FOR REFERENCE

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ECONOMIC DIGEST

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Sources of Soviet Power

BY SIR OLAF CAROE

IN the years since the war the weight of Russia has lain heavily on Central Europe and the Far East. Muscovy, like the Turks in the sixteenth century and the Mongols before them, leans across the ancient capitals of Christendom as far as Vienna; while in the Far East her philosophies have captured the minds of the successors of the Chinese imperial dynasties. These tremendous happenings, West and East, obscure the developments, political and industrial, taking place in the middle lands of the Soviet Union, lands which stretch in a great arc from the Caucasus, round by the Urals, north of the Caspian Sea, and thence down to the borders of Mongolia and Sinkiang.

Heart of the Heartland

Western complacency regarding events in this middle region is attributable partly to the fact that here alone, in territories bordering the Middle East, Russia has not advanced her frontiers since the Revolution, but perhaps more directly to a general lack of knowledge regarding Central Asia and its borderlands. In Britain at least this attitude of mind has hardened since she ceased to be responsible for the defence of India. Yet in many respects this heartland of the U.S.S.R.—none of it historically inhabited by Russian peoples—contains the life-blood of the Union, without which its very survival would be impossible. Looked at from another angle, this region could be the base from which the successors of Stalin may one day roll up the Moslem world and India, a conquest of the mind which would be closer and even more damaging to the West than the winning of China.

The hub of this arc is roughly on the Persian Gulf, a region which Molotov defined in 1940, and no doubt still defines, as the centre of the territorial aspirations of his country. There are reasons for the seeming paradox that the land frontier leading to these aspirations still remains the only Russian frontier which has not been advanced by territorial conquest or a conquest of the mind (as in China) since the time of the Tsars. Indeed, the sole territorial aggression of the Soviets in this region was the ill-fated attempt to remain in Persian Azerbaijan in 1946. Leaving aside Georgia and Armenia—themselves also non-Slav—the greater part of this region is the home of a number of peoples of a Turco-Iranian strain, most of whom embraced Islam between the ninth and eleventh centuries. Just west of the Caspian are the Azeris of Azerbaijan, divided between Russia and Persia, Shiah Moslems like the Persians, and in

From the National and English Review, July 1954 cultural symphony with Persia. North and east of the Caspian a confused history has led to much crossing of stocks, but it may be said that the people in the settled area south of the steppe—the old Transoxiana—represent a mingled Turco-Iranian heritage of which bilingualism in Turkic and Persian, common among Uzbeks and Tajiks, is one indication. The Persian strain predominates in the towns and oases along the rivers, while the Turkish strain, often infused with Mongol blood from the days of Chengiz Khan and the Hordes, is more common upon the steppe and in the mountains. Such are the Kazaks, the Kirghiz and the Bashkirs.

Unlike the Azeris, all those living east or north of the Caspian, even those in cultural or linguistic afinity with Persia, belong to the Sunni sect of Islam. The Azeris, Turkmens, Uzbeks and Tajiks overlap into the neighbouring Middle Eastern countries, either Persia or Afghanistan. All except the Tajiks speak one or other form of Turkic language; the Tajiks speak Persian. This is colonial Russia.

The Russification of all these territories began in the eighteenth century under the Tsars, busily engaged in strengthening the right flank of their long line of communication through Siberia. Russia did not effectively push southward until about the middle of the nineteenth century, and it took her up to the end of that century before, still under the Tsars, she was able to consolidate her dominion up to the present Turkish, Persian and Afghan frontiers in the south. In their later years these imperial movements were accompanied by conscious processes of colonisation, more particularly of the steppe-lands, the haunt of nomad tribesmen. These culminated in the so-called Stolypin reforms of 1906 which brought the Russian population of the Central Asian steppe up to 40 per cent of the whole. A policy of Cossack settlement was pressed in the North Caucasus and elsewhere. All this was undertaken under the cloak of relative secrecy, in a spirit which might have been inherited from the fanatical exclusiveness of the Bukhara Emirs and priesthood. The Tsar's government always looked with irritation upon intrusions into its Asiatic territories, and there seemed always something to conceal. Even the much-heralded railways, the necessary accompaniment to conquest and colonisation, were mainly strategic and did not become the highways of international commerce.

Russian Railways

Tsarist railway construction was undertaken with much energy and success. Up to the turn of the century Russia, from Baku, was the world's largest oil producer and exporter, and was not supplanted in that position by the U.S.A. until 1902. This caused her to press on with rail links north and south of the Caucasus linking Baku with the Black Sea. The first railway construction east of the Urals and the Caspian was not, curiously enough, the Trans-Siberian Railway, which was not undertaken until 1891 and did not reach Vladivostock until just before the outbreak of the Russo-Japanese war in 1904. It was the Trans-Caspian line, begun from the eastern Caspian shore in 1880 and reaching Samarkand in 1888, whence it was extended to Tashkent and up the Farghana Valley to Andijan, with a branch to the Afghan frontier at Kushk. By the end of 1905 this line had been supplemented by the Trans-Aral Railway, affording direct communication without a sea crossing with the main Russian railway network.

In contrast, Soviet railway construction in Central Asia has been remarkably unimpressive, and there is a constant tendency in publications to confuse promise with performance. Up to the end of last year, when some further progress was made, the only really important through trunk-line constructed under Soviet auspices in Central Asia was the Turk-Sib, linking Tashkent with the Trans-Siberian and the Kuzbas industrial region of mid-Siberia. Even that was planned and surveyed under the Tsars. From 1940 onwards there has been much talk of the construction of a relief Siberian or South-Siberian line (the Yuzhsib) to take the pressure off the main line. The first part of this from Karstali, the juntion for Magnitogorsk, to Akmolinsk was completed during the war, and further links towards Barnaul in the east were originally scheduled for completion in 1950, but not opened until December 20, 1953. Similarly, a link line from Mointy to Chu was to join Akmolinsk directly with the southern railway system and was originally scheduled for opening in 1947, but not completed until October, 1953. It is amusing to notice that the press correspondents charged with describing the opening ceremonies of both lines attempted to minimise the delays by reporting in each case that before the official cutting of the tape 'hundreds of trains' had already passed over the tracks!

The railway system of Russian Central Asia* naturally gives the clue to the industrial and commercial set-up of this all-important part of the Union. Agriculturally the southern parts of these territories have their importance as the present-day suppliers of the whole of Russia's raw cotton. In Tsarist times the cultivation of the cash crop of cotton was pressed and the consequent diminution of the area under grain entailed the import of corn from Russia to meet a deficiency high enough more than once to involve the country in serious famine. The Soviets have to some extent reversed this process by bringing the mills into Asia in order to manufacture on the spot, but there is still a measure of economic dependence owing to periodic shortages of grain. There are also the discontents inseparable from the enforcement of a collectivised agriculture on a peasant system of small-holders.

Liquidation of Nomads

These territories might also have been the suppliers of food in the form of meat on a vast scale, which could have served even for export from the Union. But the Soviet policies directed against nomadism have made that impossible. Russian statistics themselves show that the ruthless execution of measures to suppress the nomads and use them as industrial workers led to the disappearance of one in three of the herdsmen and three in four of their animals in the ten years after 1929. Since the death of Stalin many announcements have been made by Krushchev and others lamenting the failure of stock-breeding and the diminution of herds; the reason is to

*Meaning in this context the five S.S.R.s of Kazakistan, Uzebekistan, Tajikistan, Turkmenia and Kirghizia, and also those parts of the R.S.F.S.R. adjacent to the above in the Urals and the Altai towards the Kuzbas. According to Soviet classification *Srednyaya Aziya* does not include Kazakistan or adjacent areas.

be sought in the failure to understand that a nomadic life suits the pastoral conditions of certain climates. It is even worth suggesting that mechanical planning does not go to the root of the art of animal management.

The nomads who survived were sent to work in heavy and light industry. The industrial layout was complex. It had been the main objective of the first two Five Year Plans to create centres of industry in the Urals and beyond, out of reach of any invader. At immense cost in life and suffering the programme was pressed forward with an undoubted grandeur both in the plan and its achievement. As a result, the sites of heavy industry are to be found in the Urals and the Kuzbas, the former with its iron-ore and steel foundries around Magnitogorsk and the latter with rich coal deposits supplying the metallurgical foundation of the heavy industry base to supplement or replace that in the Ukraine.

Mills and Minerals

But this is not all. North of Balkhash and in the Jezkazgan area of Kazakistan are the largest copper-workings and smelting plants in the Union. At Karaganda is the third largest coalfield in the Union, and there is coal also at Angren near Tashkent and at Tashkumir and elsewhere in Farghana. At Chimkent is the largest lead centre in the Union. A great Soviet achievement has been to bring the mills into Central Asia and process the crops locally. There is a very large textile combine for cotton at Tashkent named after Stalin, while for silk there is a factory at Margilan in Farghana, said to be the largest in the world and integrating all processes to the weaving of the final material. There are reports of mining of mercury, radium and uranium in the mountains around the Farghana Valley.

Oil

But it is perhaps through a study of oil resources that it becomes possible to bring into the clearest focus the strength or the weakness of any modern economy. I have already said that before 1900 Russia led the world in the oil trade, and oil, like timber, is a traditional Russian export. It is a strange coincidence that almost the whole of Russian crude oil is produced either on the edge of Russian territory very close to an international frontier or in areas historically a part of 'colonial' Russia, inhabited in the days before Russification exclusively by Moslem peoples of Turkic stock. This applies to Baku in Azerbaijan, to the oil-producing areas around Ishimbay in the Urals (a part of the so-called 'Second Baku') and to all the fields in Central Asia itself. It is broadly true to say that the bulk of Russia's crude oil comes from around the Caspian Sea, just as more than half the proved oil reserves of the whole world, and one-fifth its present production, are drawn from around the not very distant Persian Gulf, that target of Molotov's territorial aspirations.

It is worth while to make some attempt to set Soviet oil production in perspective with that of the rest of the world. A thumb-nail sketch may serve. World production for 1953 was a little over 600 million tons, of which:

U.S.A. produced	1/2	Total 1
Middle East (without Persia)	1/5	
Caribbean	1/6	
U.S.S.R.	1/12	
Others (Canada, Mexico, East Indies, etc.)	1/20	

All these vulgar fractions neatly divide 600, so the sum is simple. The actual U.S.S.R. production in 1953, announced by Malenkov as realised, was 52 million tons, against 47 million tons in 1952. This, coming from the vast area of the Union, is not much more than is produced in the tiny Persian Gulf state of Kuwait (43 million tons in 1953 out of a total Middle East production, without Persia, of about 120 million tons).

Apart from the relatively low U.S.S.R. production there are interesting trends to observe. Of these the most striking is the acknowledgment, even in *Pravda*, that it is only with the greatest difficulty that the production of Baku can be kept from declining, so that countervailing increases have to be looked for in other fields. The table below illustrates this point and gives a breakdown by fields:

The target of the fifth Five Year Plan for 1955 is 70 million tons. If this is to be fulfilled, the present rate of growth will have to be exceeded.

There is a tendency to assume that figures of production exhaust the tale of comparative oil resources. The distribution side is even more significant. In Russian conditions it is obvious that the oil industry suffers from the problems inherent in moving oil on fixed alignments over vast continental territories rather than over the ocean on hundreds of possible routes by tanker. There are other factors. The movement of oil by land when roads are scarce, as in Russia, must take place by rail, by inland lake or river, or by pipeline. It has been estimated that the carriage of 100,000 tons of oil in 10-ton wagons by rail over 1,000 kilometres will occupy 130 kilometres of track. Multiply the capacity of the wagons by three and the figure remains formidable. In Russia the Caspian, and rivers such as the Volga, are admirably sited on the map for water transport, but the northern Caspian is very shallow and difficult of navigation, and the Volga waterways south of Astrakhan call for reshipment, before they can serve for heavy transport. Moreover, the rivers are frozen for many months in winter. Behind all these difficulties of season and nature there remain the problems which arise from the fact that oil in Russia is produced

Million tons

	Target 1950 (*4th Five-Year Plan*)	*Actuals* 1950	*Break-down** 1952	1953
Baku	17.00	15.10	15.00	No breakdown attempted
Groznyi, Maikap, etc....	4.95	5.11	6.00	
'Second Baku'	8.48	12.60	19.00	
Ukraine...	·33	·34	·30	
Central Asia	2.30	3.20	4.50	
Far East (Sak)	2.00	·90	1.90	
North Russia	·34	·35	·30	
	35·40	37·60	47·00†	52.00†

only at a few centres situated for the most part at vast distances from the chief areas of utilisation.

Pipe-lines

It might be thought, then, that the solution was transport by pipeline. Except in the Baku-Batum area between the Caspian and the Black Sea, and in the Emba* area, north-east of the Caspian, the evidence regarding oil pipe-line construction and availability is very scanty. It is jealously excluded from Soviet publications. There is mention of short lines from field to rail, but outside the areas mentioned there seems to be no corroboration of the existence of any long-distance pipe-line, with one exception. This relates to a branch pipe-line from north of the Caucasus, believed to lead via Trudovaya to Voronezh, and possibly, but by no means certainly, to Moscow. As far as I know, there is nothing definite to show whether there are any pipe-lines to supplement rail carriage on the long hauls from the Urals or Central Asia to the Kuzbas and the Far East.

Where the Oil Comes From

The difficulties of distribution will become clearer if we break down the U.S.S.R. into regions, those which produce surplus oil and those which, producing little or none, are deficit and heavy consuming areas. The eleven zones in the table following are borrowed from Soviet statisticians; the demand figures are based on old 1937 estimates related to the then production, and amended by myself to fit the 1952 production breakdown given above. In making these amendments I have assumed that:

(*a*) Production having risen from 27 million in 1937 to 47 million tons in 1952, the lowest demand in any zone should rise in that proportion, viz. by 74 per cent.

(*b*) 'Demand' must include current consumption plus stockpiling, and stockpiling is likely to be heaviest in the zones which are the nearest to the new production in 'Second Baku' and most distant from frontiers. In those cases the increase might be at the rate of 100 per cent.

(*c*) The advent of the Communist regime in China, and the Korean war, must have led to a very greatly increased demand both on current consumption, and for stockpiling in the Far East zone. (China produces next to no oil herself.) The figure for that zone has therefore been raised by 300 per cent, or quadrupled.

The results of these premises are shown in the table opposite.

Analysis of the above shows an aggregate of 27.8 millions tons to be moved annually from the four surplus production zones and the satellites to deficit zones of which those in heaviest deficit were Central and South European Russian and the Far East. The centre and the Far East world have to depend on 'Second Baku' and Central Asia, the south on the Caucasus. In the absence of pipe-lines, supply to the Far East by rail presents an immense logistic problem.

Treatment of the Caucasus as a single zone is misleading. It consists of:

(*a*) Three main fields, viz., Baku, Groznyi, Maikop.

(*b*) Five main seaports:

(i) South of mountains: Baku on Caspian and Batum on Black Sea.

(ii) North of mountains: Makhachkala on Caspian and Tuapze and Novorossyisk on Black Sea.

(*c*) Possibly six pipe-lines:

(i) Baku to Batum.

(ii) Baku to Makhachkala (uncertain).

(iii) Makhachkala to Groznyi.

(iv) Groznyi via Maikop to Tuapse.

(v) Maikop to Krasnodar.

(vi) Groznyi to Trudovaya (and possibly on to Voronezh and Moscow).

Of these all but the last transport oil over and within the Caucasus zone, but their existence is vital to the functioning of what is still the largest surplus oil complex in the Union. The oil economy of the whole country must depend on the efficient transport of the oil products of Baku to the Black Sea and of Groznyi and Maikop to the Caspian and the Black Sea. The discoveries in the less exposed Urals and Central Volga region have prevented the gradual tailing-off of oil production in the U.S.S.R., but the Caucasus, with its non-Slav and Moslem populations perhaps not even yet wholly digested, remains an essential key.

Russia Exports Oil

Given the relatively low oil production of Russia, it is surprising to find that in the last two years she has found it possible to resume her traditional exports of oil. Yet such is the case. In 1952 oil exports totalled nearly one million tons, mainly to Finland and Italy, in 1953 shipments were nearly doubled, while later trade agreements, already concluded, indicate that, apart from what Russia sends to China and Korea, she may export some 4 million tons in the current year, France, Denmark and Israel being included as customers.* Stocks for this purpose are available in the 8 to 10 million tons produced by the

*Sometimes counted as part of the 'Second Baku', sometimes included with the Central Asian fields. Emba produces between 1 and 2 million tons annually.

	Million tons		
Zone	*Output* 1952	*Demand*	*Surplus or Deficit*
North Russia...	·3	1.8	— 1.5
Urals plus Emba	13.0	7.0	+ 6.0*
Central Volga	6.0	4.2	+ 1.8*
W. Siberia	—	1.9	— 1.9
Far East	1.9	6.6	— 4.7
Central Asia	4.5	1.1	+ 3.4
Caucasus	21.0	5.7	+15.3
South	—	6.7	— 6.7
South-West	·3	1.2	— ·9
Centre	—	9.3	— 9.3
North-West	—	2.8	— 2.8
Totals...	47.0	48.3	+26.5 —27.8
Balance from Satellites ...	1.3		+ 1.3

* Petroleum Press Service, March 1954

satellites which, on a diet of starvation themselves, can meet both the marginal deficit of the U.S.S.R. and this demand for export. Those chiefly affected are Roumania and Austria. Here is one potent reason why the Soviets do not relinquish their hold on these countries.

It is of course true that, in comparison with the West, Russia's own consumption is low, and is restricted by policy and by low standards of living. Her main incentive to export is similar to ours with coal, namely, to obtain much-needed imports by squeezing out for export a difficult margin of a primary product in great demand at home. But in her case this is achieved mainly at the expense of the satellites. It is significant that the drive to resume oil exports, so well-known in earlier years, has coincided with the post-Stalin endeavours to make a wider range of consumer goods available to the people.

Oil provides the sinews of war, and, more than any other raw material, is the motive power of a modern social and economic organism in time of peace. There are many interesting features about this industry as it has been developed in the U.S.S.R. Originally almost the sole and much the most important producer, Russia has fallen right out of the race. With about one-sixth of the production of the U.S.A. she has to supply a larger population over a wider distribution area. Moreover she is under the necessity of supplying her ally China, whose own oil production is at present negligible, and whose population, added to her own, makes up something like one-third of the population of the world. Thus one-third of the people are dependent on one-twelfth of the fuel. Yet such is Russia's need of imports that she is driven to export a portion even of this scanty material.

Soviet Oil and Soviet Empire

Over and above this is the fact that nearly all Russia's oil is located in 'colonial' regions, much of it on the outer perimeter of her domain. Baku, itself a cosmopolitan centre crowded with Russians and Armenians, is in Moslem Azerbaijan. The 'Second Baku', partly on the Central Volga and in Russia proper, has its most productive wells at Ishimbay in what was the territory of the Ural Bashkirs, also Moslems. The Emba wells are in Kazakistan, the Nebit Dagh wells in Turkmenia, the Farghana wells on the tangled frontiers of Uzbekistan, Tajikistan and Kirghizia in the Farghana region. Even Sakhalin on its Pacific island is on the outer periphery of the Empire.

The events of World War II proved that up to that time the Turco-Iranian peoples of the U.S.S.R. had not been fully digested in the system. It is an understatement to affirm that their loyalty was not above suspicion. It is not surprising that, with the vital centres of its industry so near the perimeter, the Kremlin should move with caution on the frontiers of the Middle East. Nor is it only oil that is here at stake; it is cotton, silk, coal, copper, lead, and other things.

The perspective is complete when we remember the conditions so contrasted with those around the Caspian, which obtain around the Persian Gulf. There, more than twice all Russia's production is obtained from the most prolific oil wells in existence. On these, now that the U.S.A. is a net importer, Europe very largely, and Southern Asia almost entirely, depend. If the Persian Gulf is still the centre of Russia's territorial aspirations, its defence becomes with every year a more insistent challenge to the free world. This is the reality not only for the West, but for the countries of South Asia and the Middle East also. It is one which leaves no room for neutralism.

Farmers Now Produce More Than World Can Buy

THE most important problem facing farmers today is the fact that the world currently is able to produce more food and fibre than the world can buy, the I.F.A.P. Nairobi Conference declared.

'These surplus stocks are part of a larger and longer term problem', the I.F.A.P. Policy statement said. 'This problem consists in the fact that the world's capacity to produce agricultural products has, for the moment at least, outstripped the effective demand for them. That is to say, while the people of the world need all the food and fibre that world agriculture could produce, they do not have the means to pay for these essentials.'

The answer to the problem of unbalance in production and consumption does not lie, over the long run, in restriction of production because the world needs a continued large production, the I.F.A.P. delegates said. At the same time, they said, it should be recognised that important shifts must be made in production in both exporting and importing countries. It was recommended that production be reduced for such crops as cotton, grain and potatoes, and be increased for such commodities as animal protein foods not in surplus.

In a paragraph on this question of unbalanced production and consumption, the I.F.A.P. Conference said, 'But the real answer to the problem of unbalance between productive capacity and effective demand must be found on the side of demand. Demand is not static. People have almost unlimited wants—which unfortunately do not always meet with a corresponding purchasing power—for better food, better housing, better clothing, better educational facilities, and for a vast array of various kinds of manufactured goods. There should be an ever-expanding circle of the distribution of these things as opportunity is increased. . . . In short, the Committee feels that the long-term solution to the present agricultural situation must be found in building up the purchasing power which will create expanded markets for both agricultural and non-agricultural goods—and this can be done in an expanding world economy.'

From World Farm News, issued by International Federation of Agricultural Producers, June/July, 1954 the volume of industrial production was as a rule larger than in the previous year; and a high degree of employment was attained without there being any rise in the general level of prices.

In the United States, the second half of the year saw a slackening of the rate of business activity. In its annual review the U.S. Department of Commerce points out that in 1953 the gross national product, at constant prices, for the year as a whole exceeded the 1952 figure by nearly 4 per cent and that the course of business within the year 'was one of moderate further gains through July and of a gradual downdrift thereafter'. It adds that 'the slackening of activity in the latter part of 1953 served approximately to cancel the gains of the first half of the year; comprehensive measures of income at the year's end were a little above, and of employment a little below, their high rates at its beginning'.

With regard to the reasons why, notwithstanding the levelling-off of business activity in North America, there was an economic upturn in western Europe (and in some overseas countries) in the latter half of 1953, attention must be drawn, in the first place, to three very important points.

(i) The remarkably stable overall level of both wholesale and retail prices provided a firm basis for an extension of business activity, one consequence of this being that there seemed to be no point in delaying orders or postponing investments in expectation of an appreciable decline in prices.

(ii) Although the overall level of prices remained remarkably stable, there were many changes in particular price groups, and the net effect of these was to improve the terms of trade for the highly industrialised countries in western Europe. What is also important in this connection is the fact that the continued improvement in the terms of trade did not lead to a fall in Europe's exports to the raw-material-producing countries overseas, which, on the contrary, were able in many instances to relax their import restrictions. Such a combination of trends can hardly be interpreted otherwise than as an indication that some measure of economic equilibrium has been achieved not only in Europe but also in other parts of the world—and this achievement would hardly have been possible had it not been for the sound policies in the sterling area and many other countries which are mainly primary producers.

(iii) The increase in the monetary reserves of the majority of countries other than the United States made it possible for the various national authorities to take a more liberal line with regard to the conditions governing their external trade and payments relations. There were thus fewer obstacles to a revival of international trade—and relatively free international trade not only makes it easier for the individual firm to sell its goods in foreign markets but also enables it to obtain, without encountering serious payment difficulties, machinery of foreign make and whatever raw materials and semi-manufactured articles can advantageously be produced from abroad. Furthermore, thanks to the rise in monetary reserves, the liquidity of business firms and banks was in most cases increased. Consequently the business community had little or no difficulty in raising—often at somewhat reduced cost—the working capital which it required and in

several countries the facilities for long-term financing were also improved.

America — Europe and the Commonwealth

The next few years will be a testing time for the relations between America and Europe, a time in which great and constructive achievements are possible. So far, the European countries have undoubtedly been impressed by the fact that notwithstanding the much-publicised decline in American industrial production, to which the term 'recession' is applied, there has, at least up to the spring of 1954, been no drop in the general level of commodity prices, no interruption of the growth in the gold and dollar holdings of countries outside the United States and no falling-off, but generally an expansion, in business activity in the countries of western Europe and the overseas areas associated with them.

Future developments will naturally have to be most carefully watched, but there is every reason to believe that the trend of public opinion almost all over the world is in agreement with the unanimous conclusion reached by the Commonwealth Finance Ministers at their meeting in Sydney in January 1954 and reported in the Budget Speech of Mr R. A. Butler on April 6, 1954, that their countries should try to ride the inevitable fluctuations of world trade without returning to restrictions on trade and payments. It was also agreed that if all played their part in endeavouring to maintain a high level of trade, business activity, and employment, a moderate decline in the trend in the United States could be prevented from having serious repercussions elsewhere.

It is clearly in line with the ideas put forward at the Sydney Conference that the decision should have been taken in London in the spring of 1954 to extend the use of transferable sterling and re-establish a market for gold; the very important steps towards freer trade and payments taken round about this time in a number of continental countries were moves in the same direction. The countries adopting these measures feel that they are now sufficiently strong to relax their restrictions, and they are deriving encouragement from the fact that every fresh advance towards freedom has been followed by an increase in their economic strength.

Once again it is becoming evident that the nearer a country's internal finances are to being in balance the greater is its power of resistance to economic fluctuations whatever their origin.

Raising the Level of Purchasing Power

The report of the Swedish trade-union committee touches on the possibility of raising the level of purchasing power by the introduction of government-financed anti-unemployment measures, but it stresses that any such increase should not amount to 'more than is necessary to ensure the marketing of the increased production'. These words are rather similar to those used in the Economic Report of the President of the United States (submitted to Congress in January 1954), in which it is stated that the supply of money must be 'in keeping with the increase in the physical volume of production and trade', it being added that 'such a growing money supply is necessary to prevent the development of deflationary pressures, to maintain equity values, and to keep the purchasing power of the dollar reasonably stable'.

Revolution in Economics?

BY LADY RHYS-WILLIAMS, D.B.E.

A MEMORABLE discussion of present-day economic problems took place at a recent meeting in London of 'Friends of Atlantic Union'. The result may well have seemed depressing to those who expected a clear path to be mapped out by the famous leaders of economic opinion who took part in the debate, for many problems were raised, but few answered by proposals having the slightest chance of being carried out. What emerged was rather a conviction that economic thinking is passing through a period of change, and may presently blossom forth with new hopes and idealisms to replace those which have, palpably, died. The casualties are three: Nineteenth-century Liberalism and its modern 'neo-Gothic' revival; Fabian Socialism and the belief in Nationalisation and confiscatory taxation as a means of redistributing wealth; and economic control by supra-national authorities armed with absolute powers, such as were devised at the end of the war and embodied in the Bretton Woods agreements. Liberalism has turned out to be a means of increasing wealth but also of intensifying its mal-distribution. Socialism, if unassisted by the coercive methods of the oriental tyrannies, has led to inefficiency and a decline in overall production of wealth at an increasing rate; and the supra-national bodies have earned disrespect because the individuals in charge of them have not insisted that they should function for the good of all, but have been too careful of the interests of the richer members. Only confidence in their complete impartiality could keep them in effective control, and such lapses as the failure to implement the scarce-currency clause in the Bretton Woods agreement and the failure to utilise the resources of the International Monetary Fund in the way intended have made nonsense of the whole set of post-war economic schemes.

It is certainly high time a twentieth-century philosophy emerged to fill the void which exists as the result of the visible decay of the theories which have guided European and American Governments for the last century or more. The fate of Liberalism and Socialism has been to be kicked upstairs into the political arena, there to proliferate into the dangerous clouds of hostility which are dividing the world into two opposing camps at the present time. The final stage of their mortal conflict seems to be approaching, but whether it is to break out into the appalling destruction of a third world war, or whether it will prove, in the end, to be nearer to Tweedledum and Tweedledee's battle remains to be seen. The 'monstrous crow, as black as a tar barrel' has certainly appeared in the shape of the hydrogen bomb, but to hope that it will succeed in frightening both the heroes so that they quite forget their quarrel may well be only wishful thinking, outside the pages of *Alice in Wonderland*.

Problem of Distribution

Whatever happens in the political sphere, there seems no doubt that a real contribution to peace could be made by economists if they could discover a new and workable theory which could serve to guide the free world through the era of unparalleled expansion of wealth which seems to be at our doors if only war can be avoided. It is already obvious from the fact that America has been obliged to cut back her acreage of cultivation that the concepts of limited wealth on which our price and credit structure is based are entirely out of date. The problem today, as it was in the 1930's, is that of distribution rather than of production. We must hope to solve it more satisfactorily than we did then—by the destruction due to the Second World War.

The problem of distribution is like the parable of the prodigal son. But for his brother's careful labour, there would have been no fatted calf to kill for the benefit of the returning vagrant. If too little gratitude and actual reward is offered to the dutiful producer he may well get tired of his dutifulness, and then there may be no wealth to distribute after all. But neither can we go on with the system which has brought his brother to such a plight. The famous principle of non-discrimination must go into the discard, for it has done great harm.

Not only individuals but also areas and even nations which could not find the means to compete with the rich and favoured on equal terms, were, under this strange philosophy, advised to be content to remain poor, or else to migrate their populations en masse to some more favoured land. This is sheer nonsense under present conditions, in which not only immigration laws and poverty but also trade union regulations after arrival preclude the immigrant from making good, and exchange restrictions prevent him from bringing any capital with him or even from sending income back to his native land with normal ease. It is a form of lazy-mindedness on the part of the economists to pretend that it is easier to bring the individual to where the wealth is made, than the wealth to where the individual wishes to live, provided that he is not forced to starve there. The immigrant costs more to keep in an expensive country than he did at home.

Protection for Weaker Communities

The opponents of any form of protection for the weaker communities have formidable charges to face. Not only Communism has resulted from the resentment caused by their sentence of perpetual poverty upon more than three quarters of the world, but also the impulse towards nationalism and economic independence which has wrecked the hopes of international control and the peace which it was hoped would go with it. The determination to compel the poor, the weak, and if you like, the lazy, to choose between a continual race against the rich and favoured nations or to remain below the level of bare subsistence has been an evil thing for which the rich countries may still have to pay most dearly. Nor is there any truth in the idea that the poverty of an area is likely to be in any way relieved by linking it in indissoluble union with some richer neighbour. The plight of the Southern States of America for all too many years after their conquest by the North, of Ireland during its annexation to Britain, and now of Southern Italy since it has been united with the industrial North, provide an awful warning to those in France who have been told that they

From European Review, July 1954

will fare better when their markets have been opened to the industrial competition of Germany and the agricultural competition of Holland without power to protect themselves any more by the tariff barriers which shelter them today.

* * *

The failure of Socialism in spite of good intentions is equally marked. The idea of confiscating wealth without compensation, whether by levies or penal taxation, is the mainspring of the Communist creed, but it was taken from the teachings of the mild European Socialists who meant no harm. By this incredibly cruel means, carried to its logical conclusion, the ruthless dictators of the East are undoubtedly enabled to improve the wealth and power of their favoured subjects by the method of wholesale murder, enslavement and destruction of those who do not happen to please them, and a confiscation of their wealth, but a compulsory redistribution of wealth cannot be made to yield continuing results in a free and genuinely democratic country. Where there is neither the Communist whip nor the capitalist carrot, the work required to keep a country on its feet simply does not get done. Stagnation and boredom leading to ever-increasing doses of tyranny are the unappetising prospects offered by Socialism today.

The problem which the economists have to solve is that of making available the overspill of wealth produced by the richer countries, working under an incentive system, to those areas which need the goods; and this without reducing their independence, nor killing their nascent industries, and without burdening the taxpayers of the richer countries with unnecessary taxation in order to make obeisance to the traditional concept of payment if in fact no such payment is required. America has shown that the export of very large quantities of gifts for a number of years did not hurt her economy, or reduce the individual standard of living of her people, or alter her basic economic structure, whereas the attempt to cut down this overflow has in fact produced a minor slump. With modern scientific resources, the possibilities of creating new wealth are already almost limitless.

The real trouble is that the miracle cannot be performed within the poorer areas themselves because they lack the equipment necessary to begin to do it, and the skills required to carry it on. Nor can they produce even simpler types of goods which would be acceptable to the richer countries, since the import needs of the industrial states are already met—with the possible exception of Britain—by existing suppliers. To speak of loans, credits and investment is meaningless under such conditions, since repayment is and will remain impossible as a result of normal trading. Unless capital goods are provided to the undeveloped areas in future by way of outright gifts, as the Americans have given Marshall Aid, there appears to be no way in which the standard of the backward areas can quickly be raised by the help of the Western economic system. It is not difficult to imagine where, in such a situation, they will be tempted to turn for the development they are determined to have.

Disposal of Surpluses

But the abandonment of still more areas to Communist control is not the only aspect of the problem of distribution which needs to be solved by a major shift in the thinking

of our economic leaders. There is also the question of how to dispose of the surpluses produced in the rich countries if these are not to be given away. If these are abolished merely by cutting down their production, it is plain that unemployment and impoverishment must result, and deflation of the whole economy, now geared to constantly increasing output, will follow, as it did in the 1930's. Alternatively, if internal inflation is resorted to on a sufficient scale to enable the country itself to absorb all its products, normal exports will be priced out of their existing markets. This process is, in fact, already going on, and the invisible inflation of the dollar is the true explanation of the fact that there is a boom in the non-dollar areas in spite of the American recession. It is due to the fact that their recovery at the present sterling dollar exchange, thanks to the rise in American prices, is sufficiently favourable to the non-dollar countries to enable them to sell their good in each others' markets, and so to dispense with the excessive American imports which caused the dollar gap. So far the American inflation has helped to balance the world's economy, but in such conditions, the price of gold—and therefore its possession—may cease to have a real meaning, and conditions of pure relativity in the financial sphere may replace the vestiges of the gold standard which still remain.

A New Age

Clearly, we are entering upon a new age to which none of the old rules or concepts apply. That the currency of the richest country in the world should be overvalued just *because* its wealth production is so great is something which does not fit into the old framework, and we must think again. We are in a flexible period in which the guidance of men of goodwill and the precepts of the Sermon on the Mount seem likely to produce better results, even from a purely material point of view, than any preconceived notions based on jungle warfare in the economic sphere, which still survive from a pre-atomic past.

Canada and Colombo Plan

Under this little known or publicised programme set up in 1950, countries in south and south-east Asia—including India, Pakistan, Ceylon, Burma, Indonesia, Malaya and North Borneo—are given economic assistance by members of the British Commonwealth, viz. the United Kingdom, Canada, Australia and New Zealand.

Such aid takes the form of free gifts of farm machinery, hydro-electric equipment, transportation units, etc., also wheat and other foodstuffs, the basic idea being to help the Asiatics to achieve economic independence. Up to date Canada has contributed about $100 million to this project, and within the next year will supply 120 Canadian-made locomotives to the India Railways, an additional gift costing this country $20 million.

From Canadian News Letter, issued by Swiss Corporation for Canadian Investments Ltd, Montreal, June 1954

Convertibility: Three Opinions

I. THE NEXT STEP

BY R. G. GLENDAY, M.C. (*F.B.I. Economic Director*)

The continued strength of sterling despite a slowing down in the rate of U.S. business activity has naturally brought convertibility into current discussion again. While there is little immediate likelihood of convertibility in the sense of the £1 sterling being freely convertible into gold or dollars at a fixed rate, without limit of amount and without qualitative exclusions, there are a number of intermediate steps along the road that no doubt will be taken in the not too distant future.

THE Chancellor of the Exchequer, on more than one occasion, has laid down the conditions under which sterling convertibility would be feasible. They are: Sound finance within the sterling area; adequate reserves; and last, but by no means least, the adoption by major countries of policies conducive to trade expansion.

The essential point in these conditions, which is apt to be glossed over in popular discussion, is that they imply what has been termed the 'collective approach' with progress towards freer trade as well as towards freer payments. 'It would be wrong to put the emphasis on payments alone.' The Chancellor has, moreover, emphasised that before this step could be taken with safety the United States must adopt what has come to be known as 'good creditor policies' so that there may be a dependable balance between the dollar area and the rest of the world; a balance which does not depend on transient measures such as external United States aid. 'We want to be sure that conditions look right for convertibility, and that it is not only a practical move when we make it but a secure policy that can be sustained in the future.'

Now it is abundantly clear that these conditions are not being fulfilled today nor, indeed, are they likely to be fulfilled in the course of the next year or so unless, among other things, there is a marked change in current official American policy and thinking—and, it should be added, in that of certain of the other major trading countries also.

Randall Relegated

The hopes widely entertained at the time of the Commonwealth Conference of 1953 that substantial dollar reinforcements for the support of the sterling area's exchange pool might be made available by the United States have had to be abandoned. Doubtless opportunity will be taken at the meeting next September of the International Monetary Fund not only to seek stand-by credits along the lines suggested in the Randall Commission Report but also to attempt to persuade America to subscribe to a good creditor trading policy. In the absence of a fundamental change in United States' trade and tariff outlook such as would accord with her position in world economy, our defences against any deterioration in world trading conditions under conditions of convertibility might over the years become so severely strained as to compel us to beat a retreat.

From F.B.I. Review, July 1954

Stepping Stones

It seems, therefore, that we can rule out of the sphere of immediate practical politics 'convertibility' in the sense of the £ sterling being *freely* convertible into gold or dollars at a fixed rate, without limit of amount and without qualitative exclusions. There are, however, a number of intermediate steps along the road to that ultimate goal, some of which have already been taken and others of which will doubtless be taken in the not too distant future if the world's trading environment remains favourable. It is almost certainly some of these further intermediate steps that the authorities have in mind when they talk of 'convertibility' as a policy for the immediate future.

To see the situation in proper perspective as a concerted movement towards a determined objective, account must be taken of the notable progress that has already been made. 'Dollar account sterling', that is sterling owing on current account to any resident in *dollar* countries, has for some years been freely convertible into dollars; 'transferable sterling', that is sterling held by residents in all countries outside the dollar and sterling areas, Hungary, Turkey and Iran, which until recently only had a limited transferability, can now be converted freely into any available *non-dollar* currency at the will of the holder; and, lastly, sterling currently earned by members of what is known as the 'European Payments Union' is today freely convertible into the currency of the member concerned and—to a very limited extent—into dollars or gold. This scheme has gone much further than the provision of a purely clearing mechanism. It has enabled the formulation of arrangements for the mutual extension of credits and so indirectly of trade between the countries concerned and the movement of credits and balances has exerted a salutary effect on internal monetary discipline.

Progress in widening the use of sterling has occurred in other directions also. During the past year there has been a substantial liberalisation from 58 to 80 per cent of imports into the United Kingdom from other Western European countries, despite the fact that Britain is a substantial debtor of the European Payments Union. In addition, restrictions on imports from the Dollar Area have been substantially eased, owing in part to the freeing of commodity markets coupled with the granting of 'open general' licences for many commodities for consumption in the United Kingdom. Some 50 per cent of the imports now coming into Britain from dollar sources are wholly free of import restrictions.

Sterling a World Currency

Today 40 per cent of world tráde and 75 per cent of Western European trade is conducted through sterling.

When it comes to considering the next step that might be taken in the direction of full convertibility, we enter into an arena where there is a lack of unanimity as to what form this should take and about the extent to which the preconditions that would justify a futher move have yet been fulfilled.

There seems to be growing agreement that, in a world in which there is still widespread evidence of financial disequilibrium, the next step towards convertibility would, to begin with, probably have to be limited to the freedom of *commercial* *transactions* by foreigners resident outside the sterling area who would be allowed to convert into dollars any sterling that they earn in the future on current trade. This is technically known as 'non-resident convertibility'. It is accepted that the success of such an operation with our present modest reserves would depend on stringent control continuing to be exercised over the conversion into dollars of sterling arising in connection with *capital transactions*, and *sterling liabilities existing before the convertibility date*. The difficulty would be to prevent the sterling in the latter two categories from 'leaking out' as it were into the convertibility pool and thereby imposing an undue strain on our gold and dollar reserves.

Limited Convertibility

The ordinary business man in this country would not feel any direct immediate benefit from the change: our foreign exchange machinery would remain, and there would still be a measure of control over the import of dollar goods by the sterling area and also other invisible transactions. The sterling countries of the Commonwealth would continue to maintain a common dollar pool with a voluntary limitation on dollar spending, much as is done today. Those to benefit immediately from the greater freedom would be all those in Western and Eastern Europe, South America, Japan, and certain Middle Eastern countries outside the sterling area. This limited version of convertibility is a far cry from what many Americans and others have been looking for, but it would by no means be a negligible change. It would tend to intensify the growing forces of competition which British industry has in recent months been facing in the world's markets, because there must be many of Britain's customers in these countries who have bought goods from Britain instead of from America since, so long as their current sterling earnings were inconvertible, they had no option.

Any adverse effects of this convertibility on Britain's export trade and international payments position would undoubtedly react on the willingness of foreigners to hold sterling and so affect our reserves.

Account would also have to be taken of the effect of sterling convertibility on our 'collective approach' understanding with Western Europe. This means that arrangements would have to be concerted with other countries in Europe, such as Germany and Holland, equally ready to take the plunge into the pool of freedom, as well as for the retention of some of the benefits of the European Payments Union for the weaker countries such as France which without its support would have been unable to indulge even in her present modest degree of liberalisation of her imports from neighbouring countries.

Enough Reserves?

Finally, there is the political issue touched upon in a recent letter from Lord Brand to *The Times*. He wrote: 'When we have once returned to convertibility it is essential that we should not again be forced into any devaluation. But this means the acceptance by the British public, and by all British political parties, of whatever measures may be necessary to ensure that we remain competitive with other countries at the existing exchange rate. This is not likely to be easy, particularly if many industrial workers assume that wages ought, as a matter of course, to rise annually.'

A flight from sterling into dollars under conditions of 'convertibility for non-residents' could be both easier and more disastrous for Britain's reserves than anything that could happen now.

The basic question is whether the present sterling area reserves are adequate to provide the necessary cushion against such an eventuality. It must be borne in mind that, despite recent gains, the reserves at the end of May at $2,985 million were still below the figure of $3,867 million reached in mid-1951. In the event of a drain on these reserves there is, of course, the possibility of recourse to the drawing rights available through the International Monetary Fund, or to any special stand-by dollar credit which the U.S. might be willing to provide.

II. CONUNDRUMS OF CONVERTIBILITY

THE convertibility of the pound sterling is not imminent. But it is some time since it became a distinct possibility, following an O.E.E.C. report and the British Chancellor's visit to Western Germany. Here, as elsewhere, the somewhat loose organisation of the sterling area is, however, likely to lead to important interests being overlooked; and since it is an open secret now that 'after the necessary conferences in Europe and Washington this summer and autumn, convertibility may happen at any time and at short notice', it is desirable that some of the issues are sifted and analysed.

The main reasons why the issue has become a practical and current one seem to be three. Paradoxically and somewhat surprisingly, all these reasons point to the basic strength of the pound sterling independently of the speculative movement of funds. First and foremost, there is the question of what has been happening in the current recession. Apart from the fact that the American recession has receded, there is, as Conan has pointed out, the growing feeling that the implications for the sterling area's dollar exports of a slump in the United States cannot be as grave as everyone has been accustomed to assume. (Have not the percentage losses in the area's exports declined from the Great Depression to the pre-war slump, from the pre-war slump to 1949, and from 1949 again to 1951?) Secondly, British productivity in relation to British wages may not be quite so unfavourable especially in the long-term setting; on this Hawtrey builds an entire case for revaluation by degrees. Thirdly, there is the acid test of experience. Largely as a result of the fact that the sterling area has learnt to do without dollar imports at a pinch, the position is easy now, and, as Conan has pointed out, there may be some scope for cutting even if this were to be needed on some future occasion.

But if a great deal of optimism has been induced by these recent developments, it is also true that behind all this appearance of prosperity, there may be unknown dangers—or at least problems. Sir Sydney Caine, in a notable contribution, has pointed out some of them. There is, for example, the somewhat disappointing, if not wholly unexpected, sequel to the Randall Report. There are also uncertainties as to whether the sterling area's reserves are yet adequate. Five billion dollars has been

From The Eastern Economist, July 16, 1954 regarded by some as a safe target. And there is no knowing how far American support, for example a line of credit from the Federal Reserve System, can be relied on. Even American investment in the sterling area, on second thoughts, may not be wholly unembarrassing in certain circumstances; if it is to be accompanied by matching expenditure, and if it leads to increase in total investment which is greater than the investment which is financed from outside, complications can easily result.

Brand, Balogh and Bevan

Lord Brand has recently drawn attention to one problem. In view of the case against convertibility which has been presented by Messrs Bevan and Balogh (and their opinions are certainly very widely held outside the Conservative Party) there is obviously some sense in asking, as Lord Brand has asked in effect, that so important a matter as this should not become the plaything of party politics. The dangers here are not imaginary. When one party is wedded to freedom from controls and also to considerations of prestige, while the other party is wedded equally to full employment, at whatever monetary cost, and to controls as a consequence of full-employment policies, and if, as is now quite plain, this latter party thinks little of the prestige of the pound as a prize to be coveted for its own sake, the chances are not inconsiderable that each party will follow its own policy. Convertibility can then become a matter of party tactics like steel. Only, the implications of this manner of approach may be very much graver.

One other problem which has still to be faced and regarding which there have been only ineffective consultations so far is the possibility of the major European currencies which are on the verge of convertibility moving in step. The president of the De Nederlandsche Bank has been prominent recently among those who have drawn attention to this aspect of the current move for 'a dash for freedom'. It may be assumed that Britain herself thinks little of letting the European Payments Union die out at the end of its appointed term next year. But lesser European countries may be less certain. They have all to ask themselves the question: Is it better to continue in the Union and to seek to preserve and consolidate the gains of liberalising trade, or is it better (it may be more than that: it may be necessary) to claim, outside the Union, one's freedom to discriminate, and so to obtain as much of the convertible currency or currencies as possible? The answers to this question are unlikely to be clear. In the nature of things, they cannot be definite. The only way of avoiding the whole ticklish issue is to ensure that the movement towards convertibility is a movement in step.

One other major consideration still remains. It is, as Sir Sydney Caine has pointed out, to ensure that the policies on which convertibility will be based and the discipline which it will render necessary are both as acceptable to the sterling area outside the United Kingdom, as they are to the United Kingdom itself. It used to be assumed before the Sydney Conference that this could be taken for granted. Naturally, however, with so many countries now irrevocably committed to development and, therefore, to expenditure, one is less sure after the discussions at Sydney. In any case, this is a question which cannot any longer be overlooked.

There are quite a number of minor questions that still remain to be answered, after so much experience of planning and development in this so-called 'Rest of the Sterling Area'. Among the most difficult of these are: How much development can these countries have? Who is to have the final say, or can anyone have any say at all regarding the economic necessity for particular schemes? (Even if luxury flats in South Africa and Australia's milk-bars, which have so offended the puritans, can be forgotten for a moment, there is the case of irrigation in Queensland, which has proved to be so unexpectedly controversial, as a case in point.) Above all, if development is to be and to remain unaffected, by what methods is it possible to ensure that there is parity of treatment between the colonies and the self-governing members? It may be too much to hope that the British Treasury, or the British Chancellor of the Exchequer, or the Commonwealth Finance Ministers' Conference will provide, in due course, cut-and-dried statements of policy in precise and unequivocal terms, allaying all these doubts. But surely, before so important an experiment as the convertibility of the pound sterling is launched, it will be desirable for the Commonwealth to have some idea of where and how the interests of the individual countries will be affected and to clarify, if possible, their own policies in the event that the experiment is launched after all.

The convertibility of the pound sterling is not, as has been stated, an imminent possibility. It is far too complex an issue to be decided so casually. It is a question which definitely and vitally concerns every member of the Commonwealth. Every member of the Commonwealth should, therefore, have a voice to ask that whatever happens, convertibility should not conflict with development.

III. OPPORTUNITY OR DISASTER?

BY EDWARD HOLLOWAY

QUESTIONS in the British House of Commons have revealed that full convertibility of sterling remains the final objective of the British Government, but a note of caution is shown by the Chancellor of the Exchequer in his comments on this important question. He recently re-affirmed his previous expressed view that he does not propose to free the pound until it is—'a safe and sure operation'.

Strength of Sterling

The marked improvement in our gold and dollar reserves, and the strength and resilience shown by sterling as the world's most important international currency has encouraged this speculation about the timing of a further step towards complete convertibility, by which is meant the freedom to exchange one currency for another. Many predict that this vitally important step will be taken during the early months of next year. There has been a meeting of European Finance Ministers at Westminster, and the early autumn

From the 'Thinking Ahead' series issued by the Reciprocal Trade Federation of the United Kingdom sponsored by Horlicks Ltd will see the annual meetings of the International Monetary Fund and the World Bank. Undoubtedly, this important matter of convertibility will figure very prominently on the agendas of both these bodies.

It must be kept in mind that sterling, as a very widely used international currency, already has a great degree of freedom in international transactions. It has steadily increased its strength since 1945, in spite of the very adverse conditions imposed as a result of post-war agreements, such as the Bretton Woods Agreement and G.A.T.T., which have acted as a brake on development, and have made this recovery such a difficult and indeed painful process.

Dollar Imports

The main reason why the British gold and dollar position improved is to be found in the actions which Great Britain and the Commonwealth have taken to become increasingly independent of imports from the United States. There is no doubt that imports from the U.S. have been considerably reduced by the nations in the sterling area, and that this fact has played a vital part in the improved position of the pound sterling, which has been such a marked feature of recent month. Moreover, the statistics available seem to indicate that British ability to manage without these dollar imports is no mere temporary affair, but can be maintained, and even improved.

A Favourable Balance of Trade?

It would seem essential progressively to build up alternative sources of supply. For continued reliance on dollar imports can only lead us into trouble, and to further straining of amicable Anglo-American relations. It is unfortunate that this policy of discrimination may seem, in its effect, to be detrimental to the United States, but from the long-term point of view, it is not so. The main factor which has dominated relations in international trade since the sudden cessation of Mutual Aid, has been the desire of the United States to export more than they import, and thus have what is called in financial jargon 'a favourable balance of trade'. The figures show quite clearly how well they have succeeded in this. In 1951 U.S. exported goods to the value of $4 thousand million more than she imported. In 1952 this increased to $4.5 thousand million, and in 1953 to $4.9 thousand million.

Mutual Aid

Immediately after the war, with a great part of Europe devastated, and Britain's economy strained to the utmost as a result of the years of all-out war effort, there was a good reason for the U.S. to assist by making some part of her wealth available to the less fortunate nations. Had they been wiser, and carried out this policy on the basis of a continuance of Mutual Aid, thus, in President Roosevelt's own words, 'cutting out the dollar sign and removing the financial nonsense', all would have been well. Such a policy would have caught the imagination of millions throughout the world, and history may well record the failure to do this as being one of the big disasters of the post-war world.

Instead, the United States scrapped Mutual Aid, and a loan was granted to Britain on conditions that bore very hardly on the whole sterling area and delayed British and Commonwealth recovery. Yet, in spite of this, we have succeeded in re-building our trade, and sterling is again doing its real job as an international currency. Added to this, the European Payments Union (E.P.U.) has been built up, helped by the U.S., and has succeeded in facilitating trade between ourselves and our friends and neighbours on the continent. It is important to note that E.P.U. will go when convertibility with the dollar has been established. Yet, E.P.U., which has been reasonably successful, follows more closely the ideas implicit in the plan for international trade put forward by the late Lord Keynes, but was jettisoned in favour of the Bretton Woods Plan, which has proved such an abject failure.

Reciprocal Trade

We are now in a position to engage in truly reciprocal trade, exchanging goods and services for goods and services, and we had every reason to hope that this wise policy would be acceptable to our friends in the United States. In fact, we have been more than patient in this matter. Successive British Chancellors of the Exchequer have expressed the hope that a more liberal import policy would be introduced by the U.S. to enable other nations to pay for American goods by their own exports. But there seems little hope that this will *really* happen. The much publicised Randall Report did, it is true, make some slight gestures in the direction of a more liberal import policy, but Congress soon showed that they did not accept this view. Even on the very day of the joint declaration by Sir Winston Churchill and President Eisenhower that they would aim 'to seek fuller and freer trade across the Atlantic' came the news that further contracts for the Chief Joseph and Dalles dams had been awarded by the U.S. Army Department to U.S. firms, even though the tender by the English Electric was at a substantially lower price.

America an Under-developed Country?

Now it is no part of our job to tell the U.S. Government what it should or should not do, but it is perhaps legitimate to point out what some of their own citizens have said in recent days.

Mr Edwin Nourse, formerly Chairman of the Council of Economic Advisors during the Truman administration, speaking on U.S. economic anxieties, said—

> 'This country is faced with a basic problem, that production has outrun the consumer power of the America people'.

But somehow this does not square up with the fact that an article published only a short while ago in the New York paper, *The New Leader*, referring to a housing scheme, speaks of fifty thousand people living in rat-infested New York slums living on the economic ladder's bottom rung!

The third statement comes from an article, published in the *Atlantic Monthly*, by D. L. Hurwood, a member of a firm of New York importers:

> 'The economic strength of a country lies not alone in its ability to produce, but also in its capacity to consume. In their foreign trade policies of recent years, Americans have acted as if they were not sure of their ability to consume—as if the U.S. market were small and shrinking, rather than broad and growing.'

In the light of the foregoing, it is perhaps permissible to add that far from worrying their heads about 'burdensome surpluses', and using their endeavours to export more than they import to obtain a 'favourable balance of trade', the U.S. Government might, in the first place, turn its attention to raising the living standards of their own people.

I must confess to some very real misgiving when I recall that the recession which threatened the United States at the time of the Korean crises was staved off by the fact that the Korean war broke out. And this period is now referred to in U.S. economic and banking circles as the 'Korean Boom'. I am even more disquieted when reading in one of the recent American banking journals that as a result of—

> 'the possibility of further American involvement in Southeast Asia . . . some business men may anticipate expansion of defence orders and a renewed stimulus to the economy'.

'In any event', goes on this report, 'the decline in defence expenditures and orders, which contributed to the business recession, has probably ended.'

It is time we returned to the question with which we began, that of convertibility and its repercussions on our economy. This question cannot be decided, except in the light of the foregoing position. I suggest, therefore, that it would be highly dangerous to enter into any arrangement whereby we made sterling freely convertible, as long as the danger of the 'dollar gap' continues to exist. And this danger *will* persist so long as nations continue to think in terms of exporting more than they import in an effort to obtain a so-called 'favourable balance of trade'. For this 'favourable' balance is really favourable only if one thinks in terms of getting other nations into a position of unrepayable debt, and thus to be in a position to exert economic pressure over debtor nations. This is a policy which no nation would admit to being their ultimate aim and object.

Face Facts

Let us be realistic in our approach to this question and recognise that true convertibility of currencies will automatically follow when there is a mutually beneficial and balanced flow of trade. Convertibility is not something that can be imposed when unbalanced conditions obtain, and attempts to achieve by, as some suggest, adopting deflationary policies, will only result in decreasing production, when the great need is for both increased production and increased consumption.

Canada and Commonwealth

Potentially, the British Commonwealth and Empire has all the quantity and range of economic resources for building up an even better balanced economic unit than the United States. If we include with it the nations associated with us in Western Europe, the possibilities for development are truly enormous.

The position of Canada in all this is extremely important. As one of the potentially wealthiest areas of the world, and as a Commonwealth country within the dollar area, her actions could be most helpful, if right policies were adopted. Exactly the same principles apply as in the case of the U.S., and this was publicly recognised recently by a prominent Canadian, Mr J. D. Ferguson, the retiring President of the Canadian Manufacturers' Association. Pointing out that, in 1953, Canada's imports from the U.S. exceeded her exports, he said—

> 'If we could buy 7 per cent less from U.S., and buy that much more from Britain, it would eliminate Britain's trade deficit with us, and put her in a much better position to purchase more of our products'.

Canada may find that pressure of events make this policy essential, for her trade relations with the U.S. do not appear to be altogether happy. Canadians felt particularly keenly about the withdrawal of even the modest recommendations made by the Randall Commission. Now they have to face the possibility of the adoption of the recommendations of the U.S. Tariff Commission for stringent restrictions of U.S. imports of commodities in which Canada is particularly interested, lead, zinc and fish. Under pressure of these developments there is a new outlook in Canada, and if they would only adopt the very clear policy outlined above, which was suggested by Mr Ferguson, it would greatly strengthen the whole of the sterling area, and improve the general situation materially.

At all events, let us, in Great Britain and the Sterling Commonwealth, make our own position quite clear. Let us declare that we will continue to make sterling freely convertible into the currency of any nation which follows the policy of truly reciprocal trade, exchanging goods and services for goods and services. In doing this, we shall not only be following the only path which is realistic, but also the only one which can lead to good neighbour policies between nations. It is then for other nations to accept or reject this policy. Sterling would automatically become fully convertible with the dollar when the U.S. accepted the policy of allowing nations to pay for imports with exports, which would be in line with facts. No attempt to foist convertibility on the suffering world can succeed without this comparatively simple provision.

Friendship With U.S.

Finally, let me say that I am a strong supporter of the closest friendship between the nations of the British Commonwealth and the United States. That friendship must, however, be based on realities. It will wither and fade if we both find ourselves plunged into economic warfare, each fighting the other for diminishing world markets. To make sterling convertible with the dollar in these circumstances would be to invite disaster.

It would be better and healthier for all concerned if we use our growing strength to increase living standards in that part of the world over which we have influence—the sterling area and the nations of western Europe which between them already carry on about 60 per cent of the trade of the world. Let us concentrate our efforts on this tremendous task, leaving the door wide open for the United States to come in with us on level terms.

O.E.E.C. Vets the Strasbourg Plan

The Strasbourg Plan for closer economic relations between Europe and the British Commonwealth, French Union and other associates and dependencies overseas was accepted by the Council of Europe at Strasbourg in 1952 and has been submitted to the European and Commonwealth Governments.

We reproduce below extracts from a critical study made of the Plan by the Organisation for European Economic Co-operation (O.E.E.C.).

Text of Recommendation 26 of the Consultative Assembly of the Council of Europe

The Assembly,

Considering the importance of the economic problems confronting the area formed by the countries of Western Europe, on the one hand, and by the overseas countries, namely overseas territories and Dominions, having constitutional links with them, on the other.

Problems of concern to the area as a whole

Considering that the problem of the supply of raw materials is of vital importance to Europe;

Considering that Europe imports from the dollar area a large part of its raw materials and has been able to pay for them since the end of the war only because of the generous assistance afforded by the United States;

Considering that it is neither possible nor desirable that such a state of affairs should be perpetuated;

Considering, furthermore, that the general consumption of raw materials will soon rapidly increase—the United States, which at present imports only 10 per cent of the raw materials which it consumes, expects to have to import 25 per cent thereof in 25 years' time;

Considering that the consumption of raw materials in Europe will also increase considerably if the O.E.E.C. plan to raise production by 25 per cent is carried out;

Considering that it is therefore essential for Europe to stimulate the development of the production of raw materials outside the dollar area and, in particular, in the area under consideration; and, further, that exports of raw materials from these countries would enable a triangular pattern of trade to be resumed, thus contributing to the solution of the problem of the dollar gap;

Considering that the European countries, on their side, must promote the economic development of the overseas countries by increasing their production of capital goods;

Considering the great economic importance of the Commonwealth;

Taking note of the statements by the Secretary of State for Foreign Affairs of the United Kingdom on these problems and on the role of the Council of Europe in their solution;

Problems of concern to the dependent territories

Considering that the economic expansion of dependent territories having constitutional links with the Member States of the Council of Europe should be directed primarily towards raising the standard of living of their populations, through the balanced development of their resources;

Considering that the rate of progress in the economic development of these countries and the well-being of their inhabitants will be increased by making available to them the benefit of the economic, financial, scientific and technical resources of those European countries which have themselves no dependent overseas territories;

Considering that it is in the common interest of the peoples both of these territories and of Europe that industries should be established and developed in the said territories;

Recalling the terms of its Recommendation of September 5, 1949,

Having taken note of the Report of the independent experts consulted by the Secretariat-General,

1. Recommends the Committee of Ministers to invite the governments concerned to base their policy on the following principles:

(*a*) increased production of raw materials in the area under consideration and, in particular, increased production of such materials as are at present imported by Europe from the dollar area or are likely to be exported to that area;

(*b*) the adoption to this end of a policy of economic expansion;

(*c*) the utilisation of the resources of all Member States in equipping and developing overseas countries;

(*d*) the provision of facilities in the overseas countries for the settlement of nationals having economic, scientific and technical qualifications, and for the introduction of enterprises from countries having no dependent overseas territories;

(*e*) the co-ordination of investment projects, region by region and product by product;

(*f*) the creation of openings in the European countries for overseas products;

(*g*) the establishment in the dependent territories having constitutional links with certain Member States of industries for the processing of the raw materials produced by them, as well as industries producing goods for local consumption.

2. Recommends that the Committee of Ministers should invite the governments concerned to initiate negotiations in order to attain the objectives defined in the experts' report, particularly by:

(*a*) the establishment of a European Bank for the development of overseas territories, working in close co-operation with the International Bank for Reconstruction and Development;

(*b*) the conclusion of long-term contracts and international agreements on basic products, covering both quantities and prices, thus giving the producer greater security and encouraging an expansion of output;

(*c*) the introduction of a preferential system, founded on the general principles enunciated in the Secretariat-General's Report, and on a basis of reciprocity between the Commonwealth and dependent territories, on the one hand, and the other countries in the area under consideration, on the other.

Need for Co-ordination

The Council of the O.E.E.C. notes with satisfaction that the aims laid down in the Strasbourg Plan by the Consultative Assembly of the Council of Europe largely agree with those of the Organisation.

It is clear, both from the terms of Recommendation 26 of the Consultative Assembly of the Council of Europe and from the report of the

From the Organisation for European Economic Co-operation, Paris

Group of Experts entitled 'A Study of Methods for Achieving Closer Co-ordination Between the Economies of Member States of the Council of Europe and those of Overseas Countries having Constitutional Links with them', that this co-ordination is designed to attain three major objectives:

(*a*) a steady increase in production both in Member countries of the Council of Europe and in the overseas countries with which they have constitutional links;

(*b*) the expansion of trade between these countries;

(*c*) the solution of the dollar payments difficulties which are still being experienced by most countries to a greater or lesser degree.

A further advantage to be derived from the co-ordination of national policies might be to reduce excessive fluctuations in economic activity.

Today, therefore, such a co-ordination seems essential to increase the well-being of each nation and under the Charter of the Organisation (the Convention for European Economic Co-operation of 16th April, 1948) Member governments have undertaken 'both individually and collectively to promote with vigour the development of production, through efficient use of the resources at their command, whether in their metropolitan or overseas territories' (Article 2), to 'develop in mutual co-operation the maximum possible exchange of goods and services' (Article 4), and to 'correct or avoid excessive disequilibrium in their financial and economic relations, both amongst themselves and with non-participating countries'. (Article 4.)

In relation to these three objectives there can be no doubt of the community of interests which exists between Member countries and the overseas countries covered by the Strasbourg Plan, especially in view of the importance of their mutual trade. The governments of Member countries are therefore in full agreement with these objectives and desire to co-ordinate the economic policies of their countries to the fullest possible extent. The Strasbourg Plan rightly insists on the importance of economic co-operation between all Member countries and the overseas territories dependent on certain of them. The Member countries recognise the importance of continuing progress in this direction, taking account of the need to consult fully with the territories concerned so that local interests are properly safeguarded.

Although the United Kingdom Government cannot speak for the independent members of the Commonwealth which are not members of the O.E.E.C. this does not rule out the possibility of setting up some form of economic co-operation, including the independent members of the Commonwealth, should the need arise.

Regional Action Essential

The Strasbourg Plan, as outlined in the proposals of Recommendation 26 and its Preamble, is a regional programme of action to be put into effect unilaterally by Member countries and the overseas territories. Regional action is of course essential and the O.E.E.C. devotes the greater part of its activity to it. But this method alone cannot solve Europe's economic problems which, like the problem of international trade and the dollar imbalance, are closely affected by the position in the United States and action taken by that country. However important it may

be to tighten the links between all the Member countries, the overseas territories and the Commonwealth countries, links with North America are also essential. It is only through co-operation extending to the United States and Canada (which is an associate member of O.E.E.C.) that it will be possible for Member countries and the overseas countries associated with them to develop their economies to the full.

It is true that when the O.E.E.C. was established in 1948—at a time when European reconstruction needs were substantial and were being met on a very wide and generous scale by the Marshall Plan—the Organisation was mainly concerned with solving the special problems of Member countries and its action, covering widely different fields, has invariably been directed to those countries alone. Under Article 5 of the Convention for European Economic Co-operation the Organisation is empowered to continue the study of customs unions or analogous arrangements, such as free trade areas, which are essentially regional forms of co-operation. Trade liberalisation has also been applied on a regional basis. The European Payments Union, which forms an integral part of the Organisation and covers transactions between Member countries and their associated monetary areas, including the whole sterling area, is so far the only regional institution operating in the exact geographical area defined in the Strasbourg Plan. Furthermore, the Fourth Report of the Organisation (paragraph 38) calls on Member countries to 'take a fresh step forward towards the development of a common market' and 'not only to adopt a common policy for further elimination of quantitative restrictions on intra-European trade, but also to make an attack on tariff barriers'.

However, although the Member countries of the O.E.E.C. are convinced of the importance of regional co-operation in its various forms, they have always declared their intention of promoting a system of economic co-operation covering the whole Western world, regional solutions being regarded as technical and transitional measures towards the gradual attainment of this objective. Although regional in the geographical sense of the term, the activities of the O.E.E.C. are by no means based on principles of self-sufficiency. They are not designed to oppose or to replace solutions at world level but to pave the way for such solutions. The European Payments Union, in particular, was expressly created to facilitate the transition to a wider system of payments. It should also be recalled that its establishment was made possible by an initial grant from the United States Government.

The above examples of O.E.E.C. action shows that there is not necessarily any conflict between regional institutions and solutions on the one hand and action at the world level on the other. Since the Report of the Experts* has stated clearly that the policy outlined is in no way designed to create a 'closed shop' and does not aim at self-sufficiency but rather at creating the necessary conditions for the integration of the economy of Member countries and the overseas territories into a world system, there is, on this fundamental point, a community of view between Member governments and the authors of the

*Cf. 'The Strasbourg Plan' published by the Secretary-General of the Council Europe. Strasbourg 1952. Part I. Report of Working Party.

Strasbourg Plan. It remains to consider whether some of the solutions suggested in the Recommendation may not lead Member countries further away from this common objective.

Co-operation with N. America

The need to strengthen the links between the countries covered by the Strasbourg Plan on the one hand and the United States and Canada on the other, becomes increasingly apparent as the European economies complete their recovery. This view is shared on both sides of the Atlantic and finds its main expression in the association of the United States and Canada with the O.E.E.C. The importance of this co-operation has been repeatedly proclaimed by the Council of the O.E.E.C. As early as the Second Annual Report of the O.E.E.C. the Member countries expressed the view that continued prosperity and economic independence could be achieved only within a multilateral international trading system, and expressed their resolve to help restore such a system. Many extracts, including some from very recent documents, could be given to demonstrate the continuity of this policy, which is primarily based on the realities of the international situation and the particular interests of Member countries and the overseas countries.

The Dollar Problem Continues

The dollar imbalance of Europe and the associated monetary areas has not yet been eliminated. It is desirable that equilibrium should be established at a level of trade as high as possible without being supported by restrictions, in order to raise the standard of living in the Member countries and the overseas countries. The United States has, however, an important part to play in enabling the other countries to increase their current dollar earnings and in providing capital. In addition, the North American economy has an important influence on the activity of the rest of the world. Its fluctuations should be minimised, and even more important, the possible unfavourable effects of these fluctuations on the activity of other countries and the balance of payments attenuated; it is most necessary that greater stability should be achieved on the raw materials markets, where the most important products are imported or exported in large quantities by the North American continent. Finally, the maintenance of balanced dollar payments, more especially under a freer payments system and possibly with convertible currencies, will only be possible if certain financial arrangements, producing e.g. increased reserves and international credit facilities, are made. The assistance of the United States is essential for this purpose.

Western Economic Unity . . .

In declaring themselves in favour of a policy which presupposes economic unity of the Western world, Member countries are not unmindful of the fact that the success of this policy depends on a number of conditions. The fulfilment of some of these conditions depends on Member countries, and they need not be specified here. The fulfilment of others which are summarised under four heads in the Fourth Report, depends on the United States:

(*a*) the maintenance of economic stability;

(*b*) the stabilisation of world prices for raw materials;

(*c*) a liberal trade policy;

(*d*) foreign investment.

The views of the Organisation have already found support in the United States, as is shown by the Report of the Randall Commission, whose conclusions on customs regulations are encouraging even if their application is not likely to provide a rapid solution of the dollar problem. The Member countries of the Organisation consider that they must do everything in their power to foster the liberal tendencies which have influenced the conclusions of the Commission and a large section of American public opinion.

This preference for methods which aim at a progressive move towards freedom and multilateral expansion of trade and payments and towards economic unity is also indicative of a resolve to maintain and strengthen the Western world. On this point Member countries are in full agreement with the representatives of the Commonwealth, who in recent years have repeatedly* given their support to a policy based on the economic unity of the Western world with the fullest possible co-operation with the United States of America.

. . . Or Discrimination?

While there is not necessarily any conflict of principle between regional co-operation, whether within the present geographical framework of the O.E.E.C. or any other, and the final objective of the economic unity of the Western world, certain fundamental divergencies may appear when principles are converted into action. In this connection, the Member countries of the Organisation consider that Recommendation 2 *c* of the Strasbourg Plan concerning the introduction of secondary preferences would lead to the formation of a discriminatory bloc *against* the dollar area. If this system is regarded as a technical procedure the difference is simply one of method; but if, on the contrary, it is to be the cornerstone of an economic system to be constructed alongside, and if necessary in opposition to the dollar area the difference is a basic one. Whatever the safeguards offered and however the system is operated, the Member countries feel that the technical and psychological effects of such a system would be to increase and not reduce the obstacles to international trade.

Secondary Preferences

The Consultative Assembly recommended the Committee of Ministers to invite the governments concerned to initiate negotiations with a view to attaining certain objectives defined in the Experts' Report, in particular by:

'The introduction of a preferential system, founded on the general principles enunciated in the Secretary-General's Report, and on a basis of reciprocity between the Commonwealth and dependent territories, on the one hand, and the other countries in the area under consideration, on the other'. (Recommendation 2 *c*.)

The preferential system recommended by the Assembly seems incompatible with the efforts at present being made by the Organisation to extend the liberalisation of trade and payments to as wide an area as possible. In the view of the Organisation, the upshot of this system might well be the formation of a solid bloc

*Cf. communiques of the London and Sydney Economic Conferences.

isolated from the dollar area and a recrudescence of protectionism. In addition the system runs counter to the policy of most of the countries whose participation would be essential and therefore lacks any concrete or realistic basis.

The practical effect of the preferential system described in Recommendation 2 *c* would be to exclude the United States, if not the whole dollar area, although the Experts' plan has been given the form of a legal agreement open to any country ready to offer 'commensurate concessions' in order to benefit by the intermediate tariff between the general tariff and the Commonwealth preferential duties. In fact, the Experts themselves think it improbable that the United States would join in the plan, and in order to show the advantages expected from it, they assume that the United States would remain outside the preferential area. Nor is there any reference made to the special situation of Canada, and yet the creation of a preferential area excluding the dollar area to which Canada belongs, would split the Commonwealth in a way which would be unacceptable to the United Kingdom and Canada.

It is to be feared that the effects of the system would not be confined merely to setting up a customs barrier between the countries covered by the Strasbourg Plan and the United States, if not the whole dollar area; similar arguments to those advanced in favour of the system of secondary preferences have been and could be produced in favour of strengthening discrimination by means of direct restrictions on trade and payments. Such a trend would conflict with the efforts made by the Organisation to achieve the expansion of world trade on the freest and most multilateral basis possible.

The O.E.E.C. is at present considering ways and means of speeding up the reduction of quantitative restrictions on dollar imports. These discriminatory measures were introduced as a temporary remedy for the dollar imbalance. They should disappear as the dollar payments position improves, but their final abolition depends on the establishment of a stable and balanced system of payments between all the currency areas concerned. There is thus a fundamental difference between the present restrictions on dollar imports and the Customs discrimination resulting from a preferential system intended as a permanent measure.

In the absence of detailed information about preference levels, of a clear definition of 'commensurate concessions' and of the conditions which the G.A.T.T. might impose on the adoption of such a system,* it is difficult to assess the effects of the secondary preferences scheme on the G.A.T.T. and the efforts to bring about a general lowering of customs barriers. It may be asked whether the preferential system would not lead in practice to a general strengthening of protection. Clearly, the Experts intend that preferences should be created only by a relative reduction of customs duties. But the Plan does not consider what precautions should be taken against the contrary possibility. In view of the strength of protectionist trends it is to be feared that the raising of duties against countries outside the preferential system might often be the easiest way of establishing preferences.

*The Experts admit that the introduction of a system of secondary preferences would necessitate a derogation from the G.A.T.T.; cf. Strasbourg Plan, Annex B, pages 107 to 109.

'One World'

The preferential system of the Strasbourg Plan conflicts with the conception of a one-world system adopted not only by the Organisation but also by the Commonwealth. The communiqués of the Commonwealth Conferences of London and Sydney are most explicit on this point.* On February 4 last the Chancellor of the Exchequer stated in the House of Commons: 'The best line for our country and the sterling area is the one we adopted a year ago in the London Conference, namely, the collective approach of the Commonwealth together with the E.P.U. countries in Europe towards a freer trade and payments system . . .' It is, therefore, doubtful, to say the least, whether the United Kingdom would adopt the preference system and *a fortiori* take the initiative of proposing a study of the question of preferential customs tariffs as suggested by the Experts (cf. Strasbourg Plan, Summary and Conclusions, page 62, paragraph 8).

While rejecting the preferential system proposed in Recommendation 2 *c*, the Organisation declares itself in agreement with the principal objectives assigned by the Experts for that system. These objectives are:

1. to help to rsetore dollar equilibrium;
2. to expand the markets for industrial products and raw materials within the area covered by the Strasbourg Plan;
3. to attenuate fluctuations in economic activity.

But the O.E.E.C. considers that these objectives can be more surely and more effectively attained by other methods. Each case raises complex problems and a system of secondary preferences could only provide a very partial and in some cases even a dubious contribution towards their solution. The alternative proposed by the O.E.E.C. is to tackle each of the three problems indicated above by taking appropriate action corresponding to their importance and changing characteristics. In the absence of a detailed statement of O.E.E.C. policy in these fields, for which reference should be made to the 4th and 5th Annual Reports of the Organisation and to its reports for the Council of Europe, the following paragraphs give some idea of the lines on which solutions are being or might be sought and the reasons for which the system of secondary preferences provides only inadequate or inappropriate solutions.

Restoration of dollar equilibrium

On page 32 of the Strasbourg Plan (4th paragraph) it is stated:

'During the post-war years quota systems have been accepted for balance of payments reasons. The same attitude may very well be taken regarding tariffs, the more traditional instrument of long-term trade policy. The door should be left open for secondary preferences between Western Europe and the Commonwealth in the field of import licensing'.

In other words dollar equilibrium should be restored through restriction of European imports, tariffs replacing quotas as a restrictive

*Cf. Final Communique of the Sydney Conference:
'The Commonwealth countries rejected then [at the Conference of London] and we reject now, the view that any solution of our problems can be found in the creation of a closed system of discriminatory arrangements which could lead only to chronic restrictions and recurring crises.'

weapon. The Member countries prefer to see equilibrium restored at a high level of trade by increased European exports, lower American barriers to imports and expanding American foreign investments. Employment and real income will clearly be very much higher when trade is at a high level in all countries engaged in such trade.

The success of the policy outlined above depends on the individual action of Member countries, on parallel action by the United States, and also on factors outside the control of Member and associated countries. As long as the dollar problem remains, Member countries will have to maintain some restrictions on dollar expenditure. But these restrictions must be regarded as temporary expedients.

Expansion of Markets

On page 32 (second paragraph) it is stated:

'. . . preferential arrangements may enable larger regions which are under-developed—at least in comparison with the United States—to catch up with the productive capacity, due largely to its huge home market, of that country'.

Without embarking on an economic argument concerning the increases in productivity and real income which might result from the expansion of the market in a given area by lowering the customs duties within that area, it may be observed that, when such increases are possible, they are the result of the more efficient division of labour achieved by removing trade barriers and that, generally, the larger the free trade area and the more completely obstacles to trade are removed, the greater those increases will be. The methods adopted for reducing tariffs should, therefore, be those which are most universal in scope and most radical in application. From this point of view, the system of secondary preferences seems to have two defects: (*a*) it does not include the dollar area, and (*b*) it limits its field of action to the existing margin in the so-called imperial preferences. In these two respects, therefore, it is more timid than the plans for a general reduction of tariffs now being studied by the G.A.T.T.

Reduction of Fluctuations

'. . . preferential tariffs will still have a role to play in stabilising trade relations within the area under study and making this area a little less dependent on possible future fluctuations in the trade of the dollar countries'. (Page 31, fourth paragraph.)

Owing to the large number of factors governing cyclical fluctuations in activity and their transmission from one country to another, it is doubtful, to say the least of it, whether a preferential system could effectively exercise a moderating influence by simple variations in the prices of the commodities entering into international trade. The problem is of major importance but the remedy is inadequate. Solutions should be sought, among other measures, by checking fluctuations in activity at their source, reducing the international repercussions of acceleration or contraction in the demand for raw materials in the industrial countries during economic cycles and using international monetary reserves and credits to eliminate temporary payments difficulties; above all, it is essential to avoid resorting to trade restrictions and dumping, which ultimately lead to the export of unemployment and might produce chain reactions.

Are there too many of us?

BY PROFESSOR BRINLEY THOMAS (*Cardiff University*)

FOR thirty years after the Napoleonic Wars the prevailing view was that Britain was over-populated. The Malthusian law was used as an argument for making the Poor Law harsh as well as for encouraging wholesale emigration.

By 1861 the population of England and Wales was more than 20,000,000: it had more than doubled since 1801. This rapid increase was due not so much to a rise in the birth-rate, but to a marked fall in the death-rate. Emigration was encouraged both by the Government and by voluntary societies—even the trade unions spent money on helping their members to get jobs abroad.

When we come to the Victorian era, more especially the last forty years of the nineteenth century, we find a spirit of complacency. In 1870 Great Britain produced one-third of the world's manufacturing output; her nearest rival was the United States with just over one-fifth. No longer were people worried about too many mouths to feed; they saw population and the standard of living going up together. And the country was attracting immigrants: by 1881 there were nearly 800,000 Irish-born people living in Britain. The vast prairie lands of the New World, with their bountiful crops of wheat, had been called in to redress the balance of the Old World. We exported our manufactures in an expanding market, and imported cheap food and raw materials. The terms of trade were in our favour. It was the heyday of Britain's supremacy; and no wonder the self-satisfied Victorians thought Malthus had been proved wrong. His essay on population was forgotten: it was gathering dust on their shelves alongside of Godwin's *Political Justice.*

Impact of World Wars

All this complacency was shattered by the first world war. Britain was so weakened and there was so much unemployment that the experts, including John Maynard Keynes, thought we were seriously over-populated. But in the nineteen-thirties the wheel of fashion changed once more. The post-war fear of over-population gave way to a neurosis about the low birth-rate. The experts with their measuring rods examined the trends in France, and saw decadence written all over her. This was a warning to other western nations about to start on the slippery slope. Sociologists tried their best to make the public's flesh creep with books called *The Twilight of Parenthood* and *The Menace of Depopulation.* You had the extraordinary spectacle of the nineteen-thirties, when unemployment in this country was at an average of sixteen per cent, and yet the big worry was that unless the birth-rate stopped falling our society would shrink into an enfeebled old age. In 1935 the experts declared that, if recent trends in birth- and death-rates continued, the population of England and Wales would fall from 40,000,000 in 1935 to 29,000,000 in 1980, and to 4,500,000 by 2035; the 2,500,000 unemployed workers were expected to be very worried

From B.B.C. Welsh Home Service, The Listener, London, July 15, 1952

about how things would be like in the year 2035. There were some people who thought that Hitler's population policy (which seemed to raise the German birth-rate in a spectacular way) should have been copied here.

It was this phase of worry about the low birth-rate which led—after the usual time lag—to the appointment of a Royal Commission in 1944 to examine the facts about the trend of our population, and to consider what measures, if any, should be taken to influence the future trend. This was a vast subject, and the Commission took a long time. It did not report until June 1949.

Strangely enough, between 1944 and 1949 while this Commission was at work, the wheel of fashion took another turn. In the wake of the second world war the fear of too many mouths to feed displaced the fear of too few people—this was partly because the birth-rate had not behaved in the way prophesied by the experts. The Report of the Royal Commission on Population was politely received. It was the year when we had the second severe balance of payment crisis and had to devalue the pound. The weighty statistical appendices provided excellent material for the statistical departments of universities; but the attitude of the public and the House of Commons could be summed up in the words of that famous sermon: 'Here is difficulty: let us face it squarely and pass on'. Little has since been heard of its recommendations; but many voices have been raised declaring that we are an overcrowded island living precariously and that 10,000,000 or 15,000,000 of us ought to be moved to the Dominions.

Don't Worry

I think I have said enough to show that we must not take this question too seriously; population, like the weather, has always been a source of worry, and it seems to go in cycles. The obsession in the second half of the eighteenth century was 'too few of us'; in the age of Malthus 'too many of us'; in the Victorian era, indifference—they could not care less; after the first world war 'too many of us'; in the 'thirties 'too few of us'; after the second world war 'too many of us'.

Britain Not Over-Populated

After that review of past errors and illusions, you will hardly expect me to indulge in prophecy. But I must face my question: are there too many of us in this country? My answer is: Decidedly not. To remove 10,000,000 by mass migration would be a very risky surgical operation. If you were to ensure that a cross-section of the community went—the right proportion of children and old people as well as active workers—you would have to organise it almost like a military operation. If you did not resort to regimentation, then I should think 75 per cent of the emigrants would be young people—the cream of the labour market. This would have a crippling effect on our productive efficiency: a heavy burden of inactive retired persons would have to be borne by a shrinking body of active producers. There would also be an outflow of capital badly required at home.

We are now nearly ten years away from the war and things are beginning to emerge more clearly. It is important that the productive capacity of this island be increased. The fact that half the trade of the whole world is financed through the use of the pound sterling is most significant. Our future standard of living depends on an expansion in productive capacity in such industries as steel, engineering, agriculture, and coal mining. This is essential if Britain is to play her part as the leading economic power in the non-dollar world. Experience shows that investment runs into difficulties when population is falling. To attain the right degree of expansion in investment and employment, we must have a certain rate of increase in our population. We remember only too well what happened to South Wales when she experienced mass emigration between the wars. Mass emigration from Great Britain would turn the country into the depressed area of the western world. Fortunately, it is not likely to happen. Let me end by quoting from a recent American work on the sterling area:

'The general rate of British economic progress from the period just before the first world war to the year 1940 was as fast as that of the United States, and, although unable to keep pace with American progress during the war, Britain advanced more rapidly than the United States in the five years from 1946 to 1950.'

If we were thinking of vast areas in Asia, then most certainly Malthus' Law of Population applies with terrible urgency. Take China, for instance. Peking has just announced the result of the country's recent census. According to it there are 602,000,000 Chinese (including those outside China itself): if this is anywhere near the mark it means that one in every four living on this earth is Chinese. The population of India is 367,000,000. So the population of China and India together make up forty per cent of the population of the world. Most of these people exist on the very margin of subsistence: if there were fewer of them the condition of the average man would be a little better. But with regard to our own country, it is a different story. The question we need to ask is not 'Are there too many of us?' but 'Are there enough of us?'

Canada Faces Competition

Now that buyers have recovered ascendancy over sellers in world markets, Canada is feeling sharp outside competition. One industrialist has spoken strongly about the invasion of this market by low-wage countries, while Canada endeavours to support the highest labour standards. It is time, in this speaker's opinion, for Canada to look to her tariffs and consider whether it is worthwhile keeping international trading agreements which are broken so often by many other countries.

From Canadian News Letter, issued by Swiss Corporation for Canadian Investments, Montreal, June 1954

Rising British Consumption

THE Chancellor of the Exchequer said in his Budget Speech that the volume of consumers' expenditure was likely to be higher in 1954 than in 1953 as a whole. What has happened so far? In the first quarter the total quantity of goods bought was 2½ to 3 per cent higher than a year before, with increases in all the main groups except 'alcoholic drink' and 'entertainment':

(iii) Three per cent more clothing and footwear—but this was still about 15 per cent less than in 1951.

(iv) A large increase in the number of new cars bought: nearly 100,000 new cars were registered in the first quarter of 1954 compared with just under 60,000 in the first quarter of 1953.

(v) Increases in houseroom and fuel and light.

(£million 1948 prices) *1st Qtrs.*

	1951	1952	1953	1954
Food	589	577	603	613
Drink	188	175	174	167
Tobacco	183	189	185	188
Rent, rates, etc.	163	165	169	172
Fuel and Light	108	106	111	115
Clothing and footwear ...	222	172	181	186
Household goods	172	141	150	157
Entertainments	44	46	42	42
Other	451	437	450	481
Total	2,120	2,008	2,605	2,121

The main changes were:

(i) One and a half per cent more food than a year earlier: more sugar, chocolate and sweets, meat, butter and tea were consumed, and this more than offset reductions in bread, flour confectionery and potatoes.

(ii) A five per cent increase in purchases of household goods, mainly furniture and hardware, with sales of furnishing fabrics, household textiles and floor coverings showing little change. (There was a fall in sales of television sets: 169,000 were sold in the first quarter of this year compared with 200,000 in the January-March period of 1953, when sales were influenced by the Coronation. On the other hand sales of radios and radiograms have been much higher this year than last.)

(vi) A fall—the only one—in the consumption of beer, which was down 8 per cent.

Patterns of Spending

With the end of rationing and shortages, the post-war pattern of spending is now beginning to take shape. So far it does not appear very different from the pre-war pattern. The following table shows how total personal expenditure was allocated in 1938, 1948 and 1953. It is not necessarily an indication of the change in the amounts bought, because some prices rose less than others, e.g. the changes in the proportion spent on food in 1948 and 1953 were partly a result of changes in food subsidies; the proportion spent on rents fell because rents rose less than other prices; on the other

From Bulletin for Industry, July 1954

(Percentages of Total Consumer Expenditure on Goods and Services)

	1938	1948	1953
Food	29.8	27.0	32.2
Tobacco and drink	10.5	18.7	15.5
Household goods...	6.5	6.2	7.1
Clothing and footwear	10.1	10.2	9.3
Rent, rates, fuel	15.6	11.5	11.4
Other goods and services ...	27.5	26.4	24.5
Total...	100.0	100.0	100.0

hand, drink and tobacco prices have risen much more than the average and this explains part of the rise in their share of consumption.

Conclusion

During the past fifteen years the pattern of consumption has been distorted by rationing and shortages, but by 1953 it was restored to something like its pre-war pattern. More food and tobacco were consumed in that year than before the war, and on the whole people were using more fuel, particularly electricity, and were enjoying more outside entertainment; on the other hand, they were drinking less, they were buying less clothing, and managing with much less domestic help. This pattern continued in the first quarter of 1954, there being slight increases in most types of goods and services compared with a year earlier.

INCREASED ELECTRICITY OUTPUT

	Per cent increase in 1953 *over* 1952
Netherlands	12.5
United States	10.9
Austria	9.1
Sweden	8.9
Germany (Western Zone)	8.0
Mexico	7.1
Italy	6.3
Canada	5.9
Great Britain	5.6
Argentina	5.2
Switzerland	4.5
Norway	4.0
Belgium	3.6
Spain	3.3
Portugal	2.9
France	1.4

Note.—Figures for U.S.S.R. and Japan not available.

From Société Financière de Transports et d'Entreprises Industrielles (Sofina)

World Trade 1953

As was pointed out in last year's report, international trade since the war had made a spectacular recovery. Both in dollar value and in volume the international exchange of goods had increased until 1951 and reached an all-time record in that year. However, this favourable development concealed the fact that trade had not grown as rapidly as world production, and the share of world output that enters into international trade was much smaller during the post-war period than had been the case in the twenties, especially as regards manufactured products.

If the trade between the primary producing countries and the industrial parts of the word was practically balanced in 1951, the trade position of the areas composing the industrial group had suffered such substantial distortions that the Western European industrial areas, having become more dependent on the dollar area as a source of supply and having lost part of their export markets to the industrial countries of the dollar area, were experiencing a substantial deficit in their dollar trade. This deficit placed a heavy strain on other items in the balance of payments of those countries and, as a matter of fact, their external accounts could only be balanced through the extensive assistance granted by the United States which made an essential contribution to the maintenance of international trade at a high level after the war.

The year 1953 witnessed a significant change in this pattern. The extraordinary price structure which had distorted international commodity flows since the outbreak of war in Korea in mid-1950 has gradually reverted to the pre-Korean situation. While international trade has remained at a high level, important shifts in the flow of goods between the industrial areas have brought out a pattern far better balanced than at any time during the post-war period. With the terms of trade between primary products and manufactures returning to what they were before the Korean war, the development of exports of manufactures by the European industrial areas toward the dollar area, and the successful substitution of non-dollar supplies for imports from North America by these European countries, the dollar deficit of Europe has been greatly reduced, while the level of trade among the three non-industrial areas has remained remarkably constant and contributed to the stability of international trade. This result has been accompanied, however, by a significant slowing down of the exchange of goods between the producers of primary products and the industrial world. The volume of exports of the primary producers has increased, but the prices of these commodities have fallen to such an extent that export proceeds declined heavily, forcing those countries to reduce the volume and value of their imports. The brunt of this reduction has been borne particularly by manufactured consumer goods, while the imports of capital goods were more resistant. But while trade between the industrial and the primary producion areas was thus adversely affected by

From International Trade 1953—The Contracting Parties to the General Agreement on Tariffs and Trade, Geneva, June 1954

the extraordinary price fluctuations of recent years and particularly by their fall since 1951, there has been an intensification of exchanges between each industrial area and that primary producing region with which it is most closely associated through monetary and other arrangements.

GENERAL TRENDS IN INTERNATIONAL TRADE SINCE MID-1950

Value and Volume

The value of international trade, expressed in dollars, which had increased during the whole post-war period until 1951, declined as shown in the table below for the first time in 1952 and again in the first half of 1953, but made a significant recovery in the second half of that year. This is true whether the 'special category' exports from the United States are included or excluded. In the second half of 1953, the value of world trade was again close to, and its volume substantially exceeded, the 1951 maximum if the 'special category' exports are included. If these special categories are disregarded, the value of international trade in the second half of 1953 was still 5 per cent lower than in 1951, but in volume it had again reached and probably even slightly exceeded the record level of that year. Up to the end of 1953, the downward adjustment in United States business conditions, which had been evident during the second half of the year, failed to produce the depressing effects upon international trade that had been widely expected.

'Terms of Trade'

The world price situation in 1953 was characterised by two main features: first, the general level of

VALUE AND VOLUME OF INTERNATIONAL TRADE, 1950-1953

	1950		1951	1952	1953	
	1st half	2nd half			1st half	2nd half
VALUE OF INTERNATIONAL TRADE						
Incl. U.S. 'special categories'	51.32	59.76	72.26	73.46	73.06	75.60
Excl. U.S. 'special categories'	50.96	58.88	74.71	70.86	68.58	71.10
VOLUME OF INTERNATIONAL TRADE						
Incl. U.S. 'special categories'	100.0	107.3	117.6	115.4	119.9	122.8
Excl. U.S. 'special categories'	100.0	106.5	116.1	112.2	113.3	116.3

Note: Values in thousand million dollars f.o.b., at annual rates; volume figures are index numbers, 1st half of 1950 = 100. For sources and further details, see Appendix.

prices in international trade was about 20 per cent higher than in the half year that preceded the Korean war. Second, the prices of primary products and manufactures were again in about the same relation to each other as they had been in early 1950. In other words, the 'terms of trade' between these two broad classes of commodities had reverted to the pre-Korean situation.

Between 1950 and 1953, price movements have been complex. Taken together, the prices of primary products rose by more than 40 per cent between early 1950 and the first half of 1951. They then declined until they stood 18 per cent above their pre-Korean level in the first six months of 1953, and they seemed to have reached their lowest point in the second quarter of the year. The prices of manufactures, on the other hand, were by mid-1953 at a level 20 per cent above the six months before Korea, only slightly lower than the maximum at which they stood in the first half of 1952. By the end of 1953, they showed no sign of increasing again so that even the small remaining discrepancy in the 'terms of trade' that still persisted in the first half of 1953 as compared to the situation before Korea had probably been wiped out by the end of the year.

The prices of the main categories of primary products have differed sharply, both as regards the amplitude and the direction of change. If the primary products are divided into three classes: raw materials of agricultural origin, other raw materials, and foodstuffs, it appears that prices in the first class, which rose most (by nearly three-quarters), reached their maximum earliest (between January and June of 1951) and in the first half of 1953 stood relatively lower than the others. The prices of non-agricultural raw materials rose less (about one-third), reached their highest level about one year later (between January and June 1952) and in the first six months of 1953 held an intermediate position. Food prices finally increased least and have not significantly fallen after rising by about 20 per cent during 1951. In 1953, they were higher than those of the other two classes of primary products.

It is also significant that strong divergencies appear when a distinction is made between such primary products as originate mainly in the dollar area and others which come principally from other parts of the world, and particularly from the sterling area. In 1951, the prices of 'dollar commodities' imported into Western Europe were only about 13 per cent, and those of primary products from all other sources nearly 40 per cent higher than in the first half of 1950. In other words, 'dollar commodities' had become nearly 20 per cent less expensive than other primary products. By the middle of 1953, this large discrepancy had narrowed down to 8 per cent, thus offering still another indication that the conditions of international trade were becoming less abnormal after the wide and erratic movement of the preceding years.

Changing Pattern of U.S. Foreign Aid

From the end of World War II through 1951, most of the U.S. assistance to other countries consisted of economic aid to Western Europe, including foodstuffs, metals, machinery, and other economic goods. With the launching of the Mutual Security Programme in the fiscal year 1952, an increasing part of aid appropriations was directed toward providing essential military weapons and supplies. Most of the military aid also went to Europe, although in 1953 the amount directed to other areas increased sharply (see the accompanying table).

The shipments of U.S. economic and military goods made it possible for foreign countries to conserve their gold and foreign exchange resources. In addition, the aid programme has added directly to the dollar reserves of some countries; and these reserves have been augmented by rapidly rising U.S. military expenditures abroad. Meanwhile, economic aid has been continued to help provide a sound base for rearmament, but the need for such aid to Europe has declined with the steady advance in European production, and non-military commodity shipments to Europe seem to be coming virtually to an end. For the present fiscal year (1955), the economic aid programme contains only a negligible amount of new funds for European countries, such as Spain, Yugoslavia, Greece, and Turkey. Outside of Europe, however, a somewhat larger amount than in previous years is provided for technical assistance and economic development. Total aid funds available for future expenditure from appropriations previously approved or now pending amount to over $16 billion.

Shift to Military Aid

The shift in emphasis from economic to military aid after 1950 did not entail a comparable shift in the commodities exported under the aid programme, since defence support was interpreted to include civilian-type goods. Actual exports under the military aid programme were somewhat less than shown in the table; they amounted to $2.0 billion in 1952 and $3.5 billion in 1953. Most of the remainder of military aid was provided through off-shore procurement, involving goods and services produced in other countries (mainly in Western Europe) against payment in U.S. dollars. Nearly $1 billion of aid has also been authorised in the form of direct dollar contributions to foreign defence programmes, particularly that of France. The military aid programme thus has helped toward the conservation of monetary reserves or the utilisation of idle productive capacity, depending on local circumstances.

Monetary reserves of foreign countries have benefited also from other U.S. military expenditures abroad, mostly for installations, supplies, and services required by U.S. overseas forces, and from foreign expenditures by U.S. military personnel. Of the total of $2 billion of such expenditures in 1952 and $2.5 billion in 1953, nearly half was spent in Western Europe. (The figures for military expenditures in the table include both offshore procurement for military aid and non-aid expenditure.)

From International Finance News Survey, July 30, 1954

U.S. Foreign Aid and Military Expenditures, Calendar Years 1946-53
(million U.S. dollars)

	1946-48 *Annual Average*	1949	1950	1951	1952	1953
Grant aid:						
Military	137	210	526	1,470	2,603	4,281
Europe	99	170	463	1,112	2,151	3,469
Other areas	38	40	63	358	452	812
Economic	2,688	4,997	3,484	3,035	1,960	1,813
Europe	1,303	3,943	2,775	2,409	1,453	1,134
Other areas	1,385	1,054	709	626	507	679
Loan aid (net)	3,672	652	156	156	420	220
Total aid	6,497	5,859	4,166	4,661	4,983	6,314
U.S. military expenditures (offshore)	582	621	576	1,270	1,957	2,496

During the past year, new military assistance programmes have included an agreement with Spain for the development and use of air bases in that country in exchange for U.S. military and economic aid; military aid to Japan including offshore procurement; military aid to Pakistan; and an increase in military aid to Turkey.

Economic aid to non-European areas has been directed at technical assistance, economic development, and relief. Technical co-operation programmes, averaging $125 million annually during the last three fiscal years, have helped the under-developed countries to attack their basic problems of malnutrition, disease, and illiteracy. For fiscal 1955, about $225 million is proposed to supplement technical co-operation with necessary capital equipment. Relief operations have accounted for a large part of the economic aid to these areas in recent years, including wheat loans to India ($190 million) and Pakistan ($15 million) and a $200 million Korean rehabilitation programme approved in August 1953.

Loans

Loan aid in 1952 amounted to about $850 million and in 1953 to about $720 million; and repayments on previous loans were about $430 million in 1952 and $500 million in 1953. Much of the lending has been by or through the Export-Import Bank. In addition to financing U.S. exports under conditions where private credit was inadequate, the Bank has made developmental loans ($135 million to Israel and $150 million to Mexico); extended credits to enable other countries to liquidate commercial debts to U.S. exporters ($125 million to Argentina and $300 million to Brazil); made advances against future foreign earnings under offshore procurement contracts ($254 million to France); and, generally, has administered specific laws authorised by Congress (Marshall Plan credits, wheat loans, and credit to European Coal and Steel Community).

Digest Book Reviews

(Iraq 1900 to 1950). A Political, Social and Economic History (1953). *By Stephen Hemsley Longrigg. (Royal Institute of International Affairs; Oxford 35s.)*
Oil in the Middle East: Its Discovery and Development. By Stephen Hemsley Longrigg. (Royal Institute of International Affairs; Oxford 35s.)

After Palestine, Abadan, the Sudan and Suez, what? Not only Western defence designers but Iraqi politicians have been given seriously to think by the retreat of Britain in the Near and Middle East. Is Britain to be depended upon by her Arab friends or feared by her Arab foes? If the Imperial abdication in India (whose Government and servants and arms did much to make modern Iraq), the American strategic protectorate over the A and N.Z. in 'Anzus' and the advent of the hydrogen bomb are held to have reduced the importance of Suez, will the rest of the Middle East, of purpose or necessity, soon be declared not quite so indispensable?

Whatever answers are given to these questions, this is a time to read or re-read Brigadier Stephen Longrigg's monumental study of modern Iraq, first published in 1953. Supporters of the Suez agreement should ponder his words on the objections of all Iraqi politicians (save only the vehement minority who would break every form of British connection) which are defined as 'the removal of all limitation to their independence and free choice . . . and the abolition of traditions, which, offensively to their *amour propre*, left Habbaniya and Shaiba as British cantonments in the heart of Iraq.' So it was at the time of the abortive Treaty of Portsmouth of 1947. Conditions will scarcely be made easier for the British now.

We are greatly in Brigadier Longrigg's debt for this thorough, detailed and most readable work, which is a credit to Chatham House. Fifty years of Iraqi history include the closing years of Turkish rule, the British conquest, occupation and Mandate, the new Kingdom's achievement of independence in alliance with Great Britain under a treaty which was to last until 1957, and the revolt and other upheavals of war. The cruel misfortunes of the Assyrian minorities are one of many similar tragedies in the decline of direct imperial control. The author's description of the Iraqi economy, transformed from barren poverty to riches by the system and the engineers and enterprises of Britain, should be placed in conjunction with his topical but scholarly work on Middle East oil, which contains one of the best defences of the Anglo-Iranian Oil Company's record in Persia so far published. This part of what is a Social and Economic as well as a Political History is full and able, but more might have been said about Iraq's place in the Sterling Area.

H.Y.

Freedom and Welfare: Social Patterns in the Northern Countries of Europe (1953).

This finely produced and pleasingly illustrated volume is edited by George R. Nelson of Denmark, assisted by Anne Makinen-Ollinen of Finland, Sverrir Thorbjornsson of Iceland, Kaarl Salvesen of Norway and Goran Tegner of Sweden.

It reminds us that those Northern nations whose flags are reproduced upon the jacket have achieved economic and other relationships which in some ways resemble those which exist between members of the Commonwealth. Both they and the British countries are pioneers of social welfare. In this book detailed and comparative treatment is given to the industrial structure, labour codes and conditions, housing, health and welfare services, social insurance and farming, fishing and other co-operative institutions of what the four Northern Ministers of Social Affairs, who have sponsored this valuable work, call 'a more or less distinct family group'. The common aim, the book concludes, is 'a place worth living in for free men and women'.

'STRARBOURGEOIS'

Inflation and Capital. By F. V. Meyer. Bowes and Bowes; 12s. 6d.

'Inflation means an increase in the ratio of money to purchasable goods and services and consequently a rise in prices.' Thus starts Dr Meyer's book, in which he deals with the relationship between inflation and the nation's supply of capital. He gives a very full and useful definition of inflation in the first chapter, and goes on in Chapters II and III to deal with Inflation and Capital and the National Capital.

Dr Meyer reaches the conclusion that, despite all our post-war difficulties, there has been a marked increase in the productive ability of both labour and capital in this country, which could well be regarded as a new industrial revolution.

He is author of the recently published 'Britain, The Sterling Area and Europe' and is Lecturer in Economics in the University College of the South West, Exeter.

E.H.

P.E.P. on Population and Disablement. *Planning*, vol. xx, No. 367 of 12.7.54 and 368 of 26.7.54 are welcome and useful booklets, like so much else from the same source. With No. 362 on *Population and Resources, Controlling Human Numbers* forms an *aperitif* to the real meal to come. This is to be a comprehensive review of population problems and policy on the scale of earlier P.E.P. Reports. It is only right to consider reproduction in relation to production, to the development and conservation of the world's resources and to the achievement of balanced economies.

A serviceable collection of facts and figures and a clear summary of different and conflicting views are here well presented in 20-odd pages. It is interested to read of the objections to artificial birth-control which orthodox Hinduism shares with Catholic Christianity, and depressing to reflect on the absence of agreement among the heirs to Christian civilisation of what is permitted for family-planning by divine and natural law.

The Disabled Worker deals with the problem of refitting the disabled for useful employment and competently describes the existing governmental and other machinery. It finds the main weaknesses not at the centre but in the local services and concludes on the salutary note that this is after all a human matter, and not merely a question of organisation.

J. B.-D.