, is a new factor in E.P.U. politics—the powerful pressure group of extreme creditors, who are now urging strongly that payment ought to be made on the old debts owing to them before they are asked to finance any new ones.

DEBTOR COUNTRIES

Cumulative Accounting Deficit ($ millions)

Country	Col. 1 On Dec. 31, 1953	Col. 2 On Dec. 31, 1952	Col. 3 Quota	Col. 1 as % of Col. 3
Turkey	159	148	50	318
France	832	613	520	160
United Kingdom	822	905	1060	78
Italy	112	+147	205	55
Norway	106	17	200	53
Denmark	78	32	195	40
Iceland	4	2	15	27
Greece	1	0	45 (blocked)	—

CREDITOR COUNTRIES

Cumulative Accounting Surplus ($ millions)

Country	Col. 1 On Dec. 31, 1953	Col. 2 On Dec. 31, 1952	Col. 3 Quota	Col. 1 as % of Col. 3
Germany	821	378	500	164
Austria	96	16	70	137
Switzerland	315	186	250	126
Belgium	400	425	331	121
Netherlands	370	296	355	104
Sweden	221	214	260	85
Portugal	53	64	70	76

Construction of Esso Refinery

BY A. D. GRAY and MARK ABRAMS

The official opening of the Fawley Refinery in July, 1951, six months ahead of the scheduled date, marked the successful conclusion of an interesting experiment of American management directing British labour. A Report on the project was prepared and was published by the British Institute of Management. The summary of its findings is given below.

AT the beginning of July 1949 the 450 acres of Cadland Estate, close to the village of Fawley, Hampshire, and on the edge of Southampton Water, were still covered with rolling wood and farmland. Crops were standing in the fields. In November 1951, less than two-and-a-half years later, a vast level plain had replaced the farms, and from it rose the spectacular towers of the new £37,500,000 oil refinery built for the Esso Petroleum Company. A Progress Report dated November 4, 1951 shows that by that date, 97.48 per cent of the work on the new refinery had been completed (the remaining fraction mainly consisting of paintwork). Most of the major process units had been in operation since July 1951, when the official opening of the refinery took place. Yet the original date set for the completion of this gigantic undertaking, the largest oil refinery ever built at any one time anywhere in the world, had been January 1952. This was a tremendous achievement from many points of view—technical, financial, economic and social.

Summary of Findings

The factors which enabled the construction of the Fawley Refinery to be completed well ahead of the date originally scheduled include both fortuitous external circumstances, and the particular techniques of organisation and management employed by those responsible for the job.

The main favourable external circumstances were these:

1. Dollars were available for the purchase of materials and equipment in the United States.

2. At the time initial orders were placed, materials were readily available in the United States.

3. The size and importance of the refinery were exceptional and this helped to create a favourable psychological atmosphere. It also meant that a man of outstanding ability could be selected as Project Manager, and that Esso could keep a group of engineers with extensive authority in residence at Fawley; that capital equipment could be on a generous scale; that suppliers made extra efforts to provide materials, both from a realisation of the refinery's importance and in anticipation of future orders; and that workers took pride in working there.

4. Because of its special dollar-saving importance to the British economy, the job had the support of the British Government, which assisted in obtaining priorities for materials purchased in this country.

Against these favourable 'external'

From Construction of Esso Refinery, Fawley, British Institute of Management, London, March, 1954 conditions should be set a few unfavourable ones, chiefly a shortage of skilled labour, both in the area and in the country as a whole; distance of the site from populated areas (Southampton is 17 miles away); virtual absence of normal transport facilities; and difficult working conditions (the first winter was a singularly wet one) on the site.

The most important of the specific managerial and organisational practices which contributed to the speedy construction of the refinery were:

1. Close co-operation between contractor and client. Through S.O.D., Esso had senior representatives always on the site, both to inspect the work and for immediate consultation on matters on which the approval of the client was required.

2. Early preparation of detailed plans. All ordering of materials was done on the basis of detailed plans. The technical resources of Esso's affiliated company, Standard Oil Development, and particularly their extensive records and experience on the construction of refineries, were drawn upon in estimating supply and labour needs.

3. Early ordering of materials.

4. Vigorous expediting of deliveries.

5. A system of coding orders, deliveries and allocations to the field of all materials according to the units where they were required, so that both the supply and cost situation for any unit could be quickly ascertained.

6. A time schedule for the whole job, realistically worked out from a set completion date.

7. A monthly report comparing actual and scheduled progress.

8. Continuous inspection of the site situation by top management.

9. A system of communications which ensured that all in authority were informed of everything that affected the whole job.

10. Engagement of all labour under one contract, with the Confederation of Shipbuilding and Engineering Unions.

11. A unified system of wages for all crafts.

12. A system of supervision which made it the primary responsibility of supervisors to see that work was not interrupted through lack of materials, labour or skill.

13. Special measures to reduce absenteeism.

14. A Site Executive Committee of shop stewards and management representatives to settle problems about working conditions on the site.

15. Refusal to allow labour disputes to be discussed except through official trade union channels.

16. Responsibility of one contractor, Foster Wheeler Limited, for the major part of the job, and employment of a minimum number of subcontractors. This simplified the problems of co-ordination, made possible a streamlined system for control of progress and supplies, facilitated the most effective and economical use of labour, and greatly assisted union negotiations.

The Problem of Living within our Foreign Earnings

BY PROFESSOR AUSTIN ROBINSON (*Cambridge*)

In an article in The Three Banks Review *a year ago Professor Robinson came to the conclusion that future exports and invisible earnings will not enable Britain to finance much more than 80 per cent of 1938 imports. His views have not since changed, and this year he outlines a policy for a viable British economy on this import basis.*

Imports Too High

In the last year or so we have been able to pay for much more than four-fifths of the import volume of 1938 because we have been able to sell a large volume of exports and the terms of trade have changed in our favour. Thus we have slipped back into an economic pattern which even in the very favourable conditions of 1953 we cannot really afford. The present surplus leaves little for the replenishment of reserves, servicing debt and overseas investment. Too much of our export earnings has gone into financing imports, which in 1953 were some 96 per cent of the 1938 volume. But in the long run food and raw materials will grow more expensive again in terms of manufactures, nor can we expect with certainty that the level of world trade, which in 1952 was some 76 per cent above the 1937 level, will increase or even that the present high rate of activity will be maintained. Moreover, our own share in world trade has been declining and may well decline further as competition grows. We cannot therefore count on being able to increase our exports and will have to reduce imports when the terms of trade return to something more normal. All the post-war experience supports the conclusion that export earnings capable of purchasing about 85-88 per cent of our 1938 imports are as much as we can reasonably assume in normal circumstances and that, when provision is made for the surplus we need to re-create reserves and provide for foreign investment, little more than 80-83 per cent of 1938 imports can normally be financed.

Composition of Imports

The import content of manufacturing output as a whole, excluding food, drink and tobacco, in 1950 was about 18 per cent and the import content of exports about 19 per cent. Some 13.6 per cent of total imports was used for export production, and 3.3 per cent went in re-exports. Imports available for home use were therefore 83 per cent of the whole; by 1953 this percentage had risen to 85.

An analysis of the composition of imports over the past five years and comparison with 1938 shows that we have reduced imports of grains, meat and dairy products as well as manufactures other than machinery; but imports of raw materials, after allowing for those which are normally included as manufactures and after

From Three Banks Review, London, March, 1954

excluding petroleum, have in the past three years reached the level of 1938 (itself appreciably below 1937). The increase in the level of manufacturing output has, however, greatly exceeded the increase in the volume of such imports. In all post-war years the ratio of the volume of imports to the volume of manufacturing output (as distinct from the import content of manufacturing which takes account of price changes) has been of the order of 80 per cent of the pre-war ratio. This means that a given volume of output contains a considerably smaller proportion of imported materials than pre-war.

To some extent the lower ratio can be accounted for by a change in the pattern of industry. Some industries use more imports than others: the import content of textiles and clothing in 1950 was about 28 per cent while that of the metal and engineering industries was only about 7 per cent. But changes in activity explain only part of the fall in imports in relation to output. The main explanation is that within individual categories of industry production has shifted to forms which use less imported materials, and to a small degree home-produced materials materials have replaced imported materials.

Demand for Materials

In most recent years manufacturing output has been growing annually by about £400m. With the present import content, this requires an increase of about £80m. in raw material imports. If we can hold a stable share in an increasing volume of world trade, we can hope to finance these additional raw material imports. Since 1948 we have provided for the requisite increase partly by increasing the total volume of imports, but partly also by increasing the relative share in total imports going to materials at the expense of food, drink and tobacco. In 1938 food imports were about 47 per cent of the total, as against 35 per cent in 1952 and 39 per cent in 1953. A decline in world trade or in our share of it, however, would force us to reduce our raw material imports to something like the 1952 level and to adjust our industrial activities accordingly.

Policy Suggestions

We certainly will do all in our power to prevent a decline in world trade in manufactures, but our economic structure and dependence on trade may prevent us from giving a lead and setting an example to others; at the same time that we are exhorting others to expand their foreign trade we may find ourselves compelled to contract our own. For only if the terms of trade are as favourable as they are now is the structure of our economy and our dependence on imports consistent with our normal level of activity; with our present structure, we can live within our normal foreign exchange earnings only by imposing import cuts (which are formally inconsistent with our foreign obligations) or by taking measures to reduce activities and incomes. We may thus be unable to make generous promises to liberalise our own market in the hope that others will liberalise theirs sufficiently to provide us with increased means of payments. Efforts should also be made to increase our share of total world trade through efficiency of production, excellence of design and trade agreements with countries which are anxious to develop activities complementary to our own.

If these attempts to increase exports meet with limited success, the only other line of policy is further structural adjustment to a lower normal level of imports. We can, for instance, buy unprocessed raw materials and perform more of the preparatory processes ourselves. This has been done since the war in the case of oil and could well be extended to the refining of non-ferrous metals. Another possibility is to concentrate more on production of goods with low import content. A great deal of engineering development has taken the form of elaborate precision-made output which involves relatively little weight of raw materials. Some saving may also be possible in machinery and equipment imported mainly for purposes of rearmament. But the greatest import-saving potentialities lie in a revised agricultural policy. It seems possible that we can save a large volume of imports of basic foodstuffs by a further expansion of domestic agricultural output by some 30 per cent over the present level in the next ten years. The net output of British farming would then be double the pre-war level, yielding some 70 per cent of the total 1938 food supplies. If we could finance food imports at 65 per cent of the 1938 level, instead of 80 per cent as in most recent years, we would have total basic food supplies about 12 per cent above the 1938 level for a population which may be about 10 per cent larger than that of 1938. With food imports reduced in this manner it would be possible to increase imports of industrial raw materials to about 25 per cent above the 1938 volume or about 14 per cent above the 1953 volume. This might be just enough to keep industry supplied and enable it to expand.

NO HALT TO RISE IN BRITONS' EARNINGS

BRITISH industry's Mr Average Man earns £9 9s. 2d. a week, according to the Ministry of Labour's latest survey taken in October last year. That figure represents an advance of 10s. 8d. on October 1952, and £3 8s. 5d. on 1946.

Higher earnings, however, have not meant longer hours. The present average working week of 47 hours 54 minutes is only 12 minutes longer than the year before, and 18 minutes longer than it was seven years ago.

The Ministry find out about Mr Average Man by getting from some 63,000 firms employing more than 6,500,000 workers, details of their total earnings before any deductions are made. Most of these are manufacturing concerns though some large non-manufacturing industries supply statistics, too. None of them include figures for their office or managerial staffs.

Similar averages are struck for the earnings of women, youths and boys, and girls. At October 1953 figures for these groups were £5 2s. 5d., £3 18s. 11d., and £3 4s. 11d. respectively. For all workers the average came to £8 0s. 1d.

Top earners of all were adult miners with average earnings of £12 11s. 2d. a week. Among the next highest came men in newspaper and periodical production and in motor and aircraft manufacture, all with more than £11 in weekly earnings. Dockers' earnings, too, just topped the £11 a week mark, according to statistics from the National Dock Labour Board.

Among the lower paid men were those in some grades of local and national government service, in boot and shoe repairing, and in slate quarrying and mining, all with weekly earnings of less than £8. For farm workers average earnings in the April-September period last year were £7 2s. 1½d. for men, and £4 12s. 11½d. for women.

From Industrial News, T.U.C., London, April 9, 1954

U.S. Agricultural Trade Losses in 1953

U.S. Farm exports fell by 17 per cent in 1953. Total value was $2,833 million compared with $3,431 million in 1952. Exports in 1952 were 15 per cent below 1951. Farm products accounted for 18 per cent of the total exports of all commodities. In the previous year, farm products accounted for 23 per cent.

There were increased exports of tobacco, soybeans, corn, tallow, meats, evaporated milk, fresh oranges, and food for relief and charity sent abroad privately. The chief decline in exports was in wheat, cotton, lard, grain, sorghums, soybean oil, barley grain, white potatoes, raisins and apples.

Wheat remains the number one farm export accounting for 20 per cent of the total farm exports. In 1953 exports of wheat including flour decreased by 38 per cent from the previous year. The value dropped from $942 million in 1952 to $581 million in 1953.

Cotton showed considerable export loss, dropping 40 per cent from the previous year. In value, cotton declined from $862 million in 1952 to $517 million.

Other commodities that declined were: lard down 37 per cent; barley grain down 58 per cent; grain sorghums down 77 per cent; soybean oil down 75 per cent; potatoes down 56 per cent and fresh apples down 31 per cent.

Tobacco exports increased by 38 per cent over the previous year. The value climbed from $246 million in 1952 to $339 million in 1953.

Rice exports remained high in value despite a 13 per cent drop in quantity.

Other commodities that increased were: corn up 20 per cent; soybeans up 66 per cent; tallow up 20 per cent; meats up 30 per cent; evaporated milk up 28 per cent; fresh oranges up 13 per cent; food exported privately for relief up 60 per cent.

United States bought 7 per cent less foreign farm products in 1953. The value of imports dropped to $4,182 million. A 6 per cent decline had been recorded in 1952 over the previous year.

Coffee imports increased by 6 per cent to a value of $1,466 million. Other import increases were: carpet wool up 12 per cent; tea up 23 per cent; and bananas up 22 per cent.

Rubber imports dropped 47 per cent in value. Sisal and henequen were down 51 per cent.

Imports of competitive foreign agricultural products dropped 5 per cent to a total value of $1,805 million. The biggest declines were: apparel wool down 32 per cent; wheat down 70 per cent; feeds and fodders down 45 per cent; beef down 37 per cent.

Increases were as follows: cattle up 79 per cent; pork up 114 per cent; barley grain up 96 per cent; and oats up 20 per cent.

From World Farm News, Washington, April, 1954

Swedish-British Trade

1954 marks the three-hundredth anniversary of the conclusion of the Treaty of trade and friendship between Great Britain and Sweden. This article was written specially for the Anglo-Swedish Review to mark the occasion and is a comprehensive summary of the present possibilities of exchange of goods between the two countries.

More than half of the land-area of Sweden is covered with forests, and their products—chiefly timber, wood-pulp and paper—are very much more than sufficient for domestic requirements. Apart from products of the forest industries, Swedish exports depend in a very large measure upon products derived from the country's mineral deposits, such as iron ore and manufactures of this in the form of iron and steel and metal products, machinery and apparatus of various kinds, etc. But Sweden is almost entirely without such important natural resources as coal, salt and raw materials for the textile industry, not to mention oil, all of which, with growing industrialisation and the higher standard of living, have come to be increasingly important to the modern community.

Today, foreign trade is a vital necessity for Sweden, as it has long been for Great Britain. Thus approximately one-fifth of Sweden's total production, or about the same proportion as in Britain, is now marketed abroad. Foreign trade turnover, related to the number of inhabitants, works out at £117 per head of the population in Britain and a bit more, or £152, in Sweden.

Trade with Britain

In absolute figures the sums involved even in the case of Sweden are today stupendous. Thus, last year, Swedish exports had a total value of 7.6 milliard Swedish kronor, and imports to Sweden amounted to 8.2 milliards. Of the imports, goods to the value of 1.3 milliards came from Britain, while our sales in the British market amounted to 1.4 milliards. It is a fact that for the last couple of hundred years Britain has been Sweden's most important export market. Also, Sweden in spite of her not very numerous population, is traditionally the largest market for British goods on the European continent. However, today as before the war, Britain stands only in second place—after Germany, that is to say, now West Germany.

What Britain buys *from* Sweden is for the most part forest products. About 70 per cent of Swedish exports to Britain comprises timber, wood-pulp and paper, while 20 per cent is made up of iron ore, iron and steel, and manufactures of these. Great Britain, in her turn, sells to Sweden chiefly finished industrial products—especially textiles, machinery and means of transport. Manufactured goods actually represent nearly four-fifths of British exports to Sweden. Of other important items coal should especially be mentioned.

Among the imports from Britain coal still occupies an important place. During the post-war period,

From Anglo-Swedish Review, London, April, 1954 however, Sweden's consumption of British coal has declined, at first on account of British difficulties in delivery, and latterly in consequence of the rising rate of transition to oil in Sweden. In 1938 our imports of coal from Britain amounted to 2.7 million tons, while in 1953 it reached only 1.3 million tons. However, there is still a good chance to regain a more important market, in competition with other countries and with oil.

In the course of the post-war trade negotiations Sweden has displayed a marked interest in iron and steel from Great Britain. It has been a question principally of ship-building materials, tinplate and other sheet steel, but tubes and bars have also been discussed in this connection. It is estimated that the rise in British production of these items will make it possible to meet the Swedish demand; and at present Swedish shipyards have no difficulty in getting the quantities of ship-building materials they require from Britain. Imports of steel bars are no longer so extensive as they were formerly, as a consequence of the increased capacity of the Swedish ironworks. On the other hand, Swedish car-manufacturers need more sheet steel for their motor bodies. On the whole, however, for iron and steel Sweden is now a buyer's market, receiving tenders from all steel-producing countries. The market must therefore be more intensively worked than hitherto in the post-war period.

Machinery

The largest Swedish import group comprises engineering products, including means of transport. In Swedish factories it has long been almost a matter of course to find British machines, and name-plates with such names as Coventry, Birmingham, Manchester, Glasgow and Leicester are a familiar sight in Swedish industrial plant. The purchasing interest for machinery is still considerable, and with her presently wider variety of production Britain has undoubtedly great opportunities in this field. However, the Swedish market has now ample access to German, American and other makes —and to an increasing extent also to Swedish-made machinery. The British machinery manufacturers need therefore to cultivate the Swedish market as effectively as possible. We are particularly interested in such products as machine tools, transport and handling equipment, food processing machines and printing presses. Mention should also be made of precision instruments and navigational and radar equipment.

Our interest in buying motor cars has of recent years been very pronounced. A visitor to Sweden now finds British cars everywhere. During the post-war years Sweden has come to occupy fourth place among Britain's export markets for private cars, and I should think that we represent the leading British market for such cars on the European continent. But this field also has become increasingly competitive owing to the appearance on the market of a larger number of different makes. Thus here too it will be necessary to intensify salesmanship and to endeavour in a still greater measure to supply the special requirements of the market. Talking of motor vehicles, it may be mentioned that Swedish imports of tractors are mostly from Britain.

Names such as Manchester, Leeds and Bradford are in Sweden, as elsewhere, well-recognised designations for British quality production in the textile field. The inclination of the average Swede to spend money on clothes makes Sweden a big textile consumer, excelled only by the United States and Canada, if consumption is calculated per head of population.

Clothing

Although Sweden herself produces the raw material for the manufacture of artificial silk—viscose cellulose—we meet the main portion of our requirements of artificial silk by imports. Great Britain is the chief supplier, in respect of both semi-finished and finished textiles. An especially prominent position has of old been occupied by British woollen materials. Ready-made clothing is still to a certain extent imported into Sweden; but the growth of the Swedish clothing industry during and since the war has been very considerable. Yet, in the large Swedish fashion houses and department stores one generally finds such British-made garments as poplin jackets, ladies' overcoats and children's clothing. Britain, who has for some years been Sweden's chief supplier of textiles, has latterly seen her position increasingly threatened by West Germany.

The extensive British exports of chemicals to Sweden include soda-ash for the Swedish glass and paper industries, common salt for the chemical industry, a number of organic chemicals such as solvents and plasticisers, plastic raw materials, paints and varnishes. In this field also competition is much keener than before.

Among Britain's competitors on the Swedish market West Germany occupies the chief place. As already stated, Germany is once again Sweden's main supplier. Last year the value of our total imports from West Germany amounted to 1.5 milliard Swedish kronor, as against 1.3 milliards from Britain. Other big suppliers of interest in this context are the United States, Holland, Belgium, France, Italy and Switzerland.

In regard to Swedish exports to Britain, we venture to hope that our forest products of which during 1953 wood goods represented half the value, may still find a regular sale over here. In this field we are helped by a particularly long tradition. The fact that timber and plywood are now completely free from quantitative restrictions would appear to be a sign of normality returning to the British market. We are, however, still waiting for paper, cardboard and wallboard to be put on the free list. The import of pulp, board and most kinds of paper is still regulated by a system of global quotas.

Among the staple products from Sweden which have of late found an important market in Britain, special reference should be made to iron ore.

The related exports of Swedish quality steel consist of cold rolled band steel, ball-bearing tubes, high carbon wire rods and other specialities. Charcoal pig iron and ferro-alloys are also important items in this connection. We in Sweden are worried about the reintroduction of the high British steel tariffs. These exports do not run into a lot of money but they are traditional, and we have them very much at heart. We must find a solution to this tariff problem that will permit Sweden to carry on undisturbed her traditional supplies to the British market. Surely this should not be impossible. A first step to this end would be discussions between experts from the two countries.

The Swedish exports of engineering

products to Great Britain have on the whole developed favourably during the past few decades. They include many of our finest products of considerable interest not least to British export industries. It is our hope to achieve in this important sphere an increased exchange of specialities to the mutual advantage not least of industrial production in both countries.

Trade in Foodstuffs

Between the wars Swedish sales to Britain included considerable quantities of agricultural products, such as butter, eggs and bacon. The export of bacon was resumed in 1953, and increased deliveries are expected during this year. As regards eggs and butter, the traditional Swedish deliveries of these products will probably be resumed in the near future. The ban on the import of eggs to Britain has recently been lifted, and next month we expect the import of butter to be free. Last year we began to export breeding pigs. This attracted much attention on account of the high prices obtained by the British importers at local auctions. Lately Sweden has become a great exporter of grain, particularly wheat, and we hope to find a market in Britain for part of our crops.

Since the war we have been able to market certain products of our foodstuffs industry in Britain, such as chocolate, biscuits, cheese and various canned goods. In this field there would appear to be possibilities of further development.

Our wood manufactures, such as furniture, doors and small household articles, have of old found one of their best markets in Britain. Some of our hardware and hollow-ware have also found ready British buyers. I am referring to such items as enamelled ware, oil stoves, meat mincers, coffee-mills and tools of various kinds. Special products of the chemical and pharmaceutical industries might also have a chance on the British market.

It would appear quite possible for British exporters to penetrate further into the Swedish market. But this would undoubtedly necessitate greater attention to the special character of that market as well as a closer study of the particular selling technique and business psychology called for in Sweden. It is above all a matter of establishing personal contacts and creating friendly relations through visits by high executives and prominent technical experts.

In international trade the small progressive, free-trading countries are particularly valuable partners. In view of their advanced economy, the high standard of living of their peoples and their general willingness to receive goods from abroad in open and fair competition with their own production they offer extensive markets for the most desirable type of exports, i.e., the export of manufactured articles. The continuous expansion of British exports to Sweden illustrates this fact and should serve as an impetus to both parties to develop a much closer co-operation in the field of foreign trade.

Digest Book Review

'British Economic Statistics'

By C. F. Carter and A. D. Roy

This study* written by two highly qualified economists under the guidance of an expert committee has as its main object 'the investigation of the statistical information (a) required for, or (b) actually used or available for, the formulation of economic policy in the United Kingdom'. These terms of reference were laid down by the National Institute of Economic and Social Research, to which all users of economic statistics, whether professional economists or men of affairs, owe gratitude for the initiation of this inquiry.

The report aims at an appraisal and not a description of the statistics of the United Kingdom. The authors point out the intrinsic difficulty of reaching decisions in the complexity of economic life—and the virtual impossibility of unravelling them, once made. Nevertheless, 'an important part of the process of policy-making employs numerical facts or makes deductions from economic relations of a mathematical kind'.

In order to decide a course of action in a complex and inter-connected economy, it will usually be necessary to simplify, to employ a 'model'—'a simplified mental picture of the way in which the elements essential to the problem are related to each other'. Statistics can help, but not finally decide, the choice of model on which the policy decision is to be based—for three reasons: the necessary uncertainty of the future; the element of choice involved in deciding how to simplify a problem; and the usual inadequacies and uncertainties of the statistics themselves. Similar limitations apply to the further use of statistics, when the mental picture is already drawn, to elaborate the implications of a particular policy and to throw light on the success or failure of the policy.

There are wide areas of economic 'planning' where the use of statistics is theoretically conceivable but at present quite impossible. 'If we cannot walk in the daylight of the full knowledge, moonlight is still preferable to complete darkness—a doubtful figure may be much better than none at all.' The word 'planning' is not associated in this context with any particular economic theory or system. Both the U.S.S.R. and the U.S. Council of Economic Advisers require extensive statistics.

The authors stress that the private users of statistics are equally important as the users inside the Government. The 'general' users —those interested in policy—need access to the facts; otherwise 'a dangerous power is given to the policy-makers'. Political controversy 'will tend to be sterile if H.M. Opposition is rendered incapable of planning intelligent alternative policies'. The 'business' users require timely information about the general situation within which their business has to operate, and also detailed information on special problems. For the non-experts in both classes it is important that the figures are 'presented in a way which enables their essentials to be grasped and their limitations to be appreciated quickly and easily'. On the other hand, the statistician needs the co-operation of the public.

The general principles so far discussed are illustrated by six case-studies—housing, coal, the development areas, agricultural price fixing, the balance of external payments, the general balance of the economy. An adequate summary of these case-studies is impossible within the limited space of this review; those of our readers interested in any of these problems will find ample food for thought if they turn to the report itself.

Thus the chapter on housing concludes that 'in deciding the size of a housing programme, we seem to be left with little more than the fact that the electorate would like to have more houses'. There is no answer in the existing statistics to show how large the programme should be.

On the Balance of Payments White Paper the authors remark that 'the information now given is a great addition to statistical resources'. It is probably impossible to give many more figures (in view of the confidential character of many of the data on which the published figures are based), but some discussion of the methods used to obtain

* C. F. Carter and A. D. Roy, British Economic Statistics. Cambridge University Press, 1954. 21s. net.

them seems required, ideally including an assessment of errors.

Although in the recent Economic Surveys the forecasts have been reduced to vague indications of direction of motion, the study points out that 'this is partly a matter of presentation' and, therefore, discusses the quantitative forecasting 'which presumably still goes on behind the scenes'. The discussion of the use of statistics for 'general' planning is frank in the admission of weaknesses and difficulties. But these, the authors emphasise, involve no 'modification of our judgment that British statistics are among the best in the world'; the chapter 'suggests rather that one should be cautious in one's claim of what statistical knowledge can achieve'.

The remainder of the book discusses the quality of statistics, their presentation and availability, and the organisation of statistical intelligence. A reference table lists the principal statistical series published in this country and their sources.

The message of the study is that we have reason to be proud of the British statistical system and of the standards which it has set. Nevertheless and in spite of the tremendous improvements which have taken place in the last fourteen years, the authors would 'like to see British statistics continue to be progressive and pioneering', and they are 'not sure if this will be so unless there is a chance of fresh thought'. The book is sure to receive deserved attention in official circles, but it will be equally useful for users of statistics outside the Departments.

M.G.

New Books Reviewed

The Future of Sterling. By A. C. L. Day. Clarendon Press; 12s. 6d.

Mr Day has some important and stimulating things to say in this book. These are a healthy corrective to much wishful thinking about the future of the pound sterling and the part the U.K. will be able to play in the second half of the twentieth century.

Much of the recovery of sterling since 1945 he attributes to the scarcity of dollars. Should that come to an end the pull of the American economy will exert its full force. He thinks that Britain is biting off more than it can chew in attempting to reinstate sterling as an international currency. The reserves are quite inadequate to sustain this role at present and Mr Day thinks that adjustments needed to offset changes in the level of the United States' economy in future should not have to be made in the first instance by Britain.

The International Monetary Fund having its centre in the United States and the great power of the dollar bloc votes seriously impair its likely usefulness. Instead, he proposes a world payments system based upon an extension of the European Payments Union. When E.P.U. is in balance with the dollar bloc members will settle their balances arising from American trade in the same way as existing E.P.U. balances, partly in gold, partly in credit. If E.P.U. is in deficit then balances would fall to be settled wholly or mainly in gold and discrimination against American goods would be encouraged.

It is hoped that many will read this book. A clear and concise historical survey of the origins of the sterling area is followed by a discussion of its advantages and justification. There are two chapters on convertibility both present and future. There follows an examination of the conditions necessary for the proper functioning of an international payments system.

The argument is persuasive and attractively presented and the book is warmly commended.

R.J.W.

Wirtschaft öhne Wunder. Volkswirtschaftliche Studien fuer das Schweizerische Institut fuer Auslandsforschung, edited by A. Hunold. Eugen Rentsch Verlag, Erlenbach-Zeurich, 1953.

This collection of essays by economists from different countries is designed to show the success of a liberal economic policy mainly by the example of Germany's recovery since its currency reform in 1948. The title *Wirtschaft öhne Wunder* ('Economy without Miracle') indicates the line taken by the contributors. The first volume in the series 'Full Employment, Inflation and Planned Economy' was mainly critical and the present publication is intended to discuss the actual performance of the 'market economy'.

The book is divided into three parts. The first contains essays (by President Einaudi, Professor Hayek, Professor Roepke and Professor Ruestow) of a more general character. It is fitting that the volume opens with the contribution by President Einaudi, who spent most of his life as an academic teacher of economics and, before becoming President in 1948, laid the foundation of Italy's policy of monetary stability as Governor of the Italian Central Bank. His essay is a plea for a general return to a greater respect for the traditional rules of economic life. Professor Hayek deals with the Origin and Decay of the Concept of the Rule of Law. Professor Roepke restates his criticism of the 'new' economic doctrine and Professor Ruestow points to the necessity of a programme counteracting communism, which could be found in the concept of the 'social market economy'.

The second part is devoted to the practical results. Professor Baudhin deals with Belgium, Dr Gideonse with U.S. policy, and Dr Nenschak with Austria. Fittingly, the principles of German policy are expounded by Dr Erhard himself and the French economist, Professor Rueff, pays a tribute to Dr Erhard's policy in a contribution characteristically entitled 'Natural Explanation of a Miracle'.

The essays in the last part are devoted to special problems, including currency policy in Germany and Italy (Dr Baffi), and Germany's foreign trade 1945-1952 (Professor Fritz Meyer) and the problem of the capital market in Germany (Dr V. Muthesius).

Although the book was completed before Mr Butler's policy of loosening control in this country began to show its full effects, British readers with a knowledge of German will find it thought-provoking even where they do not fully agree with the continental ideas.

Britain in the World Economy, by Sir Dennis H. Robertson. George Allen and Unwin. 7s. 6d.

This welcome little book reproduces lectures given by Sir Dennis Robertson at the University of Virginia in March, 1953.

What has happened since has not in any way made them less valuable. Much may have been said before but the author's elegance and wit shines through the printed page and makes even familiar things seem fresh.

After a survey of the United Kingdom's position after World War II there follows an outline of the sterling area and a discussion of the obligations and benefits attaching to membership.

In Chapter III—the Dollar Shortage—Sir Dennis Robertson has many penetrating things to say. He does well to remind us of his saying in 1948 that 'what are politely called "balance of payments difficulties" do not necessarily drop like a murrain from heaven but that any nation that gives its mind to it can create them for itself in half an hour with the aid of the printing press and a strong trade-union movement'. Our present standard of living is not our birth right but must be earned. His advice to the U.S.A. on the part that should be played by a large creditor is equally wise and cogent.

The last chapter on Discrimination is a powerful plea for tolerance towards certain types of preferential arrangements.

No review can do justice to this stimulating book. It should be read and kept in a handy place to lend to others.

R.J.W.

A Critique of the Randall Commission Report. Prepared by Klaus Knorr and Gardner Patterson. International Finance Section and Centre of International Studies, Princeton University.

This paper sums up the results of a conference held at Princeton on February 4th and 5th, barely a fortnight after the issue of the Randall Report. The conference was an interesting experiment to meet the criticism that official documents receive too little—and often delayed—attention by professional economists. The participants were a small group of professional economists without present official responsibilities but with previous experience in the formulation of policy. A number of the more important recommendations are discussed in detail and in a final section on the report as a whole it is stated that 'if all the recommendations on trade policy made by the Randall Commission were enacted by the Congress in the next one or two years, the result would constitute the biggest single step forward a more liberal trade commercial policy since the Trade Agreements Act was passed in 1934'. The limitations of the report as a foundation for a long-term policy are, however, clearly recognised.

Italy's Persistent Problems

(1) The Balance of Payments

BY EZIO VANONI (*Minister for Budget*)

IN recent years Italy's overall balance of payments has shown a deficit of around 250-300 million dollars. This is accounted for by a deficit of some 700 million dollars in the balance of trade, as against a credit of the order of 400-500 million dollars on the side of invisible entries and movement of capital. The financing of the overall deficit has been largely covered by American economic aid and, during the past year, by off-shore orders.

Within the general figures there are naturally considerable differences in relation to the respective currency areas: while the situation with the Dollar Area is approaching normal, that with the E.P.U. area is growing steadily worse. In fact, as far as transferable currencies are concerned, Italy's efforts on the one hand to increase her earnings (exports, tourism, remittances, etc.) and on the other hand to reduce her expenditure (in particular by transferring her purchases of imports to markets which offer an outlet for Italian produce) have been successful in altering the total balance (including both goods and invisible items) from a considerable deficit to a modest credit in 1953, taking into account foreign aid and off-shore commissions.

Italy and E.P.U.

But in respect of currencies which are non-transferable, but which can be compensated through E.P.U., Italy has become increasingly overdrawn to the point when in 1953 she, despite the credits granted by the Union, reached a deficit of $312 million, with the result that she had to pay considerable sums in dollars.

Italy's deficit with the various E.P.U. countries is as follows: U.K. and sterling area—$155.1 million; Germany—$59.1 million; Switzerland—$13.4 million; France—$13 million; other countries—$71.5 million. As regards the balance in respect of goods alone, the situation in relation to the main E.P.U. countries is: U.K.—$254.4 million; Germany—$91.6 million; France—$73.6 million; other countries—$142.7 million.

The restrictions on imports imposed by the United Kingdom have hit Italian trade particularly hard. In fact, while the value of Italy's imports from the Sterling Area rose from $546.8 million in 1951 to $701.6 million in 1953, that of her exports fell from $556.6 million to $315.9 million. Thus whereas in 1951 her trading accounts with that area practically balanced, in 1953 she had a deficit of $385.7 million.

Saving and Investment

These figures suffice to demonstrate the seriousness of the situation. It is, indeed, obvious that Italy cannot continue indefinitely in this state of unbalance. The reduction of American aid has brought into relief once more the problem of restabilising the equilibrium of Italy's balance of payments—an equilibrium that cannot depend exclusively on the continuous but modest improvement shown in the invisible items alone. Moreover, the effects of the reduction in aid are making themselves felt just at a time when the policy of investment and of a gradual rehabilitation of the depressed areas, especially in the South, is causing the pressure on imports to increase, while it has not as yet had time to produce an effective increase in the national income.

The latest data afforded by the national economic budget indicate a strong tendency towards saving in relation to the country's internal resources. Gross investments represent around 21 per cent of the national income—a considerable proportion, bearing in mind the low income per head.

As is well known, and as the recent O.E.E.C. conference in Paris seemed to show, the regulations governing foreign investment in Italy are among the most liberal to be found in any country. In order to encourage foreign investors the Italian Government is at present revising the regulations on foreign investment with a view to making them even more liberal. Efforts are being made to abolish such quantitative restrictions as still exist on the transferability of profits—though some of these restrictions already permit of other indirect forms of transferability under the present Italian currency laws.

Certain paramount necessities emerge from the foregoing review. First, the need for Italy to intensify her efforts towards increasing her exports, and for the Italian Government to support these efforts by reducing customs dues and introducing other facilities. Even if this may not seem to be in accordance with the most orthodox line of economic policy, it is nevertheless dictated by the similar measures adopted in other countries.

Secondly, the need for action in the international sphere towards bringing about a rapid reduction, and the eventual disappearance, of quantitative and qualitative restrictions which impede the healthy development of international trade.

Thirdly, the need for Italy's special case to receive consideration within the framework of the various institutions for international co-operation and assistance. Italy is a country which is facing with courage, and with a broad vision of her present and future prospects, the problem of increasing her national income—which means the problem of improving the average standard of living of her large surplus population and therefore of increasing her political and social stability.

From Italy's External Trade, Special Supplement to the Statist, London, May, 1954

(2) Foreign Trade Difficulties

BY MARIO MARTINELLI (*Minister for Foreign Trade*)

ITALY's foreign trade has made great strides in recent years, and has in many respects more than recovered its pre-war position. But it remains beset by certain problems, of which the most outstanding one is a structural deficit in the balance of trade. A trend towards stabilisation in the pattern of Italy's foreign trade exchanges was confirmed during 1953. The value of her foreign trade last year reached the respectable total of $3,900 million, as compared with $3,700 million in 1952 and $3,800 million in 1951. This denotes an increase of 45 per cent over the figure for 1950, a year in which Italy's foreign trade had already made substantial progress by comparison with the earlier post-war years.

The value of imports increased from $1,482 million in 1950 to $2,167 million in 1951, $2,336 million in 1952, and $2,395 million in 1953. There was an abnormal reduction (to a value of some $88 million) in imports of raw cotton in 1953, due to the crisis in the Italian cotton industry, which is still going on at present; but apart from that, Italian imports in both 1952 and 1953 increased at the rate of about 7 per cent.

Increased Trade

Compared with this considerable increase in imports, the progress of Italian exports may appear more uncertain, though here it should be recalled that the large increase in the export trade which took place in 1951 must be regarded as exceptional. The value of exports in the past four years was as follows: 1950, $1,205 million; 1951, $1,607 million; 1952, $1,386 million; 1953, $1,488 million. In 1953 exports went up by 7 per cent as compared with 1952, and in the second half of the year —during which period a marked improvement took place—they surpassed by 13 per cent the figure for the corresponding period of 1952.

Imports to Italy had increased considerably in 1951, by comparison with the previous year, largely as a result of the increase in prices of certain basic raw materials following on the Korean crisis and dependent also on the stock-piling policy pursued, in particular, by the U.S.A. But during the two years 1951-53 imports assumed a clearly defined trend, characterised, as we have already said, by a steady increase.

This increase was especially noticeable in certain branches, notably in industrial finished goods other than foodstuffs (and above all in machinery), where the value of imports increased from $323 million in 1951 ($264 million in 1950) to $466 million in 1952 and $531 million in 1953; on the other hand agricultural food products, raw materials, and semi-finished goods underwent no particular change during these three years. Imports of foodstuffs fell from 21 per cent of the total in 1951 to 19 per cent in 1953 and of raw materials and semi-finished goods from 64 per cent to 59.8 per cent, while imports of finished goods rose from 15 to 22 per cent of the total. As compared with the pre-war (1938) position, the percentages of total imports represented by agricultural foodstuffs and finished goods have increased, while there has been a considerable reduction in raw materials and semi-finished goods.

Exports of agricultural foodstuffs, which in 1951 represented about 20 per cent of the total, rose to 24.5 per cent in 1953, while during the same period those of raw materials and semi-finished goods moved from 27.4 per cent to 28.7 per cent, and manufactures fell from 52.7 per cent to 46.8 per cent. As compared with the pre-war situation, raw materials and finished goods today represent a higher percentage of total imports, while agricultural foodstuffs have fallen from 33.2 per cent of the total in 1938 to 24.5 per cent in 1953.

In 1953 more than 66 per cent of Italy's foreign trade was conducted with countries within the E.P.U. Area, as against some 20 per cent with countries of the Dollar Area, while the remaining 14 per cent was accounted for by other countries, including Eastern Europe and China.

Imports from the E.P.U. countries have increased substantially and continuously, rising from a value of $1,140 million in 1951 to $1,336 million in 1952 and $1,630 million in 1953; whereas those from the Dollar Area, after showing a slight increase in 1952 ($706 million) as compared with the preceding year ($656 million), fell considerably in 1953 ($496 million), largely owing to reductions in the purchase of raw cotton, wheat, coal and machinery.

Exports

As to exports (according to the Customs statistics), those to the Dollar Area, in which the United States represents around two-thirds of the total, are constantly on the increase ($195 million in 1951, $226 million in 1952, and $234 million in 1953), even though the annual rhythm of increase is slowing down (27 per cent in 1951, 16 per cent in 1952, and 3.5 per cent in 1953, as compared with the respective preceding years); exports to the other areas (E.P.U., Eastern Europe and China, and 'other countries') after a reduction in 1952 showed some recovery last year. The value of exports was as follows: E.P.U. Area, $1,173 million in 1951, $925 million in 1952, $986 million in 1953; Eastern Europe and China, $66 million in 1951, $59 million in 1952, $62 million in 1953; other countries, $213 million in 1951, $176 million in 1952, $206 million in 1953.

Of the total exports in 1953, 66 per cent went to the countries of the E.P.U. Area (68 per cent in 1938); 16 per cent to the Dollar Area (10 per cent in 1938); 4.2 per cent to Eastern Europe and China (7 per cent in 1938); and 14 per cent to other countries (15 per cent in 1938). The greatest change, as compared with the pre-war period, is in respect of the Dollar Area, which today represents an important market for Italian goods.

From the foregoing account of the present position and characteristics of Italy's foreign trade it will be seen that, as long as the present rhythm of investment and of national economic activity remains unchanged, a structural deficit will exist in Italy's balance of trade.

Italy's Difficulties

A policy of reducing imports has hitherto—and rightly—been rejected by the Italian Government. As has been shown above, a considerable percentage of the country's imports consists of essential raw materials, machinery, basic foodstuffs, fuel and carburants; finished products and consumer goods represent a very much smaller proportion. Any reduction in imports of raw materials and other essential goods would mean in effect a reduction in the already low standard of living of the population, and would render even more problematical that intensified policy of investment which is indispensable if possibilities of employment are to be increased.

Italy has made a notable effort towards the setting-up of the European common market through her abolition of quantitative restrictions on almost all imports from the O.E.E.C. countries. But it is only fair that these countries should also make a similar contribution, thus helping to meet the difficulties which Italy is encountering in her efforts to cope with the considerable deficit in her balance of trade. The restrictions on imports which many O.E.E.C. countries are maintaining at present particularly affect the main characteristic Italian products, and their elimination would facilitate an increase in Italian exports.

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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U.K. Cost of Living: *The Cost of Living,* supplement to Barclay's Bank Review, London, February 1954. An extremely compact and vivid presentation showing graphically, incomes in different ranges, how different types of income have changed, gainers and losers, savings as percentage of disposal income, how each pound was used, price changes 1948-52. (515)

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U.S.A.: *Chicago as an Ocean Port.* Board of Trade Journal, April 1954. This article has been written by the Consulate-General in Chicago and is of general interest especially as the St Lawrence Seaway Project is likely to be started soon. (517)

PUBLICATIONS OF UNITED NATIONS AND SPECIALISED AGENCIES

Statistical Yearbook 1953. *Prepared by the Statistical Office of the United Nations. New York,* 1954 *(available from H.M. Stationery Office; cloth* 55*s., paper* 45*s.).*
This is the fifth issue of the U.N. Statistical Yearbook, which is by now well established as a standard reference book for all students of world affairs. The present issue contains 182 tables (in most cases twenty-year series 1933-1952) covering population, economics and finance, social statistics, education and culture. Several new tables have been added and a number of existing ones have been extended or improved. Users are assisted in interpreting the figures by the provision of ample explanatory notes. It is neither possible nor necessary, for readers of ECONOMIC DIGEST, to show in detail the wealth of information furnished in the Yearbook. One interesting point, however, may be mentioned: The United Kingdom takes the first place in newspaper circulation per head of the population and in book production.

Demographic Yearbook 1953. *United Nations, New York,* 1954 *(available from H.M. Stationery Office; cloth* 47*s.* 6*d., paper* 37*s.* 6*d.).*
Whereas the U.N. Statistical Yearbook is designed for the general user, the Demographic Yearbook gives more detailed information of interest to students of population questions. The emphasis of the present issue is laid on population trends.

CONTENTS