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ECONOMIC DIGEST

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True Character of German Competition

BY TERENCE PRITTIE

WORLD trade recession would confront Britain with her most persistent rivals in the export markets—most of all, perhaps, with Germany and Japan. The comfortable slogan of 'room for everyone' would no longer apply should the world's purchasing power decline and capital and credit became dangerously scarce.

The Germans are busily arming themselves for this bleakest of all possibilities, and their first and most effective weapon is a huge and unshakable optimism. The Federal German Minister of Economics, Professor Ludwig Erhard, has often been depicted as the most obvious and challenging symbol of this optimism. He is live, lusty and—dare one say?—Elizabethan. In his quests for liberalisation of trade, for the sweeping away of customs barriers and for the free convertibility of currencies, Erhard has all the robust adventurousness of the Drakes and Hawkinses who sailed into uncharted seas.

On January 1, he wrote his New Year's message to the German people in the columns of *Die Welt*.

Western Germany will continue to expand economically, he said. 'This was our aim in 1953 and we raised production by 8.5 per cent. We wanted to improve our standard of living and raised that by 8 per cent too. We wanted to create new jobs and have achieved a record with 16,000,000 people in employment. We wanted to build houses and we have built nearly 500,000 in a year. We wanted to increase our export trade and have done so. In 1953 our exports totalled 18,000 million marks and exceeded imports by 2,000 million.' With a poetic disregard for the mundane fact of billions of dollars from American aid programmes, Professor Erhard declared: 'Nobody made a present of anything at all to the German people in the years behind us, and we climbed out of chaos and despair by our own honest efforts'. Hard work was the explanation of past successes, hard work and brimming self-confidence the clue to the rosy future.

Professor Erhard believes what he says and has a habit of being right. Western German economic expansion, the wiseacres say, is slowing down. Of course it is, for the achievements of the last five years tend to be measured against the hunger, hopelessness, and bankruptcy of the pre-currency reform era. Thus the Bank of the German Länder end-of-year report was almost morbidly concerned with the fact that exports increased by 'only' 16 per cent last year, as against 74 per cent in 1952. It was bound to admit, however, that Germany's surplus of exports over imports had multiplied nearly four times to a figure of over 2,000 million marks.

German shipbuilders in Hamburg told me that their order-books were unhealthy, yet the 1953 shipbuilding index is 519 per cent of 1948 and

From Third Programme Broadcast, B.B.C., The Listener, January 21, 1954 there is enough work on hand and on order to keep this industry working to capacity until the spring of 1956.

German statisticians complain that British fears of German competition are not justified by their figures. Perhaps not, but the Federal Republic is today exporting roughly twice as many capital goods to the countries of western Europe as Britain is. In 1952, the figures were £228 million's worth against £125 million. In 1952, moreover, German exports of machinery to the United States forged ahead of British—roughly £13 million against £10 million's worth. The pattern of trade in 1953 will be shown to have been the same.

Shipbuilding Drive

The great North Sea ports of Germany were roughly 70 per cent destroyed by bombing during the war. Later some of their most modern shipyards were dismantled by Allied order, and German firms were forbidden to build ships of more than 1,500 tons until mid-1949. The last restrictions on shipbuilding were only removed little over two years ago and one great shipyard—that of Blohm und Voss—will probably only be given permission to build ships again during the course of the next few weeks. In January, 1950, the German merchant fleet totalled 290,000 tons: in 1951 the figure was 730,000 tons and today around 2,050,000 tons. The Korean war certainly helped produce a shipping boom, but orders today total over 2,300,000 tons and the German carrying trade on the seas continues to expand. This year the port of Bremen has been unloading 140 per cent of pre-war cargoes.

The shipbuilders of the Clyde and Mersey may shrug their shoulders at what still appears a remote and insignificant German challenge to British supremacy. There are at least three reasons why they should not do so.

The first is the tremendous impetus of the German shipbuilding drive which has been helped by tax remission under the special '7.d.' clause. This clause has allowed at least 200 million marks of shipping profits to be ploughed back into the industry. At present the German target is to increase the size of the merchant fleet to 3,500,000 tons by the end of 1955. A world trade recession would slow down the rate of expansion, but it would hardly put it into reverse.

In the second place, German shipbuilders have earned a high reputation for repair facilities. Saturday and Sunday are the two busiest days of the week in the Hamburg and Bremen harbours, for foreign shipowners know that repairs will be carried out there and cargoes unloaded irrespective of whole or half holidays. There may be up to 120 ships in Hamburg harbour on a Sunday, and an average of only 80 during the week. Not for nothing has it earned its title of 'the Speedy Port'.

Finally, the labour situation is remarkably sound. The German dockers take their orders from a single trade union and German trade union policies are based on increasing production and raising the standard of living. In Hamburg there has been one serious strike in the shipyards during the last five years. It resulted in about one sixth of the labour-force striking for under a week. As in every sector of the German economy, workers do not talk about 'fair shares for all', but raise their productive effort in order to earn more.

Markets Invaded

The German threat to the British shipbuilding industry may be something of a comparatively remote nature—unless a slump gives a greater point to German virility and perseverance. It is otherwise with the German invasion of the markets of the under-developed countries of the world. There is, for instance, the case of the firm of Friedrich Krupp.

Krupps were bombed, demolished, and dismantled. Component parts of the firm were split away from each other under Allied decartelisation measures. Yet by last spring its revival was in full swing. Krupp's representatives became some of the best-known passengers on the world's airways. They flew to India and arranged to construct a steel mill there with a plant capacity of 1,000,000 tons a year, and a cement works in the middle of Southern India's limestone reserves. They agreed to build a 'pilot' steel plant in Pakistan, a dam and power-station in Egypt, a nickel processing plant in Greece, a bridge over the Bosphorus for Turkey.

Severed from their former coal-mines and debarred from producing steel by Allied decree, Krupps are blazing a trail which is being followed by many other German firms who are not afraid of British competition in traditionally British export markets. There is no sinister secret involved in this. For the Indian steel mill Krupps are putting up a maximum of £7 million out of a total long-term credit of £54 million. Even this sum must have been difficult to find. When the Export Credit Company recently apparently extended its terms of credit to eight years in order to finance the Krupps deal in Greece, German banks protested on the grounds that the company could grant only five-year credits.

The truth is that Krupps and other German firms are entering Empire markets by the orthodox front-door of straightforward trade negotiation. In spite of whisperings about hidden subsidies, no evidence has yet been produced that present-day German traders are reverting to the dubious methods of the nineteen-thirties, when political pressure, the sale of second-hand armaments, and the downright dishonest clearing-house agreements of the Nazis facilitated the so-called 'bloodless invasion' of the economies of south-east Europe.

Germans, indeed, stoutly maintain the fairness of their present-day trading methods. 'We want free competition', Herr von Scherpenberg, head of the sterling area trade section of the Foreign Office, told me.

Eastern and E. European Trade

Von Scherpenberg admitted that only the reopening of eastern and east European markets would ease Anglo-German competition. He believed that this could be the third stage in the Soviet's 'new policy' of raising the standard of living in the eastern bloc. But first would come a reorientation of production within the bloc, and the speeded-up integration of its component countries. He admitted, too, that Germany is making a big and successful effort to recapture her Chinese trade. The volume of German trade with China and Hongkong was roughly three times higher in 1953 than in the previous year, and was up to about 60 per cent of pre-war.

All of this trade came within the

terms of the American 'Battle Act' which forbids the export of 'strategic goods' to the Iron Curtain countries. It provides an interesting pointer to the developing German trade-drive in the Far East. Men like von Scherpenberg and Erhard, however, believe that the western world is big enough for Britain and Germany. In a private interview last week Professor Erhard told me that economic competition between the two countries was one of the healthiest factors in the western world. 'Germany', he said, 'knows it is to her interest that the British economy should flourish. For Britain and the Commonwealth provide between them the best market of all for German goods.'

Professor Erhard believed, too, not only that competition was being fairly conducted on both sides, but that it was to the advantage of both Britain and Germany to do away with the remnants of export bonuses and incentive schemes and to make the pound and mark currencies freely convertible. He told me that the freeing of the mark would be the crowning achievement of his efforts to make German trading successful, free, and fair.

Formidable Challenge

Fair the German export campaign may be, but its threat to Britain must not be under-estimated for a moment. There are at least five reasons why the Germans are making such spectacular headway and each of these is to some extent untypical of Britain.

The first is the German desire to 'get back', to overcome the ruins, refugee problem, the loss of the eastern provinces and the division of their country. The second is the canalisation of Germanic energies into the purely economic field. Today those broad Pan-German horizons bewitch few of the toughest and thriftiest citizens of Europe.

The third is the readiness to take chances. During the last year German banks have roughly doubled their volume of long-term lending and are taking risks which would scandalise any big British bank. In the same way, German business men are readily ploughing back profits into their own undertakings and backing themselves up to the hilt.

Then there is the German determination to work, which is backed by the trade unions as well as the Government. Half-hearted talk about a forty-hour week has come to nothing and the unions will not press for this until a further rationalisation of the German industrial machine has taken place. Unemployment is mainly 'structural' and will be reduced as the Ministry of Refugees' resettlement plans mature. Unemployment, for that matter, is 160,000 below last year's figure and the labour force continues to grow by around 500,000 a year.

Finally, there is the instinctive mutual understanding between Government and people. Erhard's free-trading methods have helped to bring prosperity and are generally popular. Germans were tired of Nazi and war-time controls, and the German is honestly ready to work more in order to earn more and to buy more.

The German trade challenge is growing. It is backed by rising production, reduced import prices, a lowered cost of living, and a contented labour force. The challenge must be squarely met if the British economy is not to run the risk of serious setback, and it can be met only if German energy, hard work, and imagination are recognised and duplicated and perhaps improved on.

Germany's Way with Housing

Second mortgages at one per cent or interest free, the main method of subsidy; grading of houses also makes for economies.

German and British policies in regard to housing subsidies differ in several respects.

German subsidies are not paid in the form of fixing a rent for each dwelling lower than the economic rent. Instead, second mortgages are granted at a maximum rate of interest of 1 per cent (often interest free), with a redemption rate of 0.5 per cent as long as first mortgages are running. By the end of that period the fraction of the rental then freed is added to the redemption rate so that the State loan is fully redeemed in 60-65 years.

Cheap Second Mortgages

This system of second mortgages at nominal rates of interest has been the main form of German housing subsidies for the last four years. In 1953, about 25 per cent of the cost of the housing programme has come from builders' funds, 30 per cent were first mortgages granted by banks and other financial institutions, and 45 per cent second mortgage loans granted from federal, provincial or municipal funds. About £200m. were advanced from public funds in 1953.

This is considerably less than the value of housing loans to local authorities in the current British Budget, despite the fact that the number of houses constructed (470,000) was much higher than in Britain (310,000).

Floor space per house, however, is much less than in Britain and the rent paid per square foot is higher. Under the German 'Social Housing Scheme', which accounts for about 70 per cent of all new construction, the maximum floor space permitted for any house built under the scheme in Germany is 900 square feet, and the minimum admissible is 450 square feet. The rent payable works out at 2s. per square foot per year, or £80 a year for a floor space of 800 square feet.

Of all dwelling units built in Germany in 1952, 75 per cent were of the three to four-room type and 16 per cent of the one to two-room type. Only 9 per cent had five rooms or more. Moreover, the tendency is towards flats rather than self-contained houses.

Building costs of an average dwelling unit of about 600 square feet under the social housing scheme amount to about £1,160, as against a reported £1,800 for the normal council house in Britain, which is, of course, considerably larger.

Comparison with U.K.

Apart from methods of financing and average sizes of dwelling units, there are other substantial differences between German and British housing policies.

In the first place building in Germany is done mostly by private enterprise, either individually or by housing associations. Houses built by local authorities account for only about 5 per cent of the total. Secondly, the expedient of granting

From Financial Times (Bonn Correspondent), London, January 28, 1954 tax reliefs is used fully. Under certain conditions tax relief of up to 50 per cent of total building costs is granted spread over a period of 12 years.

If loans are given free of interest, for example, by employers, they can be deducted from taxable income to a limit of 10,000 marks per house. This is the basis on which industrialists wishing to house their employees usually proceed. Thirdly, tax payable on property is often limited to the tax payable prior to the building of the house (that is, without any increase in the assessed value).

Three Categories

To determine who is eligible for a second mortgage or for tax relief, all housing in Germany has been grouped into three categories and each builder is entitled to choose his own group.

The first group is social housing, which is apportioned by authorities to tenants with an income of up to £900 a year, and where rents are controlled. The second group is tax assisted housing (floor space from 900 to 1,300 square feet, rent up to 1.50 marks per square metre), which is rent controlled, but where the owner can choose his own tenants. And finally, there is the 'free building' group which enjoys no assistance of any kind from the State and is entirely free.

German housing policy, however, has one great drawback, compared with Britain. The 5 per cent mortgage debentures through which second mortgage loans are financed were exempted from income-tax in 1950. This, no doubt, has channelled vast sums into housing, but it has also blocked all avenues to the capital market for industrial issues. To distribute a 5 per cent tax-free dividend, corporations would have to earn upwards of 40 per cent on their capital per year. Industrial debentures are handicapped to a lesser degree.

Normal Interest Rates

German banks have long since regarded the 5 per cent tax-free mortgage debenture as one of the main obstacles on the road towards a free capital market. It is to cease by the end of this year. Simultaneously, pre-war rents are to be replaced by 'freely negotiated rents, not exceeding, however, real costs, including a fair revenue on capital invested and subject to scrutiny by arbitration tribunals'. The outstanding sum of public loans is to be reduced annually by 10 per cent, the amounts paid by the Exchequer to be moved from the ordinary to the extraordinary Budget, and the interest on second mortgages will have to be paid at normal rates instead of at nominal rates.

ADDRESS BY PROFESSOR P. SARGANT FLORENCE

PROFESSOR P. Sargant Florence, C.B.E., of the University of Birmingham, will address a meeting of the Economic Research Council at 8 o'clock on Wednesday evening, April 7, 1954. His subject is 'Social and Psychological Factors in British and American Industry: Similarities and Contrasts'. The address will be followed by questions and discussion. The meeting is in the Angus Room, 55 Park Lane, London, W.1. Non-members will be welcome if they will notify their intention to be present to the Secretary, Economic Research Council, 18 South Street, London, W.1 (GROsvenor 4581).

Real Incomes of Middle Classes in United Kingdom

TABLE I—DISTRIBUTION OF INCOMES

Number of gross incomes (in 000's) in equivalent income groups.

1951-52 Income group		No. of incomes	1937-38 Income group	No. of incomes	Number	Change %
£500- £750	...	4,356	£200- £300	2,368	+1,988	+84
£750-£1,000	...	819	£300- £400	710	+ 109	+15
£1,000-£1,500	...	420	£400- £600	492	— 72	—15
£1,500-£2,000	...	145	£600- £800	182	— 37	—20
£2,000-£3,000	...	125	£800-£1,200*	139	— 14	—10
Total	...	5,865		3,891	+1,974	+51
Above £3,000	...	130	Above £1,200	222	... 92	—41

*Estimated

IT IS not difficult to measure the improvement in working-class standards of living that has taken place since 1939. To assess the deterioration in the position of the middle income groups, at whose expense most of the redistribution of incomes has taken place, is less easy.

Those with incomes of between £500 and £3,000 a year make up one-quarter of the working population and pay one-half of all personal taxation; and the general effect, first of inflation and then of taxation, on their numbers and their level of income can be gathered from figures supplied (two years after the event) by the Inland Revenue. It appears at once from these figures that inflation alone, even without the additional impact of taxation, would have done much to redistribute income.

To measure the effect of inflation, it is necessary to allow for the fall in the value of the £ since 1938. There is no official cost-of-living index for the middle classes. But unofficial estimates agree that the cost of living has increased more steeply for larger incomes, and since the index of retail prices—a working-class index—now stands at 227 (1938 = 100), an average figure of 250 for the middle-classes will err, if at all, on the conservative side.

On this reckoning the £ is now worth two-fifths of its 1938 value; an income of £500 today will be the equivalent in purchasing-power of an income of £200 in 1938, and so on. If all gross income had simply kept up with the rise in the cost of living, the same number of people ought to be earning, say, £500-£750 today as earned £200-£300 in 1938. Table I shows what has actually happened.

The total number of incomes between £500 and £3,000 has increased by just on 2m., or over 50 per cent, and most of the increase has taken place between £500 and £750. This increase has resulted from a 'levelling-up' from below. Although the upward movement in working-class incomes has for the most part taken place below the lower limit of the

From Financial Times, London, February 2, 1954 middle range, it is clear that a large number of better-paid workers have moved up into it—in many industries an average wage of £10 a week or more is not by any means unusual. At the same time, this is a *net* increase and almost certainly masks the fact that a number of incomes which in 1938 were in the middle range have now fallen out of it. In many professions, after all, it is still common for a young man to start at only £400 a year.

Inflation Plus Taxation

The picture as a whole is clearer if one begins at the top. The table shows a fall in every income range above £1,000 a year; altogether the number of incomes above £1,000 equivalent has fallen by 215,000, nearly 21 per cent. This fall more than accounts for the increase in the £750-£1,000 group, and converts it in turn to a net fall. The 'increase', in fact, consists of those who have fallen from higher equivalent income brackets.

It is assumed that the professional and business population has remained static; in fact, it has very probably increased, and the fall has been sharper than shown here. But it is clear, at least, that in every middle-income group a considerable number of people have failed to increase their gross salary in line with the rise in the cost of living.

Table I has shown what inflation alone would have done to the level of middle-class incomes. Table II shows what taxation has done to them: it sets out the average net income after tax for each income-bracket.

The redistributive effect of taxation is very marked. Over the whole of the middle range real net income has fallen by 21 per cent; the fall is unequally distributed, rising with the level of gross income. But just as the first table showed the effect of inflation alone, so this table shows the effects of taxation alone. In practice, an individual taxpayer's real net income—the purchasing-power he commands—is reduced by both forces acting together.

To show the effect of the two in combination it is necessary to look at the problem in another way, and from the point of view not of income-groups but of individuals. Table III shows what gross income must be earned in 1954 to give the same net purchasing-power after tax as a given income in 1938.

These figures are striking. A man who earned £600 a year in 1938 would have to earn over £1,800 today to command the same purchasing power. A man with £1,500

TABLE II—CHANGES IN REAL INCOMES

1951-52 Income group	1951-52 Average net income	1937-38 Income group	1937-38 Average net income revalued at 1952 prices	Fall
£	£	£	£	%
500- 750	543	200- 300	590	8
750-1,000	727	300- 400	830	12
1,000-1,500	927	400- 600	1,125	18
1,500-2,000	1,220	600- 800	1,525	20
2,000-3,000	1,576	800-1,200	2,140	26
Whole group	635	—	800	21
Over £3,000	2,400	Over £1,200	6,550	63

TABLE III—SALARY RISES NEEDED TO MAINTAIN REAL INCOMES

Gross salary in 1938	Gross salary required in 1954 to give the same purchasing power after tax: Single	Married	Married, 3 children
£	£	£	£
200	561	540	500
400	1,211	1,226	1,098
600	1,827	1,840	1,828
800	2,641	2,663	2,658
1,000	3,659	3,685	3,679
1,500	7,213	7,252	7,242
2,000	14,133	14,257	14,227
3,000	48,120	48,290	48,240
5,000	109,320	109,540	109,500

in 1938 would have to earn nearly five times as much in 1954 to maintain his former standard of living, let alone achieve the improvement in it he might reasonably hope for after 16 years.

Anyone fortunate enough to have had £10,000 a year before the war would need a gross salary of just on a quarter of a million to keep going at the same rate. It is known that in 1951-52 there were only 36 people in the country with a net income of more than £6,000 a year, with a purchasing power, that is to say, greater than a gross income of just over £3,000 would have yielded in 1938.

It is plain enough that most middle-class salaries have not made the enormous strides necessary to keep up with the effects of taxation and inflation combined.

Professional men, whose scales of charges scarcely change from one generation to another, have suffered as badly. Even those in business, who have been better placed than others to keep up in the race, cannot have done so with much success except through use of the expense account.

The case of the rentier is particularly striking. With an investment portfolio which yielded £1,000 a year gross in 1938, the Ordinary shareholder is 50 per cent worse off in real terms and the Preference shareholder 61 per cent worse off than before the war.

CANADA CONCERNED ABOUT UNEMPLOYMENT

CANADA's Labour Minister reports that 218,000 members of the unemployment insurance fund were receiving assistance on December 31, 1953—54,000 more than at the end of 1952.

Since the workers included in the scheme of unemployment insurance number only 60 per cent of the total civilian labour force, there are substantial grounds for the belief that at the end of January there were half a million unemployed in Canada. Statistics recently published about various lines of economic activity supply confirmatory evidence of the recession now in progress.

There has been no alleviation of the blockade of wheat, and spokesmen for the prairie grain-growers have continued to press, but without success, for loans on grain stored on farms. In the last five months of the current crop year, ending December 31, Canada's wheat exports were lower by 52,000,000 bushels, or about 38 per cent than in the same period of the previous crop year.

News Item, Ottawa, February 14, 1954

Wage Rates and Living Costs in Britain

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

DURING the past four years, movements in retail prices have gone through three phases.

During the first of these, which lasted until nearly the end of 1950, retail prices rose relatively slowly. This was succeeded by a period in which retail prices rose much more rapidly as the result of higher import prices and higher wages. This period of very rapid rise came to an end early in 1952, since when the rise has again been much slower and mainly due to the removal of food subsidies, for which consumers were given compensation in the shape of lower direct taxes and increased allowances. These changes may be summarised as follows:

Rise in Retail Prices

	Food	*Total*
Sep. 1949—Sep. 1950	4%	2%
Sep. 1950—Jan. 1952	23%	16%
Jan. 1952—Sep. 1953	11%	6%

Between September, 1952 and September, 1953, the rise was still slower: prices of food rose by 5 per cent and the whole index of retail prices by about 2½ per cent. During the last six months of that period the rise was checked altogether, both in food and in total, in spite of a rise in food prices from March to April as the result of some further reductions in subsidies.

The greater rise in food prices than in others during the past four years had brought food prices back to about the same relationship with retail prices as a whole as they held in 1938, while with the progressive elimination of rationing the pattern of working-class consumption is probably now nearer the pattern existing in the later 1930's when the working-class budgets on which the index is based were collected, than at any period since 1940.

Wage-Rate Trends

The general level of wage rates, over the whole of the past four years, has slightly more than kept pace with the rise in retail prices, after falling slightly behind it in 1950 and 1951, and rather more heavily in the middle of 1952 when the temporary depression checked the rise in wage rates, especially in the textile and allied industries. Earnings, which allow for overtime and piece-rate earnings, have more than kept pace with prices, and real earnings in April, 1953, were appreciably higher than in 1949. It should be noted that the April figure for real earnings does not include the effects of the rise in wage-rates and the slight fall in prices which have occurred since then, and the October figure for real earnings (which cannot be calculated until the money earnings are published in March 1954) is likely to be something like 104.

The average figures for wage-rates and earnings naturally conceal considerable differences between different occupations and industries. Since wage-rates are fixed by occupations and earnings figures calculated by industries, it is not possible to give comparable figures for both. In the third quarter of 1953, out of 20 wage rates examined, ten had risen more than retail prices since 1949, eight less, and two the same. In the same quarter of 1952, four had risen

From Free Trader, London, February 1954

more than prices, one the same and fifteen less. It therefore seems that the lag in wage-rates which occurred in 1952 has now been fully overcome.

Real Earnings

In real earnings the lowest figure was reached, not in the fourth quarter of 1952, when activity in the textile trades had largely recovered, but in the second when earnings were affected by short-time and loss of overtime. In April, 1952, out of nineteen industries, fifteen showed lower real earnings than in October, 1949, and only four higher. In April, 1953, ten were higher, four the same, and only five lower. It is probable that the number of industries in which real earnings have fallen since 1949 will be found to have fallen still further in October, for the sharp rises in wage-rates of women in the shoe-making, confectionery, tailoring and shirt-making trades have presumably raised average earnings in the Leather, Clothing and Food, Drink and Tobacco industries.

On the whole, therefore, there seem to be fewer grounds for demanding general increase in wage-rates, except for increased output, than at any time in recent years. While there may still be some particular occupations where wages have lagged behind (and the continued narrowing of the margin between skilled and unskilled wages must give ground for concern), it can be said that any substantial wage increases affecting large numbers of workers, unless offset by additional output, would not only disturb the newly found stability of retail prices but also, in view of the end of inflation in the rest of the world, would price us out of the export markets and engender a new balance of payments crisis and possibly a new devaluation of sterling.

Creeping Inflation: The Proof

BY THE RT HON. LORD BALFOUR OF BURLEIGH

THERE has undoubtedly been some improvement in the financial climate (of Britain) since the return to more orthodox monetary techniques two years ago. But can we claim to have got rid of over-taxation or of creeping inflation?

It is some consolation that in spite of the greatly increased burden of defence since 1950 it has been possible to prevent taxation absorbing a still larger proportion of private income; nevertheless, the level of public expenditure, and the dead weight of taxation which that carries with it, remains one of the chief obstacles to our future stability and progress.

As to inflation, it is a matter for regret that the new monetary policies introduced in November 1951 have not in fact meant a reduction in bank deposits. On the contrary, Lloyds Bank's seasonally adjusted index of deposits has for some months been standing at record levels. Indeed, although the advances of the clearing banks have been reduced by a further £67 millions over the past twelve months, fresh governmental demands on the banking system have been responsible for a further rise of well over £200 millions in net clearing bank deposits.

The major banking trends since the adoption of the new monetary policies in November 1951 are summarised in the table below. It will be seen that in the first twelve months, taken as a whole, bank advances were sharply curtailed and at the same time we lost nearly £300 millions of gold and dollar reserves. That these movements were not reflected in any contraction in bank deposits was due to very heavy Government borrowing from the banking system. During the second twelve months, admittedly, the expansion in deposits can be explained almost wholly by the finance of the welcome recovery in our gold and dollar reserves. Nevertheless, I should be happier if we had been funding bank deposits over the past year instead of creating some £200 millions of additional purchasing power, particularly as it is the official view that the general situation calls for the maintenance of the restrictions on bank lending.

Wages Spiral Continues

It is disquieting that the recent increase in output has gone so largely into personal consumption, that it has brought so little increase in exports to match the rising trend of imports. Moreover, though retail prices have been stable for many months past, the wages spiral continues. One of the basic questions is whether it will prove possible to resist wage demands which are not justified by higher productivity.

Notwithstanding the progress made in checking inflation during the past two years, the continuance of the wages spiral is sufficient evidence that inflation persists. We have to ask ourselves whether the last two budgets have after all been sufficiently realistic.

Moreover, it is clear that monetary policy in the sense of higher rates of interest alone cannot do everything. If we wish to ensure that the pound maintains its value, that manpower finds it way to the right industries, that increased output goes into exports or capital formation and not into consumption, then an expansion in bank deposits is not the best way to promote those aims. It is the inescapable duty of the Government to put a stop to inflation at its source, which is the additional supply of money derived from Government spending. The question which still awaits an answer is whether any Government can today hope to survive the unpopularity which effective disinflation would provoke.

From Chairman's Statement, Annual Meeting, Lloyds Bank, Ltd, London, February 12, 1954

CHANGES IN: (£ million)

	'Net' Clearing Bank Deposits	Advances and Commercial Bills	Other Principal Assets of Clearing Banks*	Gold and Dollar Reserves
Nov. 1951-*Nov.* 1952 ...	+ 1	—277	+274	— 290
Nov. 1952-*Nov.* 1953 ...	+219	— 70	+292	+238
Totals	+220	—347	+566	— 52

**In the main, an increase in these assets reflects direct or indirect lending to the Government sector.*

Appeal to Labour

Without effective disinflation, maximum production of the right things is not within our reach, though in addition it requires the fullest co-operation of capital and labour. To secure this co-operation is more than ever the essential task of management.

I take for granted that labour is entitled to a real status of partnership in industry, and I believe that more thought than ever before is being devoted to the best means of making that a reality for the rank and file. Nothing would do more to secure enthusiasm for productivity. But I wish it could be more generally understood by labour that abnormally high profits are a product of inflation just as is the wages spiral which steadily lowers the purchasing power of the pound. One cannot blame the workman for seeking higher wages to compensate for higher costs of living, or the shareholder for a similar reaction about dividends. But what must not be overlooked is that profits are not merely the reward of the shareholder; they are also the ultimate source of the risk capital which alone can provide the basis of future industrial progress.

And I am sure the hard fact is not sufficiently realised that no one in the world owes us a living and that, utterly dependent as we are on the sale of exports in a buyers' market, nothing will get us through but tremendous efficiency and the fullest competitive power.

Randall Commission Recommends Sterling Convertibility—by Degrees

THERE have been two schools of thought concerning the restoration of currency convertibility. One regards the restoration of convertibility as mainly a matter of curbing inflation abroad. It regards the war-induced disturbances in production and trade as temporary phenomena which have now been surmounted. By this reasoning, all that remains for the introduction of convertibility is appropriate monetary-fiscal and exchange rate policies.

Another regards the problem as much more complicated. While agreeing that the curbing of inflation and the fixing of appropriate exchange rates are essential for convertibility, it argues that such measures may not be enough. It lays emphasis upon the structural, longer-run nature of many of the war-induced distortions in production and trade, and upon even deeper-seated change already apparent before the war.

Judgement of Solomon

The Commission adheres to this latter view. It recognises that there is an important difference between establishing outright convertibility of currencies and taking gradual and prudent steps in that direction; and it recognises also that the general economic conditions prerequisite to currency convertibility are more nearly in prospect today than at any previous time since the war. The Commission believes that the decisions, the methods, the timetable, and the responsibility for introducing currency convertibility should rest on the countries concerned. It recognises, however, that currency convertibility must be examined in the light of the policies pursued by other countries, particularly the United States.

The Commission would deplore a merely formal convertibility maintained through trade restrictions. It believes that the removal of restrictions upon payment and upon trade should go hand in hand. It believes that the so-called 'commodity convertibility' whereby, for example, non-resident holders of current account sterling might be permitted increasingly to use their balances to buy dollar goods as the great commodity markets in Britain are reopened—a process already well under way—may have important advantages from the standpoint of effective control as compared with more general convertibility of sterling balances.

The Commission recognises that, as and when more general convertibility were undertaken, important questions would arise as to the handling of transfers of previously accumulated non-resident balances, movements of capital, and transfers of resident balances. These involve difficult technical problems on which the Commission feels that only the countries concerned could make decisions and accept responsibility.

The Commission does not favour a 'dash' for convertibility, or letting the currency 'find its own level', since such a method presents the danger of a vicious circle of inflation, and would require larger reserves than may be available to prevent currency depreciation from getting out of hand. It is, however, sympathetic to the concept of a 'floating rate' which provides alternative methods of meeting trade and speculative pressures. Whether a country is strong enough, externally and internally, to administer such a system effectively, involves a judgement which only the country in question could itself responsibly make.

The Commission does, however, wish to emphasise its view that a strong internal economy, willing and able to control its money supply and its budget as safeguards against inflation, sufficiently mobile to make the best use of its resources, and able and willing to save in order to increase its productivity and improve its competitive position in world markets, is a prerequisite to convertibility; and that the attainment over time of these conditions should be the guide as to how rapidly full convertibility could safely be approached.

I.M.F. and £ Convertibility

Last and most important is the question of adequacy of reserves. It must always be borne in mind that sterling is a key currency, i.e., a currency used to finance the trade of third countries. Even now sterling finances about 40 per cent of the total trade of the world, and if made convertible it would be exposed to trade, financial, and speculative pressures to a far greater extent then any other European currency. This is indeed why, in proper circumstances, we want sterling to become convertible, in the interests of freer trade and payment in a world-wide multilateral system. To the extent that some other of the major trading countries might be able to make their currencies convertible simultaneously with sterling, the pressure upon sterling might be eased. The Commission believes, however, that to restore full confidence in sterling, Britain's reserves must be strengthened.

The Commission's view is that for the purposes of a gradual and controlled approach to full convertibility (except for special safeguards against capital transfers and the control of previously accumulated balances) adequate reserves could be found through a much more active utilisation than heretofore of the International Monetary Fund's holdings of gold and convertible currencies which now amount to $3,300 million. To this end, the Commission favours also any reasonable relaxations by the fund that might be required, such as a relaxation of the time schedule for utilisation of quotas and the provision for maintaining fixed parities.

As a second means of strengthening foreign reserves and of providing foreign exchange support operations to assist in the gradual attainment of general convertibility, the Commission recommends that the Federal Reserve System explore with foreign central banks the possibilities of standby credits or line of credit arrangements. There is ample precedent for such arrangements in the inter-war period; and the Commission believes that this method is superior to any other which might be devised to provide for additional possible calls on dollars, both because it would avoid an increase in the public debt and because it could be handled more flexibly and informally, and therefore more effectively, than a formal grant of credit by our Treasury.

From Report of Commission on Foreign Policy (Chairman, Clarence B. Randall), Washington, January 23, 1954

Randall Report Under Fire

BY PROFESSOR SEYMOUR E. HARRIS (HARVARD UNIVERSITY)

MY major dissent from the findings of the Randall Commission rests on the support of exporter interests and implied acceptance of the impending bankruptcy thesis.

In recent years the exporters have at last found out that their interests lie in more trade, and they have become the most powerful vested interest favouring freer trade—except when the Government gives an engineering project contract to a foreign company greatly underbidding the American exporter. They realise that the issue comes down largely to maintenance of exports and more imports, or less exports with current imports.

But exports are on a highly inflated level. An excess of United States exports over imports of $120,000 millions since 1913 represents primarily exports subsidised by Government spending. The exporters have been the beneficiaries of the greatest subsidy programme in history.

The question may be raised whether one solution to the dollar problem might not be cutting exporters down to size. Less exports by the United States would strengthen the dollar position of foreigners. Export industries are the growing, the strong, the inflated industries. Exporters, buttressed by the arguments of doctrinaire free traders, want to concentrate the burden of adjustment upon the industries that compete with foreign industries.

Why, it may be asked, should the relatively weak industries be asked to pay the price of an adjustment (dollar shortage) which is a national problem and in no small part is the result of war and political chaos? This is a cost that should be put upon all: on taxpayers through public loans, grants and guarantees of private investments; on exporters through reduction of exports; on import competing industries through more imports.

An indication of the extent of the influence of exporters' thinking is to be had from a recommendation of the commission that protective tariffs be cut further, but through negotiation with foreign countries requiring that markets be further opened to United States exports. But if the dollar problem is to be solved, expansion of exports is a hindrance, not a help.

Groundless Fear of Bankruptcy

This leads me to a final point of great importance. Our security programme is being jeopardised by an excessive fear of bankruptcy. How can there be such a fear when we have reached a real income twice that of 1929 and three times that of 1933, and when our federal debt charge absorbs about 2 per cent of the $300,000 million rise of income since 1933?

An adequate military programme inclusive of aid to our allies (not a dubious programme of excessive reliance on atoms and air power inspired by false theories of impending bankruptcy) would greatly contribute towards our security and a solution of the dollar problem. Aid need not be in excess of 2-3 per cent of our income.

From Letter, New York Times, January 31, 1954

REPORT TO UNITED NATIONS:

'Commodity Trade and Economic Development'

The group of experts reporting was composed of Professor J. Goudriaan, Pretoria University (chairman); Professor C. F. Carter, The Queen's University, Belfast; Professor Sumitro Djojohadikusumo, Djakarta School of Economics, University of Indonesia; Professor Klaus Knorr, Princeton University, U.S.A.; and Dr F. G. Olano, Escuela Superior de Economia, Buenos Aires.

THE Report on *Commodity Trade and Economic Development*, prepared by a committee of experts under the terms of a resolution of the U.N. General Assembly, emphasises the common interest that all countries have, and would do well to recognise, in moderating excessive fluctuations in primary commodity markets.

These fluctuations are particularly damaging to primary producing countries, because they greatly increase the difficulties of planning a continuing development programme involving imports. However, industrial countries also may face serious difficulties when there are sudden or substantial shifts of primary commodity prices in relation to the prices of manufactures. Some of these countries either export large quantities of primary commodities, or they are politically or financially affiliated with areas which depend on such exports.

The experts are of the opinion that quota agreements to restrict production or exports are, in general, to be condemned, although they may have their place for special purposes, e.g., securing the orderly reduction or demise of industries which, because of technological reasons or because of changes in taste, are contracting or dying. 'The emergence of a temporary surplus should be a signal for a search for means of expanding the demand; the immediate palliative should be, wherever possible, the storage of the surplus and not its elimination through restriction.'

Buffer Stock Advantages

The experts believe that the choice of stabilising devices must depend very largely on the special circumstances of each case. Provided the problem of finance can be solved, buffer stocks for individual commodities, or for a group of them, are preferable to multilateral contracts of the type of the International Wheat Agreement; multilateral contracts, however, may promise a measure of stability for some commodities, the nature and secular movements of whose markets make them unsuitable for buffer stock schemes.

A useful place should also be found in a stabilisation programme for compensatory measures, such as contracyclical lending which, the experts believe, would not be conceptually distinct from the present operations of the International Monetary Fund although it would involve a radical change in the scale of the Fund's actions. The experts would prefer to facilitate contracyclical lending by extending the resources of the Fund rather than by attempting to create a new international scheme for this purpose.

Summary from International Financial News Survey, International Monetary Fund, Washington, January 8, 1954

One possibility is that the major industrial countries should make advance commitments, formal or informal, to provide additional funds when needed. Even if governments should be unwilling to make advance commitments, the experts consider it likely that the Fund, if it were committed in principle to a policy of contracyclical lending, would be able to obtain extra resources if its lending of a currency should reduce its reserves of that currency to a low level. The experts also examined the possibility of compensatory schemes, which would operate more or less automatically, involving unconditional transfers of money between nations rather than loans and determining the amounts to be transferred by a precise formula.

Wider Views Needed

Some help for the maintenance of stability could be expected from domestic measures, such as the establishment of buffer funds—like those of the Canadian Wheat Board, the marketing boards in British West Africa, or the Indonesian Copra Stabilisation Fund—the smoothing of the flow of contracts for heavy engineering goods, and the modification of stockpiling policies to ensure that substantial injury was not inflicted on primary producing countries.

If governments wish to have an assurance of as much stability of price relations as is consistent with economic change and progress, the experts believe that they must look beyond schemes relating to particular commodities and review the general structure of the world's monetary systems. They did not reach full agreement on the theoretical merits, or the political acceptability, of a 'commodity reserve currency' scheme; but they agreed that the scheme deserves more study than it has received thus far, and they listed a number of specific points to which further study should be directed.

Believing that piecemeal action, commodity by commodity, is insufficient, the experts finally propose that the Economic and Social Council should establish a Trade Stabilisation Commission, on which eight or nine member governments would be represented. This Commission should be asked to make recommendations on general proposals for stabilisation and, when the stability of the world's markets appears to be threatened, to recommend promptly to the Council appropriate intergovernmental action. Since the work of the Commission would involve exchanges of views between governments on possible types of action to which they might not wish to appear publicly committed, the experts recommend that the Commission should meet in closed session, except when it decides otherwise.

GATT Proposes New Approach To
Tariff Reductions

THE *main characteristics of a new approach to tariff reduction proposed by GATT, in order to strengthen bargaining power of low-tariff countries, are* (1) *In place of bilateral negotiations between countries on a product-by-product basis aimed at a strict balance of concessions, there would be an obligation on all participating governments to reduce the protective incidence of their tariffs in accordance with a common standard. The concept of mutual advantage remains.* (2) *The balance for any particular country, however, is measured not by setting off specific concessions obtained against specific concessions granted, but by setting off the overall reductions made by it under the common standard against the overall reductions made by others under the same standard.* (3) *Another feature of the plan is that it requires efforts proportionate to each country's tariff level.* (4) *And, finally, it provides an additional obligation to reduce individual rates of duty which exceed given levels.*

The Governments of Belgium, Denmark, France, the Federal Republic of Germany and the Netherlands have indicated their support of this plan in principle.

Each government participating in the plan would undertake to reduce the average incidence of its customs tariff in a base year by 30 per cent, in stages of 10 per cent in each of three successive years. Governments would not be required to reduce every tariff rate by this amount, for within certain limits they would be free to choose the items on which to make reductions. The reductions would, however, have to be distributed throughout the tariff and not concentrated in any one part of it, thus ensuring that the benefits would accrue to all supplying countries even to one whose interest might be limited to products of a certain class. In order to achieve that object the tariff would be divided into sectors covering broad categories of related products, such as primary foods, products of the chemical industry, etc., and the 30 per cent reduction would be applied to each sector.

The average incidence of the tariff in each sector is taken to be the percentage of the value of imports collected by the customs. If, for example, the value of the imports of the items in a certain sector of the tariff is 1 million francs and the duties on those items are 100,000 francs, the average incidence for that sector would be 10 per cent. In this example, assuming no change in the total value of imports in the sector, the plan would require reductions of duties sufficient to bring the duty collections down to 90,000 francs in the first year, to 80,000 francs in the second and, finally, to 70,000 francs in the third year.

Tariff Countries

Reduction by 30 per cent is the general rule, but less than that is required of countries having comparatively low duties. This would be accomplished by the establishment of a demarcation line and, below that, a floor for each sector. A country whose average duty incidence in any sector was below the

From A New Proposal for Reduction of Customs Tariffs, Contracting Parties to General Agreement on Tariffs and Trade, Geneva, January 1954 demarcation line would be required to make less than the 30 per cent reduction, and if the incidence was below the floor rate no reduction at all would be required. Thus, if a country's average incidence in a sector stood, say, half-way between the floor rate and the demarcation line it would be required to make only half the reduction prescribed by the general formula, that is 15 per cent, or 5 per cent in each year. And if the average incidence is 10 in a sector for which the demarcation line is 12 and the floor rate 6, the required reduction would be 20 per cent over the three years.

Upper Limits to Duties

Each participating government would undertake the further obligation to reduce all duties which exceed certain upper limits. High rates of duty are likely to hinder or even prevent importation and, since little or no importation takes place and little or no revenue is collected, their impact on trade will not be reflected in the incidence of the tariff when computed on the basis of actual imports and duty collections. If a country has some very high duties in a given sector it will have to reduce those duties to the level of the ceilings during the first three years. These reductions can be counted in the reduction of the average incidence for that sector, but will have to be carried out even if no reduction is required under the 30 per cent rule. It is proposed that a ceiling rate should be fixed for each of the four categories of imports, namely industrial raw materials, semi-finished goods, manufactured articles and agricultural products. If this additional obligation were not included in the plan there would be no guarantee that the high duties which are the greatest obstacles to trade would be reduced.

Flexibility of Plan

The flexible features of the plan may be further demonstrated. Apart from their obligation to observe the ceiling rates, and to achieve a definite quantum of reductions in the course of each of the three years, governments would be free to select the items in each sector on which to make reductions and to determine the degree of reduction for each item. Moreover, the method by which the reductions would be effected would be left to the discretion of each government. In some cases reductions would be brought about unilaterally, while in others they might result from bilateral negotiations on the basis of reciprocity; in other cases again they might be made under regional plans for economic co-operation. Finally, no government would be obliged to make reductions on the same items in each of the three years; that is, a rate of duty which is reduced in the first year would not need to be further reduced.

Infant Industries

The plan acknowledges the need of less advanced economies to grant tariff protection to newly-established industries. Governments of countries recognised as being in the process of economic development and which elect to be governed by special rules would not be required to make duty reductions on products included in their development programmes. The right to exclude any particular product from the operation of the plan would be granted for a fixed period of time. These exclusions would be limited to products covered by a country's programme of economic development on which production

had started before the plan entered into operation or was expected to start soon after the exclusion was approved. Further, for these countries the average incidence of duties would be computed on the tariff as a whole instead of by sectors, so that they would have ample freedom in the selection of items for the application of the percentage reduction. The same advantages would be available to overseas customs territories of industrialised countries which are recognised as being in the process of economic development.

Exclusions from Plan

The plan also provides for the exclusion of certain items from the operation of the plan, *i.e.*, governments could omit the value of imports of these items and the duty collections from the calculation of the average incidence, and also omit those items from the obligations to reduce rates of duty. In the first place, governments would be permitted to exclude fiscal duties, *i.e.*, duties which are imposed for the purpose of raising revenue rather than to afford protection to domestic production. Secondly, they could exclude duties on goods imported mainly from countries which do not participate in the plan. This exclusion is provided for because governments would probably not wish to extend the benefits to countries outside the General Agreement and because the plan is based on the principle that every reduction of duty would have to be extended to all the contracting parties to the General Agreement whether they participate in the scheme or not.

Five Year Experiment

It is proposed that the plan should operate in the first instance for a period of five years. The reduced rates of duty and the reduced average incidences in the various sectors would remain bound until the end of that period. There is, however, an escape clause, under which exceptions to this rule could be allowed. A government could ask for authority to modify a duty which had been reduced on the ground that the maintenance of the bound rate would involve serious economic or social dangers. This authority could be granted by a favourable vote of the participating governments provided that the modification would be compensated by a further reduction on other items, so as to maintain the average incidence for the sector at the bound level, and provided further that the new rate would not exceed either the ceiling or the rate which was in force before the operation of the plan whichever might be the higher. In addition a government could be authorised in exceptional circumstances to maintain a particular rate above the ceiling fixed for goods of its category. Duties which are not reduced under the plan may be increased, provided that such increases would not have the effect of bringing the average incidence for the sector above the bound level and that the new rates would not exceed the ceilings.

U.K. Protective Duties: Negligible Contribution to Revenue

Year to March 31	Customs revenue, net receipts (£ millions) Revenue duties	Protective duties	Total	Total Ordinary revenue
1929	113	6	119	758
1939	186	40	226	927
1947	579	41	620	3,341
1951	829	74	903	3,978
1952	884	116	1,000	4,433
1953	950	74	1,025	4,439

THE size and composition of the contribution of import duties to the U.K. national revenue are indicated in the above table.

In recent years the share of the Exchequer's ordinary revenue produced by the Customs duties has been remarkably stable at just under one-quarter. In 1952 this diversion of purchasing power to the Exchequer was equivalent to about one-fifteenth of the estimated gross national expenditure at market prices: in other words, out of every pound of the final market value of goods and services bought in Britain during the year, on the average 1*s.* 4*d.* went to satisfy the customs duties on imported goods. This average was far exceeded by the figures for some heavily-taxed goods: thus, for every 3*s.* 7*d.* spent on a packet of 20 cigarettes, customs duty took 2*s.* 9½*d.*, and on every gallon of petrol, sold at say 4*s.* 3*d.*, it took 2*s.* 6*d.* Government Departments themselves pay large sums in customs duties, even on commodities bought on their own account and deliberately sold at a loss. In the year to March 1953, for example, the Ministry of Food alone paid nearly £12m. in customs duties, while over the same period it incurred, as part of its share of the food subsidies, trading losses of over £250m. Thus, to the extent of £12m., what went into the Exchequer through the Commissioners of Customs and Excise was provided out of the Exchequer through the Ministry of Food Vote.

Slight Variations

Despite the extensive range of the protective duties imposed in the 'thirties, their contribution to the revenue is still relatively small. The amount varies appreciably from year to year, largely because most of the protective duties are levied on an *ad valorem* basis, with the result that the yield of this section of the tariff is greatly influenced by movements in prices. In 1951-2, for example, the receipts under the Import Duties Act increased by over 60 per cent as compared with the previous year, largely because of the rise in import prices. Of the £74m. produced by protective tariffs in 1952-3, duties under the Import Duties Act yielded nearly £65m., the Ottawa duties £4½m., those on beef and veal £1¼m., on key industry goods £1¾m. and on silk and artificial silk £1¾m. The revenue duties, on the other hand, are at specific rates; hence the steady increase in yield is traceable chiefly to enlargement of consumption and increased rates of duty. Tobacco still dominates the list of revenue duties, producing nearly two-thirds of the total, but since 1948 the yield of the oil duties has increased nearly five-fold to £264m. because of increased consumption and the raising of the basic rate of duty from ninepence to 2*s.* 6*d.* a gallon. The yield of the import duties is also affected by quantitative restrictions, particularly under a system of import licensing, and this is true especially when imports from non-Commonwealth sources are controlled, since these are generally chargeable at higher rates of duty.

In the early post-war years the yield of the import duties, measured as a percentage of the value of retained imports, was considerably greater than before the war, mainly because of the large increases in the rates of the principal revenue duties. Customs revenue in 1946-7, for instance, worked out at nearly half as much as the recorded value (before duty) of net imports into the United Kingdom, as against a little more than one-quarter in 1938-9. As the revenue duties are specific, the average weight of the tariff fell proportionately during the period of rising import prices, and more recently has increased again as the value of imports has fallen. The percentages corresponding to the fractions just mentioned were 33, 26 and 32 in the financial years to March 31, 1951, 1952 and 1953 respectively.

In contrast, the average incidence of the protective tariff is low. The yield of the protective duties as a proportion of the total value of all imports within their scope (that is all imports except the relatively few 'revenue' commodities) has fallen from about five per cent in 1939 to roughly three per cent at the present time. The very low average incidence of the protective tariff, computed in this way, reflects the fact that a major part of Britain's imports is still admitted free of any duty—either because the goods are on the free list or because they are of Commonwealth origin and are admitted free under Imperial Preference. The yield of the protective duties, computed as a proportion of the value of imports actually subject to duty, appears to have been, for 1950, between eleven and twelve per cent.

From The Pattern of Britain's Tariff, Midland Bank Review, London, February 1954

AMERICA'S SOCIAL SECURITY SYSTEM (*continued from page* 120)

ance premiums—analogous to those of private insurance companies which have always been looked upon as a form of saving. A rise in the social security tax, according to this theory, should not be regarded as a tax increase but rather as an increase in saving.

Turning to the opposing case, a first point relates to the basic question raised above, viz., whether the piling up of great quantities of its own debt securities as a 'reserve' does, in fact, add anything to the ability of the Government to meet social security obligations.

The answer to this question must be that it does not. In the final analysis, future pension payments, whether financed by an accumulated reserve of government securities or under a pay-as-you-go plan, can only be made out of taxes on income of the future.

America's Social Security System

Controversy on Insurance Principle or Pay-As-You-Go

On January 1, 1954, the rate of the social security tax for Federal Old-Age and Survivors Insurance, in accordance with existing law, rose automatically from $1\frac{1}{2}$ to 2 per cent, payable by both employees and employers on earnings up to $3,600.

Since the beginning of the federal social security system in 1937 the trust fund rose to $18,366 million by the end of 1953 and is expected to rise by a further $1,800 million in 1954. (Budget estimate of receipts $5,000 million and of outgoings $3,200 million.)

In the fiscal year ended June 30, 1953, receipts from taxes on employees and employers, plus $387 million interest on investments, amounted to approximately $4,500 million; expenditures for benefit payments to workers retiring at age 65, their survivors, children, etc., plus administrative expenses, were $2,700 million; and trust fund assets, invested largely in special issues of U.S. Government securities, totalled $18,400 million at the year-end.

The original plan contemplated that the substantial excess of tax collections over benefit payments each year would be set aside in a trust fund. This was estimated to reach approximately $47,000 million by 1980 and to represent a 'reserve' against the accumulating liability. In the amendments, however, adopted after some years of actual experience in the operation of the system, the principle of building up a 'full reserve', to cover the total liability computed by usual actuarial standards, was given up in favour of a 'contingency reserve', of only three times the prospective annual distributions.

Thus the concept of social security has shifted from a system where, as in insurance company operation, reserve funds are accumulated adequate to meet fully the eventual liabilities, to a system where a substantial portion of the benefit payments, as they become due, is paid out of current tax collections. To this extent the system therefore has moved toward a pay-as-you-go basis, where the current social security contributions are collected as any other tax and the current social security benefits are paid as any other government expenditure.

On behalf of the tax increase it is argued that additional receipts are needed to build the reserve fund to where it will more nearly provide for the upward curve of benefit payments projected for the future.

A second point for letting the tax rise and strengthening the contributory principle is in keeping alive in the public mind the idea of linking social security costs and benefits, so that people feel they are providing for their own old age protection and not getting something for nothing. This is particularly important at a time when proposals are afoot to liberalise benefits.

A third argument sometimes advanced is that social security taxes are not really taxes at all, but insur-

(*concluded on page* 119)

From Monthly Letter, National City Bank of New York, January 1954

U.S. Government and the Farmers

BY PRESIDENT DWIGHT D. EISENHOWER

'The agricultural problem today is as serious and complex as any with which the Congress will deal in this session. Immediate action is needed to arrest the growing threat to our present agricultural programme and to prevent the subsequent economic distress that could follow in our farming areas.'

In its approach to this problem, the Administration has held to the following fundamentals:

1. A stable, prosperous and free agriculture is essential to the welfare of the United States.

2. A farm programme must fairly represent the interests of both producers and consumers.

3. However large surpluses may be, food once produced must not be destroyed. Excessive stocks can be removed from commercial channels for constructive purposes that will benefit the people of the United States and our friends abroad.

4. For many reasons farm products are subject to wider price fluctuations than are most other commodities. Moreover, the individual farmer or rancher has less control over the prices he receives than have producers in most other industries. Government price supports must, therefore, be provided in order to bring needed stability to farm income and farm production.

5. A farm programme first of all should assist agriculture to earn its proportionate share of the national income. It must likewise aim at stability in farm income. There should therefore be no wide year-to-year fluctuation in the level of price support.

6. No single programme can apply uniformly to the whole farm industry. Some farm products are perishable, some are not; some farms consume the products of other farms; some foods and fibres we export, some we import. A comprehensive farm programme must be adaptable to these and other differences, and yet not penalise one group of farmers in order to benefit another.

7. A workable farm programme must give the Administration sufficient leeway to make timely changes in policies and methods, including price support levels, within limits established by law. This will enable the Administration to foresee and forestall new difficulties in our agriculture, rather than attempt their legislative cure after they have arisen.

8. Adjustment to a new farm programme must be accomplished gradually in the interest of the nation's farming population and in the interest of the economy of the nation as a whole.

9. Research and education, basic functions of the Department of Agriculture since its beginning, are still indispensable if our farmers are to improve their productivity and enlarge their markets.

10. The soil, water, range and forest resources of the United States are the natural foundation of our national economy. From them come our food, most of our clothing, much

From The President's Message to Congress, Washington, January 11, 1954 of our shelter. How well we protect and improve these resources will have a direct bearing on the future standard of living of the whole nation.

Enormous Surpluses

During the past year, the investment of the Commodity Credit Corporation in farm commodities more than doubled, increasing by about $2,500m. The financial obligations of the Corporation are pressing hard against the $6,750m. limitation on its borrowing authority. In order to assure that present price support commitments on 1953 and 1954 crops will be covered, I shall request the Congress to take early action to restore the Corporation's capital losses as of June 30, 1953, and to increase its borrowing authority to $8,500m. effective July 1, 1954.

The Government's commodity holdings are enormous. It has investments in more than $2,000m. worth of wheat alone. This includes 440 million bushels owned outright. About 400 million additional bushels are under loan, the greater share of which the Government can expect to acquire. This is more than the domestic wheat requirements of the entire nation for a full year.

The cotton carry-over will amount to about 9,600,000 bales. Here again the carry-over is approximately equal to the domestic needs of the entire nation for a full year.

The carry-over of vegetable oils may be about 1,500 million lbs., roughly double the carry-over that should normally be maintained.

Because such tremendous supplies are already in hand, acreage allotments and marketing quotas have had to be applied to wheat and cotton.

Under the provisions of the Agricultural Acts of 1948 and 1949 the Government will:

1. Support the prices of basic crops of those farmers who co-operate with acreage allotments and marketing quotas when such are in effect;
2. Announce the price support level for various crops before those crops are planted, in so far as practicable;
3. Support price levels at up to 90 per cent of parity. For some products a schedule of price floors will also be provided as authorised by the 1949 Act, ranging from 75 per cent to 90 per cent of parity, according to the relationship of total to normal supply; and
4. Vary the price support level one percentage point for every two percentage points of variation in the total supply.

Parity calculations for most commodities under the old formula are based upon price relationships and buying habits of 40 years ago. Because methods of farm production have changed markedly, the Congress has wisely brought the parity concept up to date. Modernised parity takes account of price relationships during the most recent ten years. It permits changes in farm technology and in consumer demand to express themselves in the level of price support and restores proper relationships among commodities.

For the basic commodities, the law provides that until January 1, 1956, the old or modernised parity, whichever is higher, shall be used. For all commodities except wheat, corn, cotton and peanuts, modernised parity is already in use.

Equitable treatment of the various commodities requires that we should use modernised parity for all farm products as now provided by law, beginning January 1, 1956.

The Belgian Congo

BY ROBERT GODDING, BELGIAN MINISTER FOR COLONIES, 1945-7

Thirty years devoted to the Congo came to an end when the author of this article died there suddenly in December last.

THE Belgian Congo lies in the very centre of Africa; it covers one-thirteenth of this continent, and has eighty times the area of Belgium and four times the area of France. An Independent Free State under the absolute sovereignty of King Leopold II, the Congo was taken over by Belgium in 1908.

Before describing the progress made by the Belgian Congo in recent years, it appears necessary to say something about the economic policies that have helped to shape the country and make this progress possible.

These policies have been imposed upon us by human considerations and the geographical conditions of the Congo, and by the circumstance that the Belgian State was not prepared to invest any Belgian public money in its development.

Let us compare the Belgian Congo with Nigeria. Nigeria has a population of thirty millions, and an area of 372,674 square miles; the Belgian Congo has only about ten million inhabitants in an area of some 900,000 square miles. With a density of eighty people per square mile, it was considered possible and advisable in Nigeria to develop the country only 'by the natives and for the natives', thus excluding European capital, companies and settlers. But it was clearly impossible to follow the same policy in the Congo.

First of all, the principal and more immediately available sources of wealth were the mines, and it was obviously impossible for the Congolese themselves to exploit them. In addition, only the existence of the copper mines in Katanga was known, but they could not be worked without a huge capital outlay. The first diamond was discovered only after a company had spent more than £150,000 in prospecting work. And tin came even later.

As regards agriculture, it was obviously impossible to obtain from thinly populated and very scattered villages exportable produce, well prepared, of good quality, and in quantities sufficient to bear the cost of transport over one or two thousand miles. Further, the only exportable produce were palm-oil, palm kernels, wild rubber, all of inferior quality.

Search for Capital

From where were to be obtained the huge amounts of capital which the development of the Congo, the building of railways and roads, and the whole economical infra-structure of a developed country would require, and which the Belgian State would not and could not supply?

Only one policy remained: to attract to the Congo private capital for opening mines, building railways,

From The Belgian Congo; Before, During and After the War, Progress (Unilever Ltd.), London, Winter 1953/4

erecting mills and starting plantations. The idea was to grant for this purpose extensive concessions on initial extremely liberal conditions; but, as far as the mines were concerned, the State perceived the already apparent richness and reserved for itself a large share in the eventual profits. For the building of the required railways, it was found necessary for the State to guarantee the interest on the capital invested, and in addition to grant large concessions of lands all along the railway.

In agricultural matters, not much was thought at that time of plantations. Very large concessions were granted in which, for instance, there was a monopoly for the buying of palm-fruit, but at minimum prices fixed by the government. It was in those circumstances that the first Viscount Leverhulme obtained a concession of 700,000 hectares (or 1,750,000 acres).

State's Share of Profit

The conditions for granting concessions were of course more liberal for agriculture than for mining.

But the underlying idea was also that, once all these concessions began to show profit—in addition to the State's share of profits already provided for in the mining concession acts—the State would obtain another share of profits by means of taxes. This system has worked; mining concerns pay, in various forms, up to sixty per cent of their profits to the State, and agricultural concerns about thirty-five to forty per cent.

But, as far as agricultural concessions are concerned, there have been some changes. It was soon found that the concessions initially granted were much too large, and as more and more intensive cultivation and plantation took the place of an extensive exploitation of natural resources, most of the original and very large concessions were considerably reduced in area by negotiation with the groups concerned.

Altogether, the policy we have adopted in the Belgian Congo seems to have worked well. Without any appreciable grant or loan of public funds by Belgium, the Congo has been entirely equipped economically by the investment of private capital, the brains of a great many Europeans, and the manual work of hundreds of thousands of Congolese.

The present outstanding development of the Belgian Congo is in fact a brilliant achievement of private initiative and enterprise; and it is something remarkable that the three countries whose development since the war has been the most spectacular—Canada, French Morocco and the Belgian Congo—have all been developed under the same principles of private initiative, as little hampered as possible by the interference of the State.

Progress Between Wars

Before the second world war, the Congo had fortunately been adequately equipped in the matter of transport. A railway network of some 3,000 miles had been built, supplementing the Congo River or its main tributaries where they were not navigable, or directly connecting the Katanga copper mines both with the lower Congo and the north, or, westwards, with the Atlantic Ocean at Lobito Bay, through Portuguese Angola. The main sea port—Matadi—had been well enough equipped to ensure quick loading and unloading of ships. A network of good roads, with a total length of some 45,000 miles, extended all over the Congo; there were eight thousand motor vehicles; airports had been built close to the main cities, and the efficiently managed Sabena air lines had regular services with Belgium and all over the Congo.

Since the end of the war, immigration has increased every year. In 1940, there were only 27,791 Europeans in the Congo, 19,000 of them Belgians. By 1953, the white population of the Congo had nearly trebled; about 80,000 Europeans, of whom 60,000 are Belgians, live there now.

Population Changes

The composition of this population has markedly changed also. In 1946, only fifty per cent of the Europeans living in the Congo were women and children under 18; in 1951, the proportion of women and children had increased to about sixty per cent—a consequence of the progress that has been made in tropical living conditions. This progress is really striking. The death-rate amongst the Europeans living in the Congo has steadily declined since 1908-10 when it amounted yearly to 32.2 per thousand. In 1920 it was still 25 per thousand, but by 1930 it had declined to 13 per thousand. In 1940 the rate had been brought down to 7.5 per thousand, and in 1951 it stood at only 5.2 per thousand. Thus, in forty years, the death-rate amongst Europeans has been reduced by five-sixths. No precise figures yet exist as far as the Congolese are concerned, but there is no doubt that their state of health had also been considerably improved, although their infantile mortality rate is still very high.

Both the industrial and the agricultural development of the Congo have made tremendous strides since the war. The output of the existing mines has been greatly increased (last year, Katanga produced 200,000 metric tons of copper); a lot of new mines have been opened. Plantations have increased in size, and new plantations have been started. All kinds of industries have been created, from hosiery, cotton and blanket-weaving mills to bottle, chemical product, cement and footwear factories. The nearly inexhaustible resources of the Congo in hydro-electric power have been extensively tapped, and several imposing dams have been built across large rivers. The number of natives in European employment has grown from 500,000 in 1940 to more than one million in 1951, and their earnings have been increased by more than 400 per cent.

Social Progress

A most progressive social legislation has been enacted. The minimum wages to be paid to the Congolese and the minimum prices to be paid for their produce, are all fixed by decree. The law also lays down the composition and the amount of the food ration to be given to the working people, to their wives and to their children, the dimensions and number of rooms of the brick houses that must be built for them. In every undertaking where at least five hundred workmen are employed there must be a European sanitary-agent, and for every two thousand workmen, a European doctor, a hospital, etc. There is a workmen's compensation act, and the workmen get generous family allowances. In every undertaking there must also exist a *conseil d'enterprise*, a joint consultation council wherein delegates of the workers can discuss their grievances with their employers. In fact, it may be said that, at present, the social legislation of the Belgian Congo is the most complete, the most generous and the most progressive in Africa.

The budgetary receipts have increased from 2,000 million francs in 1944 (£14,285,000) to about 8,000 million francs (£57,142,000) in 1952, but have always been in excess of the ordinary expenditure. Those receipts come mainly from income-tax (1,000 million francs), and from import and export duties (nearly 4,000 million francs). Taxes paid by the natives amount only to 262 millions, or about 3.30 per cent of the whole budget.

On the commercial side, the Belgian Congo imported in 1952, 1,125,579 metric tons of various goods, for a total value of 15,481,395,000 francs (about £100 million), and exported 1,075,825 metric tons of all kind of produce and raw materials, for a value of 19,883,506,000 francs (about £140 million).

The goods imported by the Belgian Congo come mainly from Belgium (37 per cent), the United States (24 per cent), Great Britain (8 per cent). The exports went mainly to Belgium (56 per cent), the United States (12 per cent), Great Britain (8 per cent).

It is well worth noting that the large part taken by Belgium in the imports into and the exports from the Belgian Congo is not due in the slightest degree to any preferential or protection duties: in consequence of the international treaties governing the Congo basin, the Congo is placed under a regimen of complete free trade, at least in the sense that import and export duties are exactly the same whatever may be the origin or the destination of the goods.

The economy of the Congo is thus well balanced, the value of the exports exceeding appreciably the value of the imports. It is also well balanced from another point of view. Whereas minerals were at one time the main export, for some years now the value of exported agricultural produce has been steadily increasing. In 1952 the tonnage of mineral produce exported amounted to 504,290 metric tons, with a value of 12,000 million francs (£85,714,000). The exported tonnage of agricultural produce was 543,348 metric tons, with a value of 7,751 million francs (£55,364,000).

At present one may say that the Congo is in a transitory period. It is no longer purely 'a colony'; it is becoming more and more an organised country that will, some day in the future, become progressively a nation. There exists no colour-bar whatever.

Belgian rule, in the Congo, is 'paternal' in every sense: firm, but human, and very sincerely concerned with a steady improvement of the material and moral conditions in which the natives live.

WAS KEYNES RIGHT, AFTER ALL?

THERE are many who consider that Keynes has been shown to have been greatly mistaken when in 1946 he wrote his oft-quoted statement to the effect that the United States was becoming a 'high-living, high-cost country beyond any previous experience' and added that these 'ways of life' would 'tend towards and not away from external equilibrium'. But it stands to reason that differences in costs, etc. can only make themselves felt with their full force in relatively free markets and only when the money supply is no longer excessive, and it is because these basic conditions are coming ever nearer to being fulfilled that we may now be approaching a point at which Keynes' words will be found to have been truly prophetic.

Dr. Per Jacobsson, Skandinaviska Banken Review, Stockholm, January 1954

European Eyes on Overseas States and Colonies

BY JOHANNES SEMLER AND MUHLIS ETE

THE knowledge is daily growing in Europe that the welfare, economic prosperity and social security of the European peoples will in the future depend to a great extent on how relations with the overseas states and territories associated with individual European countries develop.

The importance of this question is made clear from the simple fact that the economic area comprising Europe and its associated overseas territories extends over 50 million square kilometres, i.e. more than a third of the inhabitable surface of the earth. 950 million people live in this area, only a quarter of them Europeans. In 1951 their trade amounted to two-thirds of the trade of the whole world. On the other hand, the eastern bloc with 750 million inhabitants covers about 35 million square kilometres.

The American bloc only extends over 7 per cent of the inhabited surface of the earth and is hardly bigger than Australia. Its population is less than 10 per cent of the population of the world and corresponds roughly to that of the Schuman Plan countries. Although the American bloc is the smallest in area and population, it has the highest economic efficiency.

In spite of its geographical extent and the size of its population, the European economic area is in one respect subject to the two large, powerful blocs in the east and west. At present it lacks the unity which lends the two other large groups of powers their strength. If and how this area can be brought to economic unity depends not least on the investment policy which the nations concerned pursue overseas.

Financial Discipline

Only a policy of financial discipline will make possible the savings necessary for the overseas investments required. If there is any purpose in the economic co-operation of the overseas countries with European countries, it lies in the extent to which it secures increased production and effective demand overseas. This in turn would guarantee Europe both the goods and the new markets which it needs.

So far the capital invested overseas has been supplied by the United Kingdom, France, Belgium and the Netherlands. These countries are determined to pursue their efforts but cannot easily expand them. Some assistance might also be given by various international organisations or by the United States. But the European countries which have no constitutional links with any overseas territories also have a contribution to make to the development of such territories, which raises the whole problem of European co-operation overseas.

For many decades the European mother countries have each year invested large sums in developing the overseas territories subject to them. Since these countries can hardly be required to increase these payments

From Report on Investments, in The Economic Future of Europe (preliminary papers of 1954 *Conference of European Movement), London, February* 1954 and in view of the importance of this question for the development of the economy of the whole of Europe, it is now a matter of looking for solutions which can only be found in co-operation between the countries concerned.

Here it seems that the studies and examinations should be taken as a basis which have been drawn up in recent years by the various U.N. organisations and the European institutions on these complex problems. From these the following sectors appear the most important:

(*a*) Problems of *cultivation* are important for two reasons. On them depend both the yield of agricultural produce and the results of the cultivation of vegetable raw materials.

These questions also affect regions within Europe itself, e.g. Greece and Turkey; but in the first place they affect the overseas territories, and above all Africa, the Near East and Australia.

Fighting Erosion

Closely connected with this is the problem of fighting *erosion*, which has become one of the gravest dangers in many regions. This question in turn is closely linked with the problems of *maintaining forests*, *afforestation*, *lakes* and *rivers* and *irrigation.*

These problems extend beyond the actual frontiers of the different countries and territories. They clearly demand co-operation. Without this a satisfactory solution is hardly conceivable. Successful solutions of these problems require long and costly studies, examinations and preparations, which are predominantly scientific and technical. Here there is a fruitful field for the co-operation of those European countries which have no overseas responsibility. In this way they can make a valuable contribution to the welfare of the common economy.

(*b*) The question of *food* will, in the future, become an increasing source of worry for the nations concerned. Unfortunately they are still very far from ensuring their peoples the basic foodstuffs for good and all.

Besides the social aspect of this question there is, however, another very important reason affecting the European balance of payments. It must not be forgotten that the efforts of individual nations in recent years have succeeded in making great progress towards consolidating nutrition in the regions subject to their sovereignty. Serious efforts are also being made, as is well known, among the countries to come to an agreement in the agricultural sector. But it should be clear to everyone that these efforts are condemned to failure from the outset unless the overseas territories are also included in the field considered for the desired European agricultural union.

Real results can only be achieved through agreements on trade policy and cultivation. But to arrive at a general increase of agricultural yield, upon the need for which all are agreed, considerable investment of various kinds is necessary.

(*c*) A demand generally made is that the *production of raw materials* in the area as a whole be *increased.* This would place supplies for the industrial countries of Europe on a sound basis and at the same time help to close the dollar gap.

In view of the fluctuations in prices on the world market which are always possible and the often very varied production costs, it would be exceedingly hazardous for the individual countries to undertake large investments with the aim of increasing the production of raw materials

without a vote among the interested nations.

(*d*) The problems of the *basic industries* do not now only concern Europe itself. Heavy industry is coming into being in various overseas countries and territories. In other regions the presence of considerable quantities of coal has been verified which, together with the deposits of ore available, will allow new centres of heavy industry to be built up in these regions. Projects for investment in this field therefore acquire an importance extending beyond Europe itself and thus call for common European action.

In the broad field of energy, the world today is faced with the problem of developing and harnessing *atomic energy*. To make use of this for peaceful purposes should be a task for the whole of Europe, to be shared by the overseas states and territories from the very beginning.

The problems of *settlements* and the *creation of centres of gravity* in the overseas territories are questions which affect all the nations. Questions of defence, trade, production, and last but not least, of migration here arise.

(*e*) As regards *health*, the *fighting of epidemics* and the *extermination of vermin*, the countries of Europe with no overseas responsibilities can make important contributions to investment.

The same is true of the cultural development and civilisation of the populations of hitherto undeveloped areas, of teaching and *training coloured people in European institutions* and of the whole *field of scientific research.*

SNAKE FARM PLANNED

A YOUNG Nyasaland man has been in Salisbury to raise money for a puff-adder farm. He is Mr David Stegmann, who resigned from the Government veterinary services last November to start his scheme. He said on January 5 that he has two acres at Fort Johnston and is building a house. He intends to 'herd' 500 head of puff-adders, which should yield 100 grammes of venom monthly. 'There is a good market for the venom', said Mr Stegmann. 'I have been in touch with the South African Institute of Medical Research, Johannesburg, which is prepared to take 100 grammes each month to be delivered by air. Each adder can be milked about twice a month, and with venom selling at 50s. a gramme, I should get a gross income of £3,000 a year.' There should be no difficulty in getting puff-adders, said Mr Stegmann. The Alomwe tribe in Nyasaland eat snakes and are proficient at catching them. Africans would be paid a salary plus commission for each snake caught. Any other Africans bringing in a puff-adder would receive 3s. 6d. There is a constant demand for the snakes as it is difficult to raise the young in captivity, said Mr Stegmann. He is to build serpent pits along the shores of Lake Nyasa, where the snakes will be kept until they can be collected. He is also getting in touch with snake enthusiasts in Southern Rhodesia whom he hopes will keep him supplied. He is hoping to import rattlers and moccasins from America which will share the snake farm with South African varieties. Another of his activities will be catching tropical fish, which have a ready sale in America. He has tried goggle-diving with a schnorkel tube with good results. The fish are easily caught in a net.

From Newsletter, Federation of Rhodesia and Nyasaland, January 15, 1954

Oil and Payments Problem

Oil is often one of the largest items in import trade. But, because of the nature of oil demand, imports of oil may be affected less than other imports by balance-of-payments difficulties.

POST-WAR balance of payments problems have already led to extensive adjustments and changes in respect of oil supplies.

The building of refineries in consuming countries—notably Western Europe—largely reflects the need to effect saving of foreign exchange through the importation of crude oil instead of the more highly valued refined products. In many countries these refineries enjoy duty protection, but the cost of this protection was more acceptable than the alternative of restraining the volume of oil imports.

Another consequence of the payments problem is the extensive search for oil now going on in almost every country in Europe and in many other areas where formerly the prospect of finding oil was regarded as poor. Even though very large and still growing reserves, easily producible, exist in the Middle East, many millions are being spent each year in other parts of the world looking for oil. If found, much of this oil is likely to be in less prolific fields and more costly in terms of resources used in discovery and production, than existing production in the Middle East, where considerable and successful exploration is also continuing with higher potentialities than elsewhere.

In some instances, where the payments problem is of a short-term nature, adjustments for overcoming payments difficulties can be readily made. But the problems between the dollar and sterling area, between the highly developed and the lesser-developed countries, also between some other countries, are of a long-term character, although many of the bilateral imbalances would be readily resolved in the context of expanding multilateral world trade.

Fiscal Action Not Enough

The overall solution of the world's trading problems calls for much more than the day-to-day application of corrective monetary, fiscal or other mechanisms. Fundamentally, these problems arise from differences in the productivity of competing industries in the various countries. Where productivity is low, its level cannot be quickly raised, since this requires capital investment of the right kind, the learning of technical knowledge and skill, and, usually, drastic changes in customary ways of working and living. Where the level of productivity is already high, this fact itself tends to generate a continuing improvement.

Thus there are not only sharp limits to the level of balanced trading which can be done today, but the long-term task of bringing about a working equilibrium which will allow unrestricted trading tends, in some respects, to become even more intractable. And it is made no easier by the desire on the part of many countries to acquire a surplus in their international trading, which necessarily involves a corresponding deficit in that of others.

In the lesser developed countries capital formation is far below needs. Capital investment from the wealthier countries is invariably on a far smaller scale than potential borrowers need or could absorb. In some countries sorely in need of investment, foreign risk capital is discouraged, hindered, and even prohibited, from participating in some forms of development—sometimes in the development of oil resources. U.S. dollar economic aid is now diminishing, and military aid which will continue in various forms may not directly yield economically advantageous results in the long-term. The Technical Aid now given to many countries under the U.S. Technical Co-operation Programme, the United Nations and the Colombo Plan, and through assistance from colonial powers, is a potentially powerful factor for raising productivity in the under-developed countries. But unless it is followed by capital investment in the right kind of enterprises and on an adequate scale, the ultimate results must fall far short of what might otherwise be achieved.

Largest Commodity

Both in value and volume oil is the largest single commodity in international trade. It is therefore singularly susceptible to the influences set up by balance of payments problems.

But if it is more extensively affected in this way than any other industry, it is still likely to suffer in a lesser degree than other affected trades. In most forms of transport, oil is a virtually irreplaceable form of energy. The economy of almost every country grows more and more dependent upon oil as a source of energy, even when oil supplies have to be imported.

Contrasting with the dependence of economic growth during the 19th, and earlier years of the 20th, century upon proximity to coal, the rise to prominence of oil has not of itself, except to some degree in the U.S.A., imposed any particular location or re-location of industry in general. Imported oil as a source of energy also has the advantage in a capital-short country that its availability usually demands but little if any direct investment on the part of the importing country; only investment in oil-consuming equipment is called for.

The use of oil has therefore greatly facilitated the economic growth of new areas having neither coal nor oil resources, while the industrial supremacy of the already industrially developed countries, notably that of the U.S.A., has also been further advanced.

The maintenance of adequate oil imports is made the more imperative by the fact that oil is both a consumption (*i.e.*, non-durable) good and, except in comparatively small volume, a non-storable good. Thus a continuing flow of oil, with its all-pervading effects throughout the economy, is essential to every country if activity is to expand and flourish.

For some countries, their growing dependence upon oil for economic development may not make their payments problem any easier, since some of the benefits derived from the use of oil are unlikely to be fully reflected in a higher capacity to export. In countries where the standard of living is already high, all petroleum products are regarded as essential for maintaining the standard of living, even if current productivity does not, in the face of competition, justify the maintenance of past standards.

From Petroleum Press Service, London, February 1954

Digest Book Review

'The Dollar' BY ROY HARROD

IT IS the particular merit of Mr Harrod's book* that it combines profound scholarship with a lucid exposition and that it traces the connection of historical developments and old controversies with our present-day problems. His approach is made clear by his remark that to understand the problems of the balance of payments of a currency, one must understand the 'personality' of this currency, which may be due to the characteristics of the nation concerned and also reflects the personalities of great men who had in the past a decisive influence in shaping the currency.

The book is divided into four chapters—Evolution of the Dollar; The Federal Reserve System; Towards International Co-operation; The Dollar Gap. The first chapter deals with the origin of the dollar and its history in the nineteenth century.

In the chapter on the 'Federal Reserve System', Mr Harrod shows the difference in the policies of the Bank of England and the Federal Reserve in the 'twenties. The British had the need and means to correct an adverse external development quickly. The Federal Reserve had no such need and, therefore, regarded it as its duty to give primary attention to the maintenance of steady credit conditions in the United States. In dealing with the great depression, Mr Harrod is very restrained and doubtful whether the monetary weapon would have been strong enough to counteract the progressive deterioration. The devaluation of the dollar in 1933 seems in retrospect to have aided world recovery by raising the commodity value of gold. The Gold Reserve Act of 1934 laid down that the dollar was no longer convertible into gold for individuals, but only for monetary authorities. Thus 'the United States was abandoning the gold standard as that had always hitherto been understood'.

The second half of the book is of direct topical interest. Against the domestic background of the dollar, described in the first two chapters, Mr Harrod treats its external aspects in the last two chapters. Dealing with the agreements designed to govern international policy in the post-war world, Mr Harrod reminds us that these grew out of the lend-lease arrangements. No material return was demanded, but the British were asked to subscribe to certain principles favoured by the Americans. Mr Harrod does not think it 'a good idea to barter the subscription to a principle for a material consideration'. The principle was Mr Hull's fight against trade restrictions—'reduction of tariffs' and 'elimination of all forms of discriminatory treatment'. It did not appear to make sense to the British to be asked for a reduction of tariffs by the highly protectionist Americans. There would be no difficulty in getting British agreement to the elimination of discrimination as it had been developed by Germany; but it was understood that discrimination also covered Imperial Preference. This implied 'criticism, not of an enemy, but of an ally'. Anyhow, Imperial Preference 'was a small-order affair compared with the forbidding American tariff'.

However, according to the doctrine of the U.S. State Department, discrimination is an expression of imperialism, an unmitigated evil. In stressing the economic value of the unity of the British Commonwealth and Empire, Mr Harrod emphasises, however, that 'this value does not and should not consist in diverting trade to any great degree from its natural channels'.

Mr Harrod points out that from 1946 to 1948 it was reasonable to represent the dollar gap as mainly due to overspending and inflationary pressures; subject to exceptions, the inflationary period came to an end in 1951. The dollar gap has been reduced in a satisfactory way, but partly by means of discriminatory restrictions on dollar purchases. Removal of inflationary pressure has produced a large, but not a complete, cure. Experimenting with devaluation as a possible remedy for what remains of the dollar gap has been ruined by the devaluations of 1949, which Mr Harrod shows to have been 'excessive and ill-timed'. He reiterates his well-argued plea for a rise in the U.S. gold price, failing which the imbalance could only be rectified by an increase in world exports to the United States or a diminution of world imports from it. Europe should make its currencies convertible, if necessary even with the aid of intensified discrimination against dollar imports. A general freedom of payments would ease adjustments and tend to shift trade towards a more balanced pattern.

Short extracts from the book follow.

M.G.

The Dollar, by Roy Harrod, Macmillan & Co. Ltd., London, 9/6

CASE FOR HIGHER PRICE FOR GOLD

Americans argue that, since they allegedly have already sufficient gold in Fort Knox, to mark up the gold price would be merely a way of giving the rest of the world 'aid' in a new form. But we are all trying to get away from the system of aid. Now from the point of view of the rest of the world, the purchase of more gold would not be 'aid' in the ordinary sense, since the new gold has to be produced by means of labour and other resources; this is a service for which the gold producers have to be paid; to the extent that the proximate remitters of gold to the United States were the countries of Europe, they in turn would have to buy it from the gold producers by sending out goods produced from their own factories with their own labour. No one would be getting something for nothing, as they do with 'aid' in the strict sense. All the same, a rise in the price of gold might be regarded as aid in a more subtle sense, to the extent that the Americans would be offering to pay to get more of something that they do not really need.

About this one point must be made. It would be rash to suggest that the balance of trade or the flow of international investment might some day so alter its pattern as to make the United States feel the need of a central reserve more acutely. It may be that she will continue for a long time to have a surplus on capital and current account together, and to that extent be indifferent to the size of her gold reserve. But there is one purpose of a reserve which must also be mentioned. It is a defence weapon. Unhappily, we cannot yet foresee the time in which we shall all be quite indifferent to defence potential. At $22 billion the U.S. external reserve must be regarded as miserably inadequate; it is quite out of line with all the other great defence preparations that she now has under way. Americans may be deceived by the special circumstances of the First and Second World Wars, in which the United States did not happen to be involved in the initial phase. The pattern of events would be totally different if she was involved from the outset. In an all-out effort she would not be willing to maintain a peace-time level of exports; she would have to continue to draw imports of materials from abroad; she would wish to import certain commodities not perhaps strictly necessary; in her worst hour, Britain felt that an excessive cut in the tobacco supply would be bad for morale; the Americans might feel the same about coffee; they might be under the necessity of making large disbursements abroad for the servicing of their fighting forces. Britain, a comparatively small power, and waging war on a much smaller scale than would the United States in the circumstances envisaged, overspent externally some $50 billion in the Second World War. Revaluing approximately for the change in the purchasing power of the dollar since the time when the money was spent, this may mean about $90 billion now. There is only about $22 billion worth of gold in Fort Knox.

CONVERTIBILITY: EUROPE'S DILEMMA

Europe cannot make her currencies convertible, so long as she does not balance her dollar account either by direct or multilateral trade. She is never likely to earn enough dollars by direct trade, and she is unlikely to earn enough on multilateral account either unless her own currencies are dollar convertible. This appears to be an impasse. But there may be a way out of the difficulty. Europe could make her currencies convertible in the first instance, not by the healthy and natural way of earning more dollars bilaterally or multilaterally, but by intensifying her discriminatory restrictions so that she was for the time being in equal bilateral account. Britain could assist in this process by bringing home a certain quantity of dollars from the outer sterling area. If Europe could by stringent parsimony get for a time into bilateral balance with the dollar, she would be in a position to make her currencies dollar convertible and then have a much better hope of earning dollars multilaterally. On this showing, the right policy would appear to be to clamp down so drastically on dollar imports as to achieve a bilateral balance, then to hope gradually to build up a larger dollar earning from third-party countries, and as and when that happened, gradually to relax the discriminatory restrictions hoping one day to be able to do away with them altogether.

Some Americans regard discriminatory restrictions and inconvertibilities as merely symptoms of the same evil. They are against both, but they do not condemn inconvertibility more than discrimination; probably their tendency is the other way round, owing to the deep State Department hostility to discrimination with its long roots in history that have already been discussed. None the less it may be that the right way to obtain convertibility and non-discrimination in the long run is to aim at convertibility now at the expense of an increase in discrimination. That may be the only way of escaping from a position which appears to be becoming a stalemate.

JAPAN REPLIES TO LANCASHIRE ON LOW-WAGE COMPETITION

THE Japanese cotton industry has replied to the complaint of Lancashire industrial leaders that low wages enabled Japan to compete unfairly in world markets. While admitting that wages were low—in some cases a cotton worker's weekly pay is about £1—the Japanese contend that there is a big waste of labour in Japan because of outdated machinery which needs six men to do the work that one could do using modern equipment. The Ministry of Labour also contends that in cotton yarn production the Japanese worker is only 60 per cent as efficient as the British worker and 40 per cent as efficient as the American.

Secondly, there is the high cost of materials. For Japan the shortage of sterling, lack of capital, and the availability of United States dollar credits diverts a good deal of raw cotton buying to America. If the recent trade and payments agreement with Britain had not been signed Japan would have been forced to cut her sterling purchases severely.

In the textile industry as a whole—covering men and women, young and old, beginners and the trained—the average pay is about £9 6s. a month, compared with the average for all major industries of about £15 10s.

According to the Japanese Minister of Trade and Industry, Mr Aichi, Japanese exports to the sterling area during the financial year 1954 would total £182,500,000, more than 90 per cent of the £198,214,000 agreed to at the Anglo-Japanese trade talks in London. Under imports already approved by Britain Japanese exports of cotton cloth to the sterling area would be 537,000,000 square yards, an increase of 180,000,000 square yards over the current year.

Chemical fibre goods exports were expected to increase by about 50 per cent during 1954. Steel exports would increase during 1954 to a value of £29,285,000, compared with £17,857,000 for the current year.

Reuter and British United Press, Tokyo, February 14, 1954

Asia's Persistent Poverty

WHY PLANNING IS INESCAPABLE

ASIA is the poorest of all the world's continents. With about half the population of the world, she has only about one-twentieth of the world's income.

The reasons for the poverty of all the areas are in essence the same. There is terrible pressure of population on the land; the productivity of the land per acre is not increasing. Even where it can be made to increase, there is an element of instability due to the uncertainty of rainfall.

Industrialisation in all these countries has been too small to reduce the growing pressure upon the land. This is partly because with the low incomes, consumption is low. Because consumption is low, markets are small; because markets are small, production is held back, and because production is held back, income is low.

One of the tremendous paradoxes of these under-developed countries is that whereas the capitalist crisis in advanced countries tends to arise from high production without corresponding consumption, the Asian crisis is the perpetuation of low production with low consumption. With a plethora of wants, there is still a lack of incentives for production.

This is sometimes expressed by saying there is a shortage of purchasing power. But this is a fairly stable position, notwithstanding great injections of currency which have produced inflation in almost every Asian country. And, therefore, the emphasis on money is misplaced.

The emphasis could more properly be placed on real factors. The cost structure of industry in most Asian countries is out of line with the distribution of income in those countries. It is not enough that they should produce cheaply enough to sell in other continents. They have a domestic problem of so reducing prices that they can rapidly expand their markets within as well as without. This depends on the full exploitation of the principle of increasing returns which makes cost fall more steeply than selling prices as output increases. Japan seems to have been the only Asian country which has mastered the technique of changing a static into a dynamic economy by its own efforts.

No Capital Inflow

Other countries in Asia have tended, largely because of the absence of political independence, to follow the traditional belief that a poor country could not afford saving and needs to rely on foreign capital. After independence, for one reason or another, private foreign investment has not been forthcoming.

If the inflow of foreign capital had steeply increased after the war, there would perhaps not have been the same concern about finding a dynamic element to place in the centre of under-developed economies. It is clear, however, that the flow has not merely ceased in the old terms; it has turned back upon itself.

In the following table, the net inflow or outflow of private capital in specified Asian countries shows that it is only in respect of Japan and Pakistan that in the four years

From Eastern Economist Annual, New Delhi, December 25, 1953

NET INFLOW (+) OR OUTFLOW (—) OF PRIVATE CAPITAL (a)
(Millions of Current Dollars)

Country	1948	1949	1950	1951	Total
Burma	...	...	— 2.5	— 2.9	— 5.4
Ceylon (b)	+ 0.6	— 6.1	— 6.1	— 8.0	—19.6
India	—49.3	—57.6	—17.0	— 6.1	—130.0
Indonesia	—28.0	—11.4	—19.5	...	— 58.9
Japan	...	—35.9	+16.8	+36.4	+ 17.3
Pakistan (c)	+ 0.5	+ 2.5	— 0.1	+ 7.6	+ 10.5
Philippines	+26.0	—13.0	—65.5	+ 5.0	— 47.5

(a) Excluding amortisation. Figures converted from national currencies to U.S. dollar equivalent on the basis of conversion factors supplied by the International Monetary Fund.
(b) Relates to long-term capital only.
(c) Excluding transactions with India, Nepal and Tibet.

1948-51 there was a net inflow.

It is true that this represents only the private sector and that significant grants have been made to many Asian countries under Aid or Assistance programmes which do not come under this head. Nevertheless, these figures are significant enough as showing that conditions have not obtained for a free flow of capital into Asian countries so that a much larger degree of self-help is required.

Place of Planning

This condition underlines the special place that planning has to fill in under-developed economies. These economies suffer from the vicious circle that their productivity is low partly because their capital is short and partly because their incomes are low. Because income is low, education is deficient, health is poor, capital formation negligent, and it follows that productivity is low and thus the vicious circle is complete.

It is the main task of Asian Planning to break this vicious circle at some point. The point at which this circle is to be broken is now recognised to be not merely capital formation but direct investment. In the old sequence the chain of development was a climate to saving, private capital formation and then investment. In the special circumstances of today these countries cannot wait for voluntary capital formation and must invest directly; thereby inducing capital formation as a consequence rather than a preliminary to economic development.

There are natural limits placed upon the operation of methods of this kind. The volume of direct investment which can be undertaken by governments by deficit financing must be limited by the capacity of people of a country to take an element of forced saving which is necessarily inflationary. In Japan this capacity is great. In India it would appear to be small. In China it probably stands betwixt and between. But it is the common destiny of all these countries to be financing a rate of economic development which is beyond the voluntary capacity of a free economy. That is at once the purpose and the justification of planning in under-developed areas.

Scotland's Problems

BY DR. C. J. ROBERTSON (*Edinburgh University*)

IT IS well known that Scotland is a country of emigration but not always recognised how high it stands among other countries of the British Isles.

Scotland's loss of population by emigration between 1901 and 1951 totalled 1,164 per 10,000 of mean population, compared with Northern Ireland's 295, England and Wales' 516, and Eire's 1,146.

The Scottish rate of net loss in 1921-1931 (80) was over three times that of Italy (26 per 10,000). The serious repercussion on Scotland's industrial status is that, while up to World War I the emigration was largely of agricultural and domestic workers, since then and including the great maximum of the 1920's to North America, the loss has been mainly of skilled and semi-skilled workers.

Industrial Problems

Amongst the general characteristics of Scottish industry that have critical repercussions on the whole Scottish economy is the higher level of unemployment than in Great Britain as a whole. In the interwar years Scotland at one period had 25 per cent of its insured population unemployed. In 1952 Scottish unemployment ranged between 3 per cent and 3½ per cent, against Britain's 2 per cent. The seasonal fluctuation is also greater in Scotland, especially at the peak in January or February. This may be related to the larger number of seasonal jobs, in part due to the more severe climate. It may be noted that the building and contracting industry suffered especially severely in 1951 and 1952, unemployment ranging from 4½ per cent to 12 per cent. The dispersed character of settlement over much of the country may also have some effect in reducing labour mobility in periods of unemployment.

Another factor noted as possibly accentuating unemployment in Scotland is the relatively smaller proportion of industry in which both sexes are employed. The medium light group of industries, so strongly developed in London and South-eastern England, is under-represented in Scotland. Still more important is the well-known relative weakness of Scotland in the developing industries. C. E. V. Leser has worked out a coefficient of vulnerability to industrial fluctuation, taking the percentage deviation of employment in 1932 (the pre-war depression) from the 1927-1937 average.

Using these indices of sensitivity and weighing the averages for each region according to the employment in each industry, he estimated for 1947 the vulnerability of manufacturing industry in various regions, with Great Britain as 100, and obtained the following figures for the three regions most seriously liable to unemployment:

Northern England	135
Wales	130
West-Central Scotland	123

There has been large capital expenditure by the State in recent years, partly stimulated by the more serious incidence of unemployment before and after World War II.

From Scotland: A Peripheral Economy? Tijdschrift Voor Economische en Sociale Geografie, Rotterdam, December 1953

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	Percentages of net income: Scotland	Percentages of net income: U.K.	Scotland as percentage of U.K.
Profits and professional earnings	13.6	10.8	10.8
Wages, salaries, etc.	80.3	82.5	8.4
Family Allowances	0.9	0.7	11.4
Investment income	10.1	10.9	7.9
Gross income	104.9	104.9	8.6
National insurance, superannuation, travelling allowances, etc.	4.9	4.9	8.6
Net income	100.0	100.0	8.6

In the private enterprise sector, however, there appears to be insufficient provision of capital for development, a supposition borne out by the lower depreciation allowances in Scotland. This, together with the probably larger proportion of small undertakings in Scotland, may account for the lower capital equipment per worker in Scotland. The lower value added (or net output) per person employed shown for many industries in Scotland as against Britain by the 1948 Census of Production is thus not surprising.

The Commissioners of Inland Revenue took an Income Census for 1949-1950, based on a 10 per cent sample of taxpayers. This showed the proportions for Scotland and the United Kingdom for net income indicated in table above.

A further calculation by the Commissioners shows for 1951-1952 Scotland with only 9 per cent of the total individuals in the United Kingdom receiving incomes above the tax exemption limit. The lower proportion of individuals in the higher income brackets may account for such phenomena as the low percentage (7.4) of automobile licences current in Scotland. We may contrast this with the universality of radio receiving licences shown by a figure (10.4) identical with the percentage of population. More important reflections are the rates of overcrowding in some industrial areas—the housing shortage has severe repercussions on the much desired mobility of labour—and the relatively high incidence of tuberculosis, maternal and infant mortality in Scotland.

Another aspect of the same problem is seen in the figures for technical stratification of the male population of 15 years and over. The figures for Scotland show, as might be expected, a lower percentage in the administrative and executive class but also, and this is more significant industrially, a lower percentage of skilled workers than for England and Wales.

Males 15 years and over Percentages	*Scotland*	*England and Wales*
Administrative and executive	16.2	18.3
Skilled	50.9	52.7
Semi-skilled	18.2	16.2
Unskilled	14.7	12.8
	100.0	100.0

Source: Clydesdale and North of Scotland Bank. *Annual Survey for* 1952.

Not only in skill but in mere numbers Scotland is at a disadvantage in the lower proportion of the 29-59 age-bracket, 54 per cent against 56 per cent in Great Britain as a whole. Both the larger proportion of children and the extent of emigration are factors in this.

There's Nothing Like Wool

A BUOYANT AND OPTIMISTIC REPORT

BY SIR FRED HAIGH

THE manufacture of wool textiles is an art because the quality of the product and the efficiency of the production depend at each stage upon subjective assessments by those responsible.

Metals or chemicals will react in a known way under given conditions, but wool always retains to a large extent the living qualities which it once had on the sheep's back. It is because of this that those who are concerned with handling wool textiles come to 'know' their raw material in some rather special way. It is probably also indirectly on account of this rather esoteric character of wool that the industry has come to be typified by the highly personal quality of relationships between producer and customer and between employer and employee.

The advantages of being able to specialise in some one section of the production field have led to the present-day structure of the industry with its 1,500 individual production units. Of these more than 1,200 are of medium to small size, thus conferring upon the industry a degree of flexibility and elasticity which is essential in dealing with the infinite range of demand arising from the variety in its raw material combined with differences of fashions, seasons, climates, and prices. Even in the example of the largest organisations in the industry it usually remains true that the individual mill within such an organisation has great autonomy and counts as the unit of operation.

In October, 1953, the mills of the industry produced some 29 million lbs. of wool tops, 21 million lbs. of worsted yarn and 39 million square yards of cloth. In the wool topmaking section, the level of production was only slightly less than the highest point since the end of the war and was 25 per cent higher than the monthly average for 1937, the best year of the 1930's. In worsted spinning the rate of activity was also the best since the war and production was slightly greater than the monthly average for 1937. The rate of delivery of woven fabrics was not a post-war record but was high and formed part of a rising trend.

Labour Fluctuations

In order to complete the picture which the above statistics give it is necessary to set them against the background of the labour force with which these results have been achieved. In 1937 the industry had approximately 178,000 productive workers: from a wartime low point the labour force was built up again gradually, and largely by the industry's own patient efforts, to a peak of 171,000 productive workers in January, 1951. In the 1951-52 recession it fell sharply by 30,000 to under 141,000 in June, 1952. Since then and in the face of competition from other industries 26,000 employees have been recovered.

While the worsted spinning section has actually just exceeded its highest personnel total since the war the other sections are still

From Achievements and Problems of the Wool Textile Industry, F.B.I. Review, London, January 1954

slightly below their peaks. All of them, including the worsted spinning section, are finding themselves restricted by the labour supply and the woollen and worsted cloth manufacturers in particular are hard pressed to keep their looms manned.

The labour shortage is a continuing problem and its repercussions are at present felt in every field of distribution. If the rate of which the labour force is being increased is maintained, however, it should not be many months before a less taut situation is restored.

Of more concern, and likely over the next few years to cause much anxiety among exporters unless it receives firm and positive attention from the Government, is the distortion of international trade caused by physical restrictions and export incentives of various kinds. The particular objection of the wool textile industry is less to reasonable tariffs, which it may be possible to surmount, than to quotas, which no amount of improved productive efficiency or quality can penetrate.

Exports to North America

The general export picture remains encouraging. In the first half of 1953, wool textile exports ranked fourth in value after vehicles, machinery, and iron and steel. In the period between the wars they varied between third and sixth. Over the past three years the value of the industry's exports has averaged £148 million, and of this an average of £33 million has gone to North America making this the largest industry in dollar earnings after the vehicles group.

An encouraging feature of the recovery from the recession of 1951-52 has been evidence of the buoyancy of the production of the industry despite difficulties of insufficient labour within the framework of the availability of raw materials. There is no doubt that, inside the mills, management has been sharpened by the continuing challenge of problems of internal organisation which it has had to face and solve. The tight labour position continuing (with the exception of a temporary lull in 1951-52) ever since the end of the war has resulted in a healthy vitality and a positive attitude towards developing and using to the maximum advantage the present labour force and productive equipment. This attitude is reflected particularly in the activities of the industry's central organisations undertaken on behalf of member firms.

The Wool (& Allied) Textile Employers' Council has recently announced the establishment of a Work Study Centre for the wool textile industry.

A central Recruitment, Education and Training Department was established as long ago as 1945.

Co-operative research is carried out by the Wool Industries Research Association (the second such association to be established in the country) which, together with Leeds University and the Technical Colleges, has the benefit of a statutory levy established by the Board of Trade on the initiative of the Wool Textile Delegation and increased at the request of that body.

Recently, a welcome expansion has been that of the activities of the Research Association's Technical Survey Section which is concerned with improving the liaison between the scientist and the manager and which has carried out useful research inside the mills on actual production processes.

(*concluded on page 142*)

New Books Reviewed

World Population and Production, Trends and Outlook, by W. S. and E. S. Woytinsky, The Twentieth Century Fund, New York, $12.

This is a breath-taking work. It runs to well over 1,300 pages and carries more than five hundred statistical tables. It is to be followed some time this year by another volume—on world trade, transportation and government—and together the two represent 'an effort to put between the covers of two manageable volumes what amounts to a statistical picture of the collective resources as well as the economic performance and promise of the full array of the nations of the world'.

Print and production of the present volume are beyond reproach.

This stupendous enterprise represents the life-work of the authors, who are man and wife, exiles from Russia who had established a first-class reputation for themselves as statisticians and economic encyclopaedists in Germany (with *Die Welt in Zahlen*) twenty-eight years ago.

Since, despite the fascination of its letterpress, this work asks for a place on the library shelves mainly as a book of reference, it is first necessary to ask whether it can be consulted with confidence. The answer is decidedly Yes, and on both counts. The authors' technical credentials are of the highest order; and (on the strength of a dozen random references to out-of-the-way matters) the answers are there to be found and easy to find.

The book falls into five Parts, thus: (1) Man and His Environment; (2) World Needs and Resources; (3) Agriculture; (4) Energy and Mining; (5) Manufacturers. It must suffice to indicate the extent of detail by particularising a little further the cope of the section-titles of a single Part—Part 1—Man and His Environment: (a) The Earth; (b) Peoples of the World; (c) Migration; (d) Cities; (e) Births, Deaths, Marriages and Divorces; (f) Health; (g) Future of World Population. Each of those sections has an average of about ten sub-sections.

The next critical question concerns the up-to-dateness of the statistics. It is, on the face of it, impossible for statistics in a book of this kind to be the very latest now available. For the most part they include the year 1950. But this inescapable minor handicap is fully compensated for by the circumstance that in every instance the source of the figures is clearly stated, so that there will bc no difficulty in practice, in relation to any matter under reference, in carrying the figures forward.

We salute this book as we saluted the climbers of Everest.

Bibliography on Income and Wealth, Volume III, 1950, *Edited by Phyllis Deane, published for International Association for Research in Income and Wealth by Bowes & Bowes, Cambridge,* 37/6.

The first volume in this series covered the years 1937/8, and the second the years 1948/9. In the present volume 435 items are recorded, making a total with the other two volumes not far short of 3,000: impressive evidence of the enormous concentration of expert interest in this particular field. Because so many minds are being addressed to the subject, these bibliographies are of great value, not only in making reference easy but in avoiding duplication of labour. The content of each item listed is presented in highly-skilful summary.

Economics for our Times, by Augustus H. Smith, McGraw-Hill Book Company, Inc., New York, Toronto, London, 29/-.

This is a second and revised edition of a book, first published in 1945, by an author who was formerly Chairman of the Department of Social Studies in the High School of Commerce, Springfield, Mass. It is meant therefore for high school students, and evidently it meets their needs. Certainly it succeeds in getting down to the level of the beginner who really is meeting the subject for the first time. The style is chatty, the matter is down-to-earth, sentences are short, language is simple, the pictures are ubiquitous. Imagine the techniques of the *Daily Mirror* (London) applied to book production, and here is the result. If it is displeasing to English eyes, it is to be remembered that the *Daily Mirror* attracts more readers every day than any other newspaper on earth. If we had young folk to teach, we confess that we should keep this book handy.

Glossary of German Financial and Economic Terms. By C. A. Gunsfon and C. M. Corner. With a foreword by Dr W. Vocke. English Universities Press Ltd., London, 1953. 12*s.* 6*d.*

This glossary does not purport to replace existing dictionaries, but rather to help an English reader of German economic reviews or financial papers. Its real merit lies in the collection of new terms in banking, foreign trade and financial legislation. Completeness is not aimed at and would, indeed, be difficult to achieve at a time when institutions and regulations change so quickly. Sometimes it is not quite clear why particular terms are included or omitted and as in all such compilations, there are doubtful and even inaccurate translations. Still, the glossary is useful for the purposes for which it has been primarily designed.

A Balanced Economy, by L. S. Amery. Hutchinson & Co., London, 12/6.

It is not possible to quarrel with many of the facts here presented by a doughty protagonist with characteristic force. The free trade case that assumed that all governments would interfere as little as possible with trade is no longer valid. The U.S.A. *can* be used as a casebook of infant industries that have grown up under protection. The dollar gap *is* still with us and likely to remain a source of anxiety. Everyone admits the need for increased efficiency and production. It is agreed that we ought to make the best of our resources, especially coal. The burden of taxation is too heavy.

The quarrel is likely to be with Mr Amery's conclusions. With all their faults, I.M.F., the International Bank, GATT, and other international bodies do represent attempts at co-operation. Moreover, it is no longer possible to tell the rest of the Commonwealth what forms of organisations to adopt. Our long-term interests may be the same, but considerable divergencies are likely to develop en route.

Neither Mr Amery nor anybody else can put the clock back. The increased Commonwealth Preference pleaded for in this book is restrictive, and there is no risk of its being adopted.

The Economics of Resale Price Maintenance, by B. S. Yamey. Pitman, London, 25/-.

This survey of price maintenance is—or should be—of interest to everybody. The author's views on the practice are like those of the preacher on sin: he is 'agin' them. Four chapters of clearly-reasoned argument deal with the relationship between manufacturers and distributors, and the maintenance or otherwise of price control. Chapter V deals with loss leaders, and Chapter VI discusses the conflict between the interests of consumers and suppliers. The author insists that the possible gain of increased economic stability is bought at too high a price in any circumstances, and especially now when maximum efficiency of production is a matter of economic life and death to Britain. His argument for speedy legislative action would be extremely difficult to counter.

THERE'S NOTHING LIKE WOOL (*continued from page 140*)

There is a growing interest in the question of the relationship between man-made and natural fibres. The wool textile industry has for many years used man-made fibres along with its other raw materials and it takes the view that such fibres are complementary rather than competitive.

Although, since the war, there has been a rather significant trend in export demand towards all-wool cloths and away from blends of wool and other fibres, and although the worsted spinning section is only using currently some 4 per cent by weight of man-made fibres, the industry is psychologically attuned from its long experience with a wide variety of raw materials to the possibilities of using blends of different fibres to achieve desired results. In this matter the industry produces whatever fabrics there is a demand for—indeed it is so geared that it produces literally whatever the customer orders.

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.

Local Government Equalization Grant (U.K.): A searching and fully-documented attempt to interpret the term 'equality of burden' as it is used in relation to local government. The ideas are revolutionary, but they have all the responsibility in conception and skill in presentation that one would expect of the author—J. H. Robinson, City Treasurer, Leeds. A first-class treatise is presented in the form of an open letter. Local Government Finance, London, January 1954. (467)

Estate Duties Anomalies (U.K.): Memorandum prepared for the Chancellor's review of Estate Duty Anomalies, particularly regarding Section 55 of the Finance Act, 1940, prepared and submitted by the Society of Incorporated Accountants and Auditors, Supplement to Accountancy, London, December 1953. (468)

Asia: *India in Asia, and India in* 1953, Annual Number of Eastern Economist, New Delhi, December 1953. An admirable, wide-ranging review of the quality foreshadowed by earlier 'annual surveys' published by Eastern Economist. (469)

Australia: *The Basic Wage*, 1907-53, by Malcolm R. Hill, Australian Quarterly, Australian Institute of Political Science, Sydney, December 1953. The story in outline of the ups and downs of the basic-wage concept in Australia, which began with a judgement in the Commonwealth Court of Conciliation and Arbitration forty-seven years ago. The president then ruled that a 'fair and reasonable' wage must provide for 'the normal needs of an average employee, regarded as a human being living in a civilised community'. He put the figure at 42s. a week, which would support a family of 'about five persons' in frugal comfort. That simple beginning led to a basic minimum wage in Australia of £8 2s. in 1950 and of £10 16s. in May 1952. (470)

Brazil: *Foreign Trade and Capital Investment*. Supplement to Fortnightly Review, Bank of London and South America Ltd., London, January 23, 1954. Translation of two documents which constitute the basis of future foreign trade operations and govern investments of foreign capital in Brazil. (471)

Federal Europe: *Actes du Congrès International pour l'Etude des Problèmes Economiques de la Fédération Européenne, Economia Internazionale*, Genoa, Vol. VI, Nos. 1/2. Although the conference whose proceedings are here recorded took place as long ago as September 1952, the quality of lecturers, lectures and discussions was such as to make this volume still valuable. Every conceivable aspect of the problem of European union is covered in a volume of over 600 pages. (472)

Finland: *A Survey of the Population in Finland* by Aarre Tunkelo, Head of Department, Central Statistical Office, Helsinki, Bank of Finland Monthly Bulletin, Helsinki, December 1953. (473)

South and East Africa: *A South and East African Business Commentary*, Standard Bank Review, January 1954, Standard Bank of South Africa Ltd. The countries covered are Union of South Africa, South West Africa, Southern Rhodesia, Northern Rhodesia, Nyasaland, Portugese East Africa, Kenya, Uganda, Tanganyika, Zanzibar. (474)

Agricultural Controls and Subsidies: *Controls and Subsidies on Agricultural Products and Requisites:* (1) Pigs and Bacon, 1939-53; (2) Eggs, 1939-53, by H. Frankel, Supplement to The Farm Economist, Agricultural Economics Research Institute, Oxford, Volume VII, No. 4, 1953. The first of six supplements to be published in 1954, designed to bring up to date much of the information published in The Agricultural Register between 1933 and 1939. Other subjects to be covered are meat and livestock, hill sheep and hill cattle, wheat and flour, sugar, potatoes and milk. The six supplements may be had for 10s. (or 2s. each). (475)

Agricultural Economics: *Agricultural Output and Income:* (1) National Output and Income Accounting by N. Napolitan; (2) Farm Incentive Income by J. R. Bellerby, The Farm Economist, Agricultural Economics Research Institute, Oxford, Vol. VII, No. 5, 1953. (476)

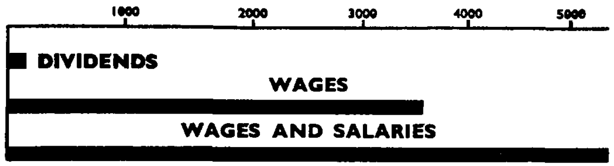
Grain: *Grain Exports by Source and Destination*, July 1952-June 1953, Food and Agricultural Organisation of United Nations, Rome, November 1953. (477)

LLOYDS BANK LIMITED

FACTS ABOUT DIVIDENDS AND WAGES

Lord Balfour of Burleigh's Statement

INCREASES BETWEEN 1938 AND 1952
IN MILLIONS OF POUNDS



The Annual General Meeting of Lloyds Bank Limited was held on the 12th February, 1954 at the Head Office, 71 Lombard Street, London, E.C.

The Right Hon. Lord Balfour of Burleigh, D.C.L., D.L., the Chairman, presided.

With the concurrence of the members present the Report and Accounts and the Statement by the Chairman, all of which had been previously circulated, were taken as read.

In moving the adoption of the Report and Accounts the Chairman said:

'As I notice a tendency in some quarters to make the small increase in dividends recommended by some bank boards, including our own, an excuse for still further pressing wage claims, I want as an addendum to my statement already in your hands to try to bring into proper perspective the relative importance of wages and dividends in relation to inflationary pressure.

The additional dividends declared for 1953 by the clearing and other banks were considerably less than £1 million gross: to be precise £853,000. In the calendar year 1953 wage increases amounted to £125 millions. And remember that the present series of increases in bank dividends are the first changes since the drastic reductions of more than twenty years ago, whereas the £125 millions of wage increases are simply the continuance of a process that has been going on since 1939.

Our present dividend of 14 per cent nominal actually represents a smaller money payment to a holder liable to tax at the standard rate than the 12 per cent dividend paid in 1938. In 1938 a holder of 100 'A' shares received £12 less tax at 5s. 6d., i.e., £8 14s. Today he receives £14 less tax at 9s., i.e., £7 14s. So he is down £1 even in money terms, and the real purchasing power of his present dividend is only two-fifths that of the 1938 dividend. The yield on an investment in our shares, with the 14 per cent dividend, at a price of 60s. is 4⅔ per cent, or in actual cash after deduction of tax at 9s. just over 2½ per cent.

Wage Inflation

May I now put the relationship of wages and dividends in a wider setting? What we are concerned with is the weight of money as spending power is causing inflation, and the facts can surely leave no doubt that any contribution of higher dividends is quite negligible compared with that of wages and salaries.

The amount of money received as wages in 1952 was £5,460 millions, and in wages and salaries taken together £8,215 millions, compared with £472 millions in ordinary dividends. This means that in 1952 dividends on all ordinary shares were something less than 50 per cent higher than in 1938; on the

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